

**CITY OF STURGIS**  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED SEPTEMBER 30, 2018**

## TABLE OF CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	5
<b>BASIC FINANCIAL STATEMENTS</b>	
<hr/>	
<b>Government-wide Financial Statements</b>	
Statement of Net Position	16
Statement of Activities	17
<b>Fund Financial Statements</b>	
<b>Governmental Funds</b>	
Balance Sheet	18
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balance	20
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance with Statement of Activities	21
<b>Proprietary Funds</b>	
Statement of Net Position	22
Statement of Revenues, Expenses, and Changes in Net Position	23
Statement of Cash Flows	24
<b>Fiduciary Funds</b>	
Statement of Fiduciary Net Position	25
Statement of Changes in Fiduciary Net Position	26
<b>Component Units</b>	
Statement of Net Position	27
Statement of Activities	28
<b>Notes to the Financial Statements</b>	30
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<hr/>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – General Fund	73
Schedule of Changes in Net Pension Liability and Relates Ratios	74
Schedule of Contributions - Pension	75
Schedule of Changes in Net OPEB Liability and Relates Ratios	76
Schedule of Contributions - OPEB	77

# TABLE OF CONTENTS

Page

## **OTHER SUPPLEMENTARY INFORMATION**

---

### **Combining Fund Financial Statements**

#### **Nonmajor Governmental Funds:**

Combining Balance Sheet	79
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	82

#### **Internal Service Funds**

Combining Statement of Net Position - Internal Service Funds	85
Combining Statement of Revenues, Expenses, and Changes in Net Position - Internal Service Funds	86
Combining Statement of Cash Flows - Internal Service Funds	87

### **Component Unit Fund Statements**

#### **Downtown Development Authority**

Balance Sheet - Downtown Development Authority	88
Reconciliation of the Balance Sheet to the Statement of Net Position - Downtown Development Authority	88
Statement of Revenues, Expenditures, and Changes in Fund Balance - Downtown Development Authority	89
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities - Downtown Development Authority	89

#### **Brownfield Redevelopment Authority**

Balance Sheet - Brownfield Redevelopment Authority	90
Reconciliation of the Balance Sheet to the Statement of Net Position - Brownfield Redevelopment Authority	90
Statement of Revenues, Expenditures, and Changes in Fund Balance - Brownfield Redevelopment Authority	91
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities - Brownfield Redevelopment Authority	91

#### **Local Development Finance Authority**

Balance Sheet - Local Development Finance Authority	92
Reconciliation of the Balance Sheet to the Statement of Net Position - Local Development Finance Authority	92
Statement of Revenues, Expenditures, and Changes in Fund Balance - Local Development Finance Authority	93
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities - Local Development Finance Authority	93

#### **Building Authority**

Balance Sheet - Building Authority	94
Reconciliation of the Balance Sheet to the Statement of Net Position - Building Authority	94
Statement of Revenues, Expenditures, and Changes in Fund Balance - Building Authority	95
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities - Building Authority	95

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sturgis, Michigan (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 19 to the financial statements, during the year ended September 30, 2018, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of implementing this pronouncement, the City's net OPEB liability has been recognized on the government-wide statements and, as discussed in Note 19, the 2017 financial statements have been restated. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

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

#### ***Other Information***

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

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Norman Paulsen  
Sturgis, Michigan  
April 1, 2019

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

## Management's Discussion and Analysis

As management of the *City of Sturgis, Michigan* (the "City" or "government"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the current fiscal year as follows:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year 2018 by \$83,678,494 (net position). Of this, \$52,220,365 was the net investment in capital assets, \$2,274,048 was restricted, and the remaining was unrestricted with a balance of \$29,184,081.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$8,855,775, an increase of \$676,419 in comparison with the prior year. Approximately 33 percent of this amount, or \$2,937,380, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,937,380, or 34 percent of the general fund's annualized expenditures and transfers out.

### Overview of the Financial Statements

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

### Government-wide Financial Statements

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying



event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences and long-term debt).

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

### ***Component Units***

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

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

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

### ***Governmental Funds***

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

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

data for each of the nonmajor governmental funds is provided in the form of combining statements and schedules.

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

### ***Proprietary Funds***

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

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

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

### ***Fiduciary Funds***

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

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

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

### ***Other information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this discussion and analysis, required pension and other postemployment benefit information, and budget and actual presentations. Supplemental information follows the required supplementary information and includes combining and individual fund statements and schedules.

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

## Government-wide Financial Analysis

### Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$83,678,494 at the close of the most recent fiscal year. The following chart illustrates the composition of net position:

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
<b>ASSETS</b>						
<i>Current Assets</i>						
Cash and Investments	\$ 12,495,838	\$ 11,845,448	\$ 19,383,564	\$ 16,350,027	\$ 31,879,402	\$ 28,195,475
Receivables	488,773	1,018,466	4,116,464	3,930,264	4,605,237	4,948,730
Inventory and Prepaid Items	358,602	325,490	1,384,832	1,269,221	1,743,434	1,594,711
<b>Total Current Assets</b>	<b>13,343,213</b>	<b>13,189,404</b>	<b>24,884,860</b>	<b>21,549,512</b>	<b>38,228,073</b>	<b>34,738,916</b>
<i>Noncurrent Assets</i>						
Restricted Assets	631,562	624,521	181,507	171,285	813,069	795,806
Net Pension Assets	111,679	264,825	74,453	176,548	186,132	441,373
Capital Assets, Net	19,599,759	20,309,224	43,209,317	46,045,177	62,809,076	66,354,401
Long-term Receivables	-	-	1,783,912	1,879,050	1,783,912	1,879,050
<b>Total Assets</b>	<b>33,686,213</b>	<b>34,387,974</b>	<b>70,134,049</b>	<b>69,821,572</b>	<b>103,820,262</b>	<b>104,209,546</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Pension	903,837	440,145	602,559	293,428	1,506,396	733,573
OPEB	48,280	-	15,247	-	63,527	-
<b>Total Deferred Outflows of Resources</b>	<b>952,117</b>	<b>440,145</b>	<b>617,806</b>	<b>293,428</b>	<b>1,569,923</b>	<b>733,573</b>
<b>LIABILITIES</b>						
<i>Current Liabilities</i>						
Accounts Payable	469,412	1,651,840	1,865,430	2,306,471	2,334,842	3,958,311
Accrued Expenses and Other Liabilities	463,646	222,913	699,268	615,327	1,162,914	838,240
Unearned Revenue	135,859	59,554	-	-	135,859	59,554
Current Portion of Long-term Debt	139,341	123,631	771,431	757,534	910,772	881,165
<b>Total Current Liabilities</b>	<b>1,208,258</b>	<b>2,057,938</b>	<b>3,336,129</b>	<b>3,679,332</b>	<b>4,544,387</b>	<b>5,737,270</b>
<i>Noncurrent Liabilities</i>						
Compensated Absences	593,160	568,038	231,000	231,000	824,160	799,038
Net OPEB Liability	2,016,150	1,411,707	636,679	1,067,933	2,652,829	2,479,640
Long-term Debt	1,253,374	1,166,427	8,424,565	9,195,877	9,677,939	10,362,304
<b>Total Liabilities</b>	<b>5,070,942</b>	<b>5,204,110</b>	<b>12,628,373</b>	<b>14,174,142</b>	<b>17,699,315</b>	<b>19,378,252</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Pension	734,809	-	489,874	-	1,224,683	-
OPEB	433,939	-	137,035	-	570,974	-
Unavailable Revenue	2,216,719	2,217,038	-	-	2,216,719	2,217,038
<b>Total Deferred Inflows of Resources</b>	<b>3,385,467</b>	<b>2,217,038</b>	<b>626,909</b>	<b>-</b>	<b>4,012,376</b>	<b>2,217,038</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	18,207,044	19,019,166	34,013,321	36,091,764	52,220,365	55,110,930
<i>Restricted</i>	2,097,541	1,488,832	176,507	171,285	2,274,048	1,660,117
<i>Unrestricted</i>	5,877,336	6,898,973	23,306,745	19,677,809	29,184,081	26,576,782
<b>Total Net Position</b>	<b>\$ 26,181,921</b>	<b>\$ 27,406,971</b>	<b>\$ 57,496,573</b>	<b>\$ 55,940,858</b>	<b>\$ 83,678,494</b>	<b>\$ 83,347,829</b>

\$52,220,365 of the City's net position reflect its net investment in capital assets (e.g., land, buildings, water, and sewer systems, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net position restricted for highways and streets, capital projects, perpetual care, and debt service represents \$2,274,048. The remaining balance of unrestricted net position was \$29,184,081 as of September 30, 2018.

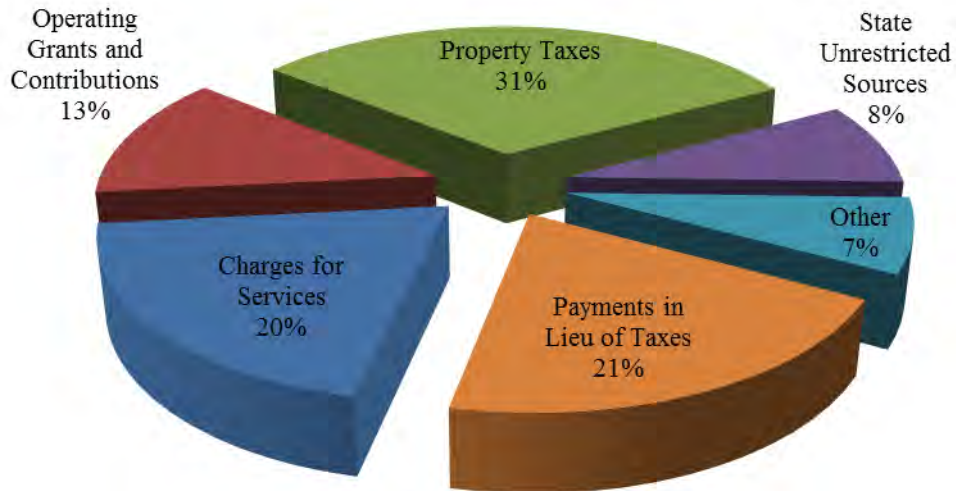
The following table presents a summary of the changes in net position for the years ended September 30, 2018 and September 30, 2017:

	Governmental Activities		Business-type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
<b>Revenue</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 2,546,646	\$ 2,284,353	\$ 32,328,663	\$ 31,398,959	\$ 34,875,309	\$ 33,683,312
Operating Grants and Contributions	1,586,058	1,511,452	4,000	161,587	1,590,058	1,673,039
Capital Grants and Contributions	252,980	3,042,020	-	-	252,980	3,042,020
<b>Total Program Revenues</b>	<b>4,385,684</b>	<b>6,837,825</b>	<b>32,332,663</b>	<b>31,560,546</b>	<b>36,718,347</b>	<b>38,398,371</b>
<b>General Revenues</b>						
Property Taxes	3,984,267	3,184,708	-	-	3,984,267	3,184,708
State Unrestricted Sources	1,057,449	1,581,682	-	-	1,057,449	1,581,682
Unrestricted Investment Earnings (Losses)	261,737	210,818	42,646	(13,053)	304,383	197,765
Miscellaneous	432,321	437,154	936,134	587,190	1,368,455	1,024,344
Payments in Lieu of Taxes	2,601,817	2,508,000	-	-	2,601,817	2,508,000
<b>Total General Revenues</b>	<b>8,337,591</b>	<b>7,922,362</b>	<b>978,780</b>	<b>574,137</b>	<b>9,316,371</b>	<b>8,496,499</b>
<b>Total Revenues</b>	<b>12,723,275</b>	<b>14,760,187</b>	<b>33,311,443</b>	<b>32,134,683</b>	<b>46,034,718</b>	<b>46,894,870</b>
<b>Expenses</b>						
General Government	971,711	1,304,523	-	-	971,711	1,304,523
Public Safety	4,953,531	4,602,882	-	-	4,953,531	4,602,882
Public Works	3,959,981	2,235,304	-	-	3,959,981	2,235,304
Recreation and Culture	2,178,888	1,521,090	-	-	2,178,888	1,521,090
Community and Economic Development	296,879	154,770	-	-	296,879	154,770
Other	1,500	57,407	-	-	1,500	57,407
Interest on Long-term Debt	51,711	48,905	-	-	51,711	48,905
Electric, Sewer, and Water	-	-	31,865,728	30,611,682	31,865,728	30,611,682
<b>Total Expenses</b>	<b>12,414,201</b>	<b>9,924,881</b>	<b>31,865,728</b>	<b>30,611,682</b>	<b>44,279,929</b>	<b>40,536,563</b>
<b>Change in Net Position before Transfers</b>	<b>309,074</b>	<b>4,835,306</b>	<b>1,445,715</b>	<b>1,523,001</b>	<b>1,754,789</b>	<b>6,358,307</b>
Net Transfers	(110,000)	(100,000)	110,000	100,000	-	-
<b>Change in Net Position</b>	<b>199,074</b>	<b>4,735,306</b>	<b>1,555,715</b>	<b>1,623,001</b>	<b>1,754,789</b>	<b>6,358,307</b>
<i>Net Position at Beginning of Period</i>	<i>25,982,847</i>	<i>22,671,665</i>	<i>55,940,858</i>	<i>54,317,857</i>	<i>81,923,705</i>	<i>76,989,522</i>
<b>Net Position at End of Period</b>	<b>\$ 26,181,921</b>	<b>\$ 27,406,971</b>	<b>\$ 57,496,573</b>	<b>\$ 55,940,858</b>	<b>\$ 83,678,494</b>	<b>\$ 83,347,829</b>

**Governmental Activities.** Governmental activities increased the City's net position by \$199,074 for the year ended September 30, 2018 compared to an increase of \$4,735,306 for the year ended September 30, 2017. Total revenues decreased by \$2,036,912 and total expenses increased by \$2,489,320.

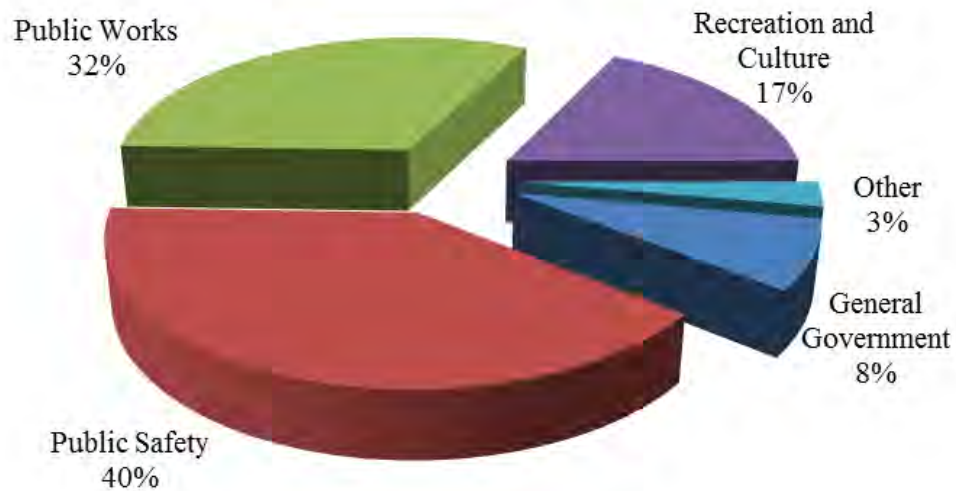
The following chart summarizes the revenue sources for the governmental activities of the City for the most recent fiscal year-end:

### Governmental Activities Revenues



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

### Governmental Activities Expenses



**Business-type Activities.** Business-type activities increased the City's net position by \$1,555,715 for the year ended September 30, 2018 compared to an increase of \$1,623,001 for the year ended September 30, 2017.

Key components of this change are as follows:

- The electric fund had an increase in net position of \$992,001, which was mainly due to the regular operations of the fund.
- The sanitary sewer fund had an increase in net position of \$545,745, which was mainly due to the regular operations of the fund.
- The water fund had an increase in net position of \$17,969, which was mainly due to the regular operations of the fund.

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

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

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

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

At September 30, 2018, the City's governmental funds reported combined fund balances of \$8,855,775, an increase of \$676,419 in comparison with the prior year. Approximately 33% of this amount, or \$2,937,380, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable or restricted* to indicate that it is: 1) not in spendable form, (\$66,295 for prepaid and inventory items), 2) restricted for particular purposes, \$2,097,541, or 3) committed for specific purposes, \$3,754,559.

***General Fund*** - The general fund is the main operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,937,380, while total fund balance decreased by \$228,953 to \$2,938,275. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 34 percent of total general fund expenditures and transfers out, while total fund balance represents approximately 34 percent of that same amount.

## **General Fund Budgetary Highlights**

*Original budget compared to final budget.* During the current year, the budget was amended in a legally permissible manner.

*Final budget compared to actual results.* The City had the following expenditures in excess of the amounts appropriated during the year ended September 30, 2018:

The transfers out line item had a negative variance of \$242,000 due to an amended budget of \$1,193,480 and the actual amount being \$1,435,480.

## **Capital Asset and Debt Administration**

### ***Capital Assets***

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2018 amounted to \$62,809,076 (net of accumulated depreciation). Of this amount, \$19,599,759 was for its governmental activities and \$43,209,317 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

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

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

Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for from a debt service fund, enterprise fund or internal service fund. Debt is classified as long-term if the debt matures in a period greater than one year. The City made principal payments of \$891,758 and issued debt of \$237,000 during the current fiscal year.

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

## **Economic Factors and Next Year's Budgets and Rates**

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

In 2012 the City embarked upon the Sturgis 2022 initiative to create a vision for the future of Sturgis that could be embraced by the whole community. After reviewing all the feedback, the

Commission adopted two focus areas to help guide future improvements in Sturgis. The two focus areas identified Sturgis as a “Great Place to Do Business” and a “Community of Choice”. Nine specific goals were established to measure success in achieving these two focus areas. Annually, the status of these measurable goals is reported to the citizens and is incorporated into the planning and budgeting process.

During the ensuing fiscal year, the City will be investing in several capital projects. Major infrastructure projects include street reconstruction and repairs, park improvements, auditorium lighting, sewer and water main replacements, construction of a rural transmission line, substation and various distribution improvements, SCADA upgrades across all utilities, and airport parking lot improvements.

The City Commission has adopted a conservative budget for 2018-2019. This includes a decrease in fund balance for all governmental funds of \$820,645 or 11.33 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 5 percent due to inflation and 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 47 percent residential, 20 percent industrial, 20 percent commercial and 13 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 one percent due to relatively flat utility consumption. Investment earnings are expected to remain low due to anticipated interest rates of return on fixed income investments.

The 2018-2019 budget includes funding for two vacant positions, a fire marshal and police officer. Total employee costs are being maintained 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 has addressed unfunded liabilities through changes in plan design, eligibility and increased pre-funding resulting in a funded status of 74 percent for OPEB and 100 percent for the Pension plan according to the last valuation.

The City’s charter, adjusted for Headlee rollback, allows for the assessment of 11.8894 mils on the taxable value of each property. The City levied an operating millage of 10.4623 mils, which compares favorably to other like cities in southwest Michigan. For 2019, the inflation rate multiplier which is applied to taxable values is 2.4 percent compared to 2.1 percent in 2018.

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. Beginning in 2019, due to amendments to the LCSA, the state reimbursement includes a portion of the lost tax revenue from personal property tax for this millage. In addition, as a result of additional State Restricted



revenue, the 2018-2019 budget conservatively projects that Major and Local Streets Act 51 sources will have increases of four percent. State projections indicate an optimistic increase in future funding.

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 be revenue neutral. 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.

### **Requests for Information**

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

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

## **Basic Financial Statements**

**City of Sturgis**  
**Statement of Net Position**  
**September 30, 2018**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and Investments	\$ 12,495,838	\$ 19,383,564	\$ 31,879,402	\$ 271,739
Accounts Receivable	152,002	3,864,513	4,016,515	1,829
Notes Receivable	--	134,847	134,847	--
Taxes Receivable	80,830	--	80,830	5,413
Special Assessments Receivable	29,860	--	29,860	--
Lease Receivable	--	--	--	340,000
Interest Receivable	7,173	113,104	120,277	--
Inventory	57,675	1,384,832	1,442,507	--
Prepaid Items	300,927	--	300,927	2,539
Due from Other Governmental Units	218,908	4,000	222,908	--
<b>Total Current Assets</b>	<b>13,343,213</b>	<b>24,884,860</b>	<b>38,228,073</b>	<b>621,520</b>
<i>Noncurrent Assets</i>				
Restricted Assets	631,562	181,507	813,069	--
Long-term Notes Receivable	--	1,783,912	1,783,912	--
Long-term Lease Receivable	--	--	--	7,860,000
Net Pension Asset	111,679	74,453	186,132	--
Capital Assets not being Depreciated	2,351,776	1,647,296	3,999,072	--
Capital Assets being Depreciated	17,247,983	41,562,021	58,810,004	122,972
<b>Total Assets</b>	<b>33,686,213</b>	<b>70,134,049</b>	<b>103,820,262</b>	<b>8,604,492</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension	903,837	602,559	1,506,396	--
OPEB	48,280	15,247	63,527	--
<b>Total Deferred Outflows of Resources</b>	<b>952,117</b>	<b>617,806</b>	<b>1,569,923</b>	<b>--</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	469,412	1,865,430	2,334,842	8,479
Accrued Expenses	435,221	405,619	840,840	--
Accrued Interest	--	50,484	50,484	83,912
Customer Deposits	2,125	243,165	245,290	--
Unearned Revenue	135,859	--	135,859	--
Due to Other Governmental Units	26,300	--	26,300	--
Current Portion of Long-term Debt	139,341	771,431	910,772	383,184
<b>Total Current Liabilities</b>	<b>1,208,258</b>	<b>3,336,129</b>	<b>4,544,387</b>	<b>475,575</b>
<i>Noncurrent Liabilities</i>				
Compensated Absences	593,160	231,000	824,160	--
Long-term Debt, net of Current Portion	1,253,374	8,424,565	9,677,939	9,768,280
Other Post-Employment Benefits	2,016,150	636,679	2,652,829	--
<b>Total Liabilities</b>	<b>5,070,942</b>	<b>12,628,373</b>	<b>17,699,315</b>	<b>10,243,855</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension	734,809	489,874	1,224,683	--
OPEB	433,939	137,035	570,974	37,996
Unavailable Revenue	2,216,719	--	2,216,719	--
<b>Total Deferred Inflows of Resources</b>	<b>3,385,467</b>	<b>626,909</b>	<b>4,012,376</b>	<b>37,996</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	18,207,044	34,013,321	52,220,365	17,670
<i>Restricted for:</i>				
Debt Service	--	176,507	176,507	--
Streets	1,465,979	--	1,465,979	--
Cemetery Trust	631,562	--	631,562	--
<i>Unrestricted</i>	5,877,336	23,306,745	29,184,081	(1,695,029)
<b>Total Net Position</b>	<b>\$ 26,181,921</b>	<b>\$ 57,496,573</b>	<b>\$ 83,678,494</b>	<b>\$ (1,677,359)</b>

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

**City of Sturgis**  
**Statement of Activities**  
**For the Year Ended September 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Primary Government</b>								
<b>Governmental Activities:</b>								
Legislative	\$ 41,862	\$ --	\$ --	\$ --	\$ (41,862)	\$ --	\$ (41,862)	\$ --
General Government	929,849	1,417,473	12,349	--	499,973	--	499,973	--
Public Safety	4,953,531	75,482	4,567	--	(4,873,482)	--	(4,873,482)	--
Public Works	3,959,981	193,837	1,286,488	--	(2,479,656)	--	(2,479,656)	--
Health and Welfare	1,500	--	--	--	(1,500)	--	(1,500)	--
Recreation and Culture	2,178,888	835,357	233,854	252,980	(856,697)	--	(856,697)	--
Community and Economic Development	296,879	24,497	48,800	--	(223,582)	--	(223,582)	--
Interest on Long-term Debt	51,711	--	--	--	(51,711)	--	(51,711)	--
<b>Total Governmental Activities</b>	<b>12,414,201</b>	<b>2,546,646</b>	<b>1,586,058</b>	<b>252,980</b>	<b>(8,028,517)</b>	<b>--</b>	<b>(8,028,517)</b>	<b>--</b>
<b>Business-type Activities:</b>								
Electric	27,313,019	27,363,454	--	--	--	50,435	50,435	--
Sanitary Sewer	2,968,659	3,391,819	--	--	--	423,160	423,160	--
Water	1,584,050	1,573,390	4,000	--	--	(6,660)	(6,660)	--
<b>Total Business-type Activities</b>	<b>31,865,728</b>	<b>32,328,663</b>	<b>4,000</b>	<b>--</b>	<b>--</b>	<b>466,935</b>	<b>466,935</b>	<b>--</b>
<b>Total Primary Government</b>	<b>\$ 44,279,929</b>	<b>\$ 34,875,309</b>	<b>\$ 1,590,058</b>	<b>\$ 252,980</b>	<b>\$ (8,028,517)</b>	<b>\$ 466,935</b>	<b>\$ (7,561,582)</b>	<b>--</b>
<b>Component Units</b>								
Brownfield Redevelopment Authority	\$ 45,254	\$ --	\$ --	\$ --	--	--	--	(45,254)
Local Development Finance Authority	2,508	--	--	--	--	--	--	(2,508)
Building Authority	315,513	--	--	--	--	--	--	(315,513)
Downtown Development Authority	102,258	16,223	--	--	--	--	--	(86,035)
<b>Total Component Units</b>	<b>\$ 465,533</b>	<b>\$ 16,223</b>	<b>\$ --</b>	<b>\$ --</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(449,310)</b>
<b>General Purpose Revenues and Transfers:</b>								
<b>Revenues</b>								
Property Taxes					3,984,267	--	3,984,267	198,347
Unrestricted Investment Earnings					261,737	42,646	304,383	440
State Unrestricted Sources					1,057,449	--	1,057,449	4,157
Payments in Lieu of Taxes					2,601,817	--	2,601,817	--
Miscellaneous					432,321	936,134	1,368,455	350,763
<b>Transfers</b>					(110,000)	110,000	--	--
<b>Total General Revenues and Transfers</b>					<b>8,227,591</b>	<b>1,088,780</b>	<b>9,316,371</b>	<b>553,707</b>
<b>Change in Net Position</b>					<b>199,074</b>	<b>1,555,715</b>	<b>1,754,789</b>	<b>104,397</b>
<i>Net Position at Beginning of Period (Restated, Note 19)</i>					25,982,847	55,940,858	81,923,705	(1,781,756)
<b>Net Position at End of Period</b>					<b>\$ 26,181,921</b>	<b>\$ 57,496,573</b>	<b>\$ 83,678,494</b>	<b>\$ (1,677,359)</b>

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

**City of Sturgis  
Balance Sheet  
Governmental Funds  
September 30, 2018**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and Investments	\$ 5,281,512	\$ 5,221,674	\$ 10,503,186
Accounts Receivable	67,768	49,142	116,910
Taxes Receivable	13,573	67,257	80,830
Special Assessments Receivable	4,066	25,794	29,860
Interest Receivable	7,173	--	7,173
Inventory	--	55,087	55,087
Prepaid Items	895	10,313	11,208
Due from Other Governmental Units	11,680	207,228	218,908
Restricted Assets	--	631,562	631,562
<i><b>Total Assets</b></i>	<u><b>\$ 5,386,667</b></u>	<u><b>\$ 6,268,057</b></u>	<u><b>\$ 11,654,724</b></u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 62,374	\$ 197,387	\$ 259,761
Accrued Expenses	115,848	42,337	158,185
Customer Deposits	--	2,125	2,125
Unearned Revenue	52,945	82,914	135,859
Due to Other Governmental Units	26,300	--	26,300
<i><b>Total Liabilities</b></i>	<u>257,467</u>	<u>324,763</u>	<u>582,230</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue	2,190,925	25,794	2,216,719
<i><b>Total Liabilities and Deferred Inflows of Resources</b></i>	<u>2,448,392</u>	<u>350,557</u>	<u>2,798,949</u>
<b>FUND BALANCE</b>			
Nonspendable	895	65,400	66,295
Restricted	--	2,097,541	2,097,541
Committed	--	3,754,559	3,754,559
Unassigned	2,937,380	--	2,937,380
<i><b>Total Fund Balance</b></i>	<u>2,938,275</u>	<u>5,917,500</u>	<u>8,855,775</u>
<i><b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b></i>	<u><b>\$ 5,386,667</b></u>	<u><b>\$ 6,268,057</b></u>	<u><b>\$ 11,654,724</b></u>

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

**City of Sturgis**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position**  
**September 30, 2018**

Total Fund Balance - Governmental Funds	\$	8,855,775
Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements.		2,708,731
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		18,121,035
Net pension asset, and the pension related deferrals, are not due and payable in the current period and, therefore, are not reported in the funds.		280,707
Compensated absences are not due in and payable in the current period and, therefore, are not reported in the funds.		(593,160)
Net OPEB liabilities, and the OPEB related deferrals, are not due and payable in the current period and, therefore, are not reported in the funds.		(2,401,809)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(789,358)
<b>Total Net Position - Governmental Funds</b>	<b>\$</b>	<b><u>26,181,921</u></b>

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

**City of Sturgis**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended September 30, 2018**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Property Taxes	\$ 3,002,672	\$ 981,595	\$ 3,984,267
Licenses and Permits	9,770	65,001	74,771
State Sources	1,062,016	1,335,288	2,397,304
County Sources	--	111,043	111,043
Charges for Services	244,300	1,044,594	1,288,894
Fines and Forfeits	21,581	836	22,417
Contributions	51,970	336,170	388,140
Payments in Lieu of Taxes	2,601,817	--	2,601,817
Administrative Reimbursement	1,020,120	--	1,020,120
Other	186,473	245,848	432,321
Investment Income (Loss)	191,486	52,731	244,217
<b>Total Revenues</b>	<b>8,392,205</b>	<b>4,173,106</b>	<b>12,565,311</b>
<b>Expenditures</b>			
Legislative	41,862	--	41,862
General Government	1,243,263	280,223	1,523,486
Public Safety	4,263,303	119,726	4,383,029
Public Works	413,467	2,053,650	2,467,117
Health and Welfare	1,500	--	1,500
Recreation and Culture	621,072	1,274,462	1,895,534
Community and Economic Development	195,423	101,456	296,879
Capital Outlay	386,568	905,507	1,292,075
Debt Service - Principal	12,728	62,923	75,651
Debt Service - Interest	6,492	32,267	38,759
<b>Total Expenditures</b>	<b>7,185,678</b>	<b>4,830,214</b>	<b>12,015,892</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>1,206,527</b>	<b>(657,108)</b>	<b>549,419</b>
<b>Other Financing Sources (Uses)</b>			
Proceeds from Loan Issuance	--	237,000	237,000
Transfers In	--	1,345,055	1,345,055
Transfers Out	(1,435,480)	(19,575)	(1,455,055)
<b>Net Other Financing Sources (Uses)</b>	<b>(1,435,480)</b>	<b>1,562,480</b>	<b>127,000</b>
<b>Net Change in Fund Balance</b>	<b>(228,953)</b>	<b>905,372</b>	<b>676,419</b>
<b>Fund Balance at Beginning of Period</b>	<b>3,167,228</b>	<b>5,012,128</b>	<b>8,179,356</b>
<b>Fund Balance at End of Period</b>	<b>\$ 2,938,275</b>	<b>\$ 5,917,500</b>	<b>\$ 8,855,775</b>

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

**City of Sturgis**  
**Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance with Statement of Activities**  
**For the Year Ended September 30, 2018**

Total Net Change in Fund Balances - Governmental Funds	\$	676,419
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements.		44,541
Governmental fund report capital outlay as expenditures; however, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which depreciation expense is in excess of capital outlay expenditures.		(345,174)
Change to compensated absences are not shown in the fund financial statements. The net effect of the current year increase is to decrease net position.		(25,122)
The change in net pension asset and the pension related deferrals, does not require the use of current resources and, accordingly, is not reported in the governmental funds.		(424,263)
The change in OPEB liability, and the OPEB related deferrals, does not require the use of current resources and, accordingly, is not reported in the governmental funds.		434,022
Current year long-term debt principal payments on are expenditures in the fund financial statements but are reductions in long-term debt in the government-wide financial statements. This represents principal payments on long-term debt and proceeds from issuance of long-term debt.		(161,349)
<b>Changes in Net Position - Governmental Funds</b>	<b>\$</b>	<b><u>199,074</u></b>

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



**City of Sturgis**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2018**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Total Enterprise Funds</u>	<u>Governmental Activities Internal Service Funds</u>
	<u>Electric</u>	<u>Sanitary Sewer</u>	<u>Water</u>		
<b>ASSETS</b>					
<i>Current Assets</i>					
Cash and Investments	\$ 15,599,194	\$ 2,595,716	\$ 1,188,654	\$ 19,383,564	\$ 1,992,652
Accounts Receivable	3,346,698	351,372	166,443	3,864,513	35,092
Notes Receivable	134,847	--	--	134,847	--
Interest Receivable	109,824	1,640	1,640	113,104	--
Inventory	1,262,684	64,531	57,617	1,384,832	2,588
Prepaid Items	--	--	--	--	289,719
Due from Other Governmental Units	--	--	4,000	4,000	--
<b>Total Current Assets</b>	<u>20,453,247</u>	<u>3,013,259</u>	<u>1,418,354</u>	<u>24,884,860</u>	<u>2,320,051</u>
<i>Noncurrent Assets</i>					
Restricted Assets	72,507	109,000	--	181,507	--
Long-term Notes Receivable	1,783,912	--	--	1,783,912	--
Net Pension Asset	59,562	11,168	3,723	74,453	--
Capital Assets not being Depreciated	1,481,365	86,078	79,853	1,647,296	--
Capital Assets being Depreciated	19,736,494	16,149,628	5,675,899	41,562,021	1,478,724
Advances Due from Other Funds	624,744	--	--	624,744	--
<b>Total Assets</b>	<u>44,211,831</u>	<u>19,369,133</u>	<u>7,177,829</u>	<u>70,758,793</u>	<u>3,798,775</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension	482,047	90,384	30,128	602,559	--
OPEB	12,070	1,906	1,271	15,247	--
<b>Total Deferred Outflows of Resources</b>	<u>494,117</u>	<u>92,290</u>	<u>31,399</u>	<u>617,806</u>	<u>--</u>
<b>LIABILITIES</b>					
<i>Current Liabilities</i>					
Accounts Payable	1,821,162	27,946	16,322	1,865,430	209,651
Accrued Expenses	379,910	18,531	7,178	405,619	277,036
Accrued Interest	36,643	3,903	9,938	50,484	--
Customer Deposits	243,165	--	--	243,165	--
Current Portion of Long-term Debt	191,317	510,057	70,057	771,431	62,925
<b>Total Current Liabilities</b>	<u>2,672,197</u>	<u>560,437</u>	<u>103,495</u>	<u>3,336,129</u>	<u>549,612</u>
<i>Noncurrent Liabilities</i>					
Compensated Absences	184,000	38,000	9,000	231,000	--
Long-term Debt, net of Current Portion	1,433,407	6,352,720	638,438	8,424,565	540,432
Other Post-Employment Benefits	504,037	79,585	53,057	636,679	--
Advances Due To Other Funds	--	--	624,744	624,744	--
<b>Total Liabilities</b>	<u>4,793,641</u>	<u>7,030,742</u>	<u>1,428,734</u>	<u>13,253,117</u>	<u>1,090,044</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension	391,899	73,481	24,494	489,874	--
OPEB	108,485	17,131	11,419	137,035	--
<b>Total Deferred Inflows of Resources</b>	<u>500,384</u>	<u>90,612</u>	<u>35,913</u>	<u>626,909</u>	<u>--</u>
<b>NET POSITION</b>					
Net Investment in Capital Assets	19,593,135	9,372,929	5,047,257	34,013,321	875,367
<i>Restricted for:</i>					
Debt Service	67,507	109,000	--	176,507	--
<i>Unrestricted</i>	19,751,281	2,858,140	697,324	23,306,745	1,833,364
<b>Total Net Position</b>	<u>\$ 39,411,923</u>	<u>\$ 12,340,069</u>	<u>\$ 5,744,581</u>	<u>\$ 57,496,573</u>	<u>\$ 2,708,731</u>

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

**City of Sturgis**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended September 30, 2018**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Total Enterprise Funds</b>	<b>Governmental Activities Internal Service Funds</b>
	<b>Electric</b>	<b>Sanitary Sewer</b>	<b>Water</b>		
<b>Operating Revenues</b>					
Charges for Services	\$ 27,364,743	\$ 3,391,819	\$ 1,573,390	\$ 32,329,952	\$ 3,214,615
Other	220,081	--	10,770	230,851	1,148
<b>Total Operating Revenues</b>	<b>27,584,824</b>	<b>3,391,819</b>	<b>1,584,160</b>	<b>32,560,803</b>	<b>3,215,763</b>
<b>Operating Expenses</b>					
Purchased Power	17,709,582	--	--	17,709,582	--
Material, Maintenance, and Other	2,669,101	840,055	550,869	4,060,025	382,356
General and Administrative	2,574,724	472,296	421,670	3,468,690	138,071
Payments in Lieu of Taxes	2,250,720	236,520	106,620	2,593,860	--
Depreciation	1,991,066	1,257,785	455,568	3,704,419	524,096
Insurance Premiums and Claims	--	--	--	--	2,140,407
<b>Total Operating Expenses</b>	<b>27,195,193</b>	<b>2,806,656</b>	<b>1,534,727</b>	<b>31,536,576</b>	<b>3,184,930</b>
<b>Operating Income (Loss)</b>	<b>389,631</b>	<b>585,163</b>	<b>49,433</b>	<b>1,024,227</b>	<b>30,833</b>
<b>Non-Operating Revenues (Expenses)</b>					
Investment Income	--	26,714	15,932	42,646	17,520
Gain (Loss) on Sale of Assets	(1,289)	--	--	(1,289)	9,140
Other	641,485	65,871	1,927	709,283	--
Interest Expense	(117,826)	(162,003)	(49,323)	(329,152)	(12,952)
<b>Net Non-Operating Revenues (Expenses)</b>	<b>522,370</b>	<b>(69,418)</b>	<b>(31,464)</b>	<b>421,488</b>	<b>13,708</b>
<b>Income Before Contributions and Transfers</b>	<b>912,001</b>	<b>515,745</b>	<b>17,969</b>	<b>1,445,715</b>	<b>44,541</b>
Transfers In	80,000	30,000	--	110,000	--
<b>Change In Net Position</b>	<b>992,001</b>	<b>545,745</b>	<b>17,969</b>	<b>1,555,715</b>	<b>44,541</b>
<i>Net Position at Beginning of Period (Restated, Note 19)</i>	38,419,922	11,794,324	5,726,612	55,940,858	2,664,190
<b>Net Position at End of Period</b>	<b>\$ 39,411,923</b>	<b>\$ 12,340,069</b>	<b>\$ 5,744,581</b>	<b>\$ 57,496,573</b>	<b>\$ 2,708,731</b>

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

**City of Sturgis**  
**Combining Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2018**

	Internal Service			Total Enterprise Funds
	Electric	Sanitary Sewer	Water	
<b>Cash Flows from Operating Activities</b>				
Cash received from Interfund Services	\$ --	\$ --	\$ --	\$ --
Cash received from Customers and Users	27,518,118	3,415,485	1,580,197	32,513,800
Cash payments to Employees and Suppliers	(25,556,457)	(1,754,503)	(1,073,418)	(28,384,378)
<b>Net Cash Provided by Operating Activities</b>	1,961,661	1,660,982	506,779	4,129,422
<b>Cash Flows from Capital and Related Financing Activities</b>				
Change in Capital Assets	(597,455)	(261,565)	(8,250)	(867,270)
Principal and Interest Paid on Long-term Debt	(260,596)	(662,191)	(113,476)	(1,036,263)
Receipts from (Payments against) interfund loans	145,256	--	(145,256)	--
<b>Net Cash Used by Capital and Related Financing Activities</b>	(712,795)	(923,756)	(266,982)	(1,903,533)
<b>Cash Flows from Noncapital and Related Financing Activities</b>				
Transfers In (Out)	80,000	30,000	--	110,000
Other sources	641,485	65,871	1,927	709,283
<b>Net Cash Provided by Noncapital and Related Financing Activities</b>	721,485	95,871	1,927	819,283
<b>Cash Flows from Investing Activities</b>				
Investment Income	--	26,714	15,932	42,646
Changes in loans receivable	(44,059)	--	--	(44,059)
<b>Net Cash Provided (Used) by from Investing Activities</b>	(44,059)	26,714	15,932	(1,413)
<b>Net Increase in Cash and Equivalents</b>	1,926,292	859,811	257,656	3,043,759
<i>Cash and Equivalents - Beginning of Year</i>	13,745,409	1,844,905	930,998	16,521,312
<b><i>Cash and Equivalents - End of Year</i></b>	<b>\$ 15,671,701</b>	<b>\$ 2,704,716</b>	<b>\$ 1,188,654</b>	<b>\$ 19,565,071</b>
<b>Reconciliation of Operating Income to</b>				
<b>Net Cash Provided by Operating Activities</b>				
<b>Operating Income</b>	33,600	528,949	11,955	574,504
Adjustments to Reconcile Operating Income to Net Cash				
<b>Provided (Used) by Operating Activities</b>				
Depreciation Expense	1,991,066	1,257,785	455,568	3,704,419
<b>Changes in Assets &amp; Liabilities</b>				
Receivables	(66,706)	23,666	(3,963)	(47,003)
Prepaid Items	--	--	--	--
Inventory	(126,607)	8,942	1,054	(116,611)
Net Pension Asset	81,677	15,314	5,104	102,095
Pension Related Deferred Outflows	(247,304)	(46,370)	(15,457)	(309,131)
Pension Related Deferred Inflows	391,899	73,481	24,494	489,874
Accounts Payable	(380,985)	(39,486)	(20,570)	(441,041)
Accrued Expenses	17,236	336	(6,772)	10,800
Customer Deposits	22,657	--	--	22,657
Other Post-Employment Benefits (OPEB)	(207,318)	(233,074)	7,740	(432,652)
OPEB Related Deferred Outflows	(156,303)	(24,679)	(16,453)	(197,435)
OPEB Related Deferred Inflows	608,749	96,118	64,079	768,946
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,961,661</b>	<b>\$ 1,660,982</b>	<b>\$ 506,779</b>	<b>\$ 4,129,422</b>

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

**City of Sturgis**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**September 30, 2018**

	<u>Pension and Benefit Trust</u>		<u>Agency</u>
	<b>Other</b>		
	<u>Postemployment Benefit Trust</u>	<u>Pension Trust</u>	<u>Agency</u>
<b>ASSETS</b>			
Cash and Investments	\$ 7,966,081	\$ 36,535,174	\$ 397,205
Accounts Receivable	--	--	16,807
Interest Receivable	--	64,387	--
Due from Other Governmental Units	--	3,309	--
<b><i>Total Assets</i></b>	<u>7,966,081</u>	<u>36,602,870</u>	<u>414,012</u>
<b>LIABILITIES</b>			
Due to Other Governmental Units	--	40,966	414,012
<b><i>Total Liabilities</i></b>	<u>--</u>	<u>40,966</u>	<u>414,012</u>
<b>NET POSITION</b>			
Held in Trust	<u>\$ 7,966,081</u>	<u>\$ 36,561,904</u>	<u>\$ --</u>

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

**City of Sturgis**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Year Ended September 30, 2018**

	<b>Other Postemployment Benefit Trust</b>	<b>Pension Trust</b>
<b>Additions</b>		
Employer	\$ 907,200	\$ 484,777
Employee/Retiree	112,895	168,973
Investment Income (Loss)	491,366	1,735,500
Other	--	727,130
<b>Total Additions</b>	<b>1,511,461</b>	<b>3,116,380</b>
<b>Deductions</b>		
Benefits	638,272	1,853,357
Refunds	--	4,371
Administrative Expense	4,000	252,097
<b>Total Deductions</b>	<b>642,272</b>	<b>2,109,825</b>
<b>Change in Net Position</b>	<b>869,189</b>	<b>1,006,555</b>
<i>Net Position at Beginning of Period</i>	7,096,892	35,555,349
<b>Net Position at End of Period</b>	<b>\$ 7,966,081</b>	<b>\$ 36,561,904</b>

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

**City of Sturgis**  
**Combining Statement of Net Position**  
**Component Units**  
**September 30, 2018**

	<b>Brownfield Redevelopment Authority</b>	<b>Local Development Finance Authority</b>	<b>Building Authority</b>	<b>Downtown Development Authority</b>	<b>Total Component Units</b>
<b>ASSETS</b>					
<i>Current Assets</i>					
Cash and Investments	\$ 38,747	\$ 84,850	\$ 2,319	\$ 145,823	\$ 271,739
Accounts Receivable	--	--	--	1,829	1,829
Taxes Receivable	--	5,413	--	--	5,413
Lease Receivable	--	--	340,000	--	340,000
Prepaid Items	--	--	--	2,539	2,539
<b>Total Current Assets</b>	<b>38,747</b>	<b>90,263</b>	<b>342,319</b>	<b>150,191</b>	<b>621,520</b>
<i>Noncurrent Assets</i>					
Long-term Lease Receivable	--	--	7,860,000	--	7,860,000
Capital Assets being Depreciated	--	--	--	122,972	122,972
<b>Total Assets</b>	<b>38,747</b>	<b>90,263</b>	<b>8,202,319</b>	<b>273,163</b>	<b>8,604,492</b>
<b>LIABILITIES</b>					
<i>Current Liabilities</i>					
Accounts Payable	--	2,509	--	5,970	8,479
Accrued Interest	83,912	--	--	--	83,912
Current Portion of Long-term Debt	31,143	--	340,000	12,041	383,184
<b>Total Current Liabilities</b>	<b>115,055</b>	<b>2,509</b>	<b>340,000</b>	<b>18,011</b>	<b>475,575</b>
<i>Noncurrent Liabilities</i>					
Long-term Debt, net of Current Portion	1,815,019	--	7,860,000	93,261	9,768,280
<b>Total Liabilities</b>	<b>1,930,074</b>	<b>2,509</b>	<b>8,200,000</b>	<b>111,272</b>	<b>10,243,855</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue	--	5,411	--	32,585	37,996
<b>Total Deferred Inflows of Resources</b>	<b>--</b>	<b>5,411</b>	<b>--</b>	<b>32,585</b>	<b>37,996</b>
<b>NET POSITION</b>					
Net Investment in Capital Assets	--	--	--	17,670	17,670
<i>Unrestricted</i>	(1,891,327)	82,343	2,319	111,636	(1,695,029)
<b>Total Net Position</b>	<b><u>\$ (1,891,327)</u></b>	<b><u>\$ 82,343</u></b>	<b><u>\$ 2,319</u></b>	<b><u>\$ 129,306</u></b>	<b><u>\$ (1,677,359)</u></b>

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

**City of Sturgis**  
**Combining Statement of Activities**  
**Component Units**  
**For the Year Ended September 30, 2018**

	<b>Brownfield Redevelopment Authority</b>	<b>Local Development Finance Authority</b>	<b>Building Authority</b>	<b>Downtown Development Authority</b>	<b>Total Component Units</b>
<b>Expenses</b>					
Community and Economic Development	\$ 45,254	\$ 2,508	\$ 315,513	\$ 102,258	\$ 465,533
<b>Total Expenses</b>	<b>45,254</b>	<b>2,508</b>	<b>315,513</b>	<b>102,258</b>	<b>465,533</b>
<b>Program Revenues</b>					
Charges for Services	--	--	--	16,223	16,223
<b>Total Program Revenues</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>16,223</b>	<b>16,223</b>
<b>Net Program Revenues (Expenses)</b>	<b>(45,254)</b>	<b>(2,508)</b>	<b>(315,513)</b>	<b>(86,035)</b>	<b>(449,310)</b>
<b>General Revenue</b>					
Property Taxes	112,124	48,234	--	37,989	198,347
State Sources	--	--	--	4,157	4,157
Other	--	--	315,763	35,000	350,763
Investment Income	--	189	--	251	440
<b>Total General Revenues</b>	<b>112,124</b>	<b>48,423</b>	<b>315,763</b>	<b>77,397</b>	<b>553,707</b>
<b>Change in Net Position</b>	<b>66,870</b>	<b>45,915</b>	<b>250</b>	<b>(8,638)</b>	<b>104,397</b>
<i>Net Position at Beginning of Period</i>	<i>(1,958,197)</i>	<i>36,428</i>	<i>2,069</i>	<i>137,944</i>	<i>(1,781,756)</i>
<b>Net Position at End of Period</b>	<b>\$ (1,891,327)</b>	<b>\$ 82,343</b>	<b>\$ 2,319</b>	<b>\$ 129,306</b>	<b>\$ (1,677,359)</b>

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

## **Notes to the Financial Statements**



# City of Sturgis

## Notes to the Financial Statements

---

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

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

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

#### ***Reporting Entity***

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

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

- 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.

# City of Sturgis

## Notes to the Financial Statements

---

- 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.

### ***Basis of Accounting - Government-Wide Financial Statements***

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

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

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

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

# City of Sturgis

## Notes to the Financial Statements

---

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

### ***Basis of Accounting - Fund Financial Statements***

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

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

Each major fund is presented in a separate column. 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.

### ***Enterprise Funds***

#### ***Electric Fund***

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

# City of Sturgis

## Notes to the Financial Statements

---

### ***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 Funds***

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

### ***Revenue Recognition***

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

### ***Expenditure Recognition***

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

# City of Sturgis

## Notes to the Financial Statements

---

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

### ***Special Revenue Funds***

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

### ***Permanent Funds***

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

### ***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.

# City of Sturgis

## Notes to the Financial Statements

---

### ***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.

### ***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.

## City of Sturgis

### Notes to the Financial Statements

---

- 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 2018, the general fund and special revenue fund budgets were amended to reflect actual expenditures that were higher than originally budgeted.
- All budget appropriations lapse at the end of the year.
- Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

#### ***Deposits and Investments***

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

#### ***Receivables and Payables***

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

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on July 1 of the following year and are payable from the date of levy through August 15. Taxes levied on July 1 are recorded as receivables and unearned revenue. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year following the levy date. The City bills and

# City of Sturgis

## Notes to the Financial Statements

---

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, 2018, was \$10.0285 per \$1,000 of taxable valuation. The tax rate to finance City street/sidewalk improvements for the year ended September 30, 2018, was \$10.4623 per \$1,000 taxable valuation. The 2017 taxable value of the City was \$223,081,062.

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

### ***Inventories and Prepaid Items***

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

### ***Restricted Cash and Cash Equivalents***

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

### ***Capital Assets and Depreciation***

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



# City of Sturgis

## Notes to the Financial Statements

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

<u>Asset Type</u>	<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 and other postemployment benefits plan.

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

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

### ***Pensions***

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

## City of Sturgis

### Notes to the Financial Statements

---

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

#### ***Compensated Absences***

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

#### ***Long-term Obligations***

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

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

#### ***Deferred Inflows of Resources***

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

#### ***Net Position and Fund Equity***

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

# City of Sturgis

## Notes to the Financial Statements

---

Net Position 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 cannot be used for any other purpose unless the City Commission removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed.

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

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

### ***Use of Estimates***

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

# City of Sturgis

## Notes to the Financial Statements

### 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>
Primary Government:			
Cash and investments	\$ 4,824,498	\$ 27,054,904	\$ 31,879,402
Restricted assets	181,507	631,562	813,069
Component Units:			
Cash and investments	271,739	-	271,739
Fiduciary Funds:			
Cash and investments	397,205	44,501,255	44,898,460
<b>Total</b>	<u>\$ 5,674,949</u>	<u>\$ 72,187,721</u>	<u>\$ 77,862,670</u>

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

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

# City of Sturgis

## Notes to the Financial Statements

As of September 30, 2018, the maturities and credit quality rating of debt securities are as follows:

	<u>Fair Value</u>	<u>&lt; Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>&gt; Than 10</u>	<u>S&amp;P Rating</u>
<b>Primary Government:</b>						
Michigan Municipal Bonds	\$ 150,051	\$ 150,051	\$ -	\$ -	\$ -	AAA-AA
First Merit Bank - Federated US Treasury Cash Reserve	921,129	-	-	-	-	Not Rated
Michigan Cooperative Liquid Assets Securities System	2,539,621	-	-	-	-	AAAm
US Government Agencies	24,075,665	8,791,922	15,283,743	-	-	AAA-AA
<b>Total Primary Government:</b>	<u>27,686,466</u>	<u>8,941,973</u>	<u>15,283,743</u>	<u>-</u>	<u>-</u>	
<b>Pension Trust Fund:</b>						
Open ENDMF - Fixed Inc. Tax Western Asset Smarch Fund	3,977,688	-	-	-	-	Not Rated
US Government Agencies	3,071,017	307,102	337,812	184,261	2,241,842	AAA-AA
Corporate Bonds and Notes	2,780,345	-	500,462	1,501,386	778,497	AAA-AA
Morgan Stanley Bank Deposit Program	887,281	-	-	-	-	Not Rated
Goldman Sachs FS Govn. Fund	28,996	-	-	-	-	Not Rated
Common and Preferred Stocks	25,789,847	-	-	-	-	N/A
<b>Total Pension Trust Fund:</b>	<u>36,535,174</u>	<u>307,102</u>	<u>838,274</u>	<u>1,685,647</u>	<u>3,020,339</u>	
<b>OPEB Trust Fund:</b>						
MERS Established Market Fund	7,966,081	-	-	-	-	Not Rated
<b>Total Investments:</b>	<u>\$72,187,721</u>	<u>\$ 9,249,075</u>	<u>\$16,122,017</u>	<u>\$ 1,685,647</u>	<u>\$ 3,020,339</u>	

### ***Interest Rate Risk***

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

### ***Credit Risk***

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

### ***Custodial Credit Risk - Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. At September 30, 2018, the City had \$7,569,652 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Component Units

# City of Sturgis

## Notes to the Financial Statements

---

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.

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

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

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

The City has the following recurring fair value measurements as of September 30, 2018:

### ***Primary Government***

- U.S. Government Agency debt obligations of \$24,075,665 are valued using quoted market prices (Level 1 inputs).
- Michigan Municipal Bonds of \$150,051 are valued using a matrix pricing model (Level 2

# City of Sturgis

## Notes to the Financial Statements

---

inputs).

- The Michigan Class Pool of \$2,539,621 and the Federated U.S. Treasury Cash Reserve of \$921,129 are interests in pooled investments and are measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient (Level 2 inputs).

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

- U.S. Government Agency debt obligations of \$3,071,017 and Corporate Bonds and Notes of \$2,780,345 and common and Preferred Equities of \$25,789,847 are valued using quoted market prices (Level 1 inputs).
- The Open ENDMF of \$3,977,688 and Morgan Stanley Bank Deposit Program of \$887,281 and Goldman Sachs FS Government Fund of \$28,996 are interests in pooled investments and are measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient (Level 2 inputs).

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

- The MERS Established Market Fund of \$7,966,081 are interests in pooled investments and are measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient (Level 2 inputs).

### **NOTE 3 - RECEIVABLES - UNAVAILABLE/UNEARNED REVENUE**

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

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

# City of Sturgis

## Notes to the Financial Statements

At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
<b><i>Primary Government</i></b>			
Property taxes levied and collected for next fiscal year's operation	\$ 2,216,719	\$ -	\$ 2,216,719
Customer deposits for future services / events	<u>-</u>	<u>135,859</u>	<u>135,859</u>
<b><i>Total Primary Government</i></b>	<b><u>\$ 2,216,719</u></b>	<b><u>\$ 135,859</u></b>	<b><u>\$ 2,352,578</u></b>
<b><i>Component Units</i></b>			
Property taxes levied and collected for next fiscal year's operation	\$ 37,996	\$ -	\$ 37,996
Accounts receivable not collected within 60 days	<u>77,091</u>	<u>-</u>	<u>77,091</u>
<b><i>Total Component Units</i></b>	<b><u>\$ 115,087</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 115,087</u></b>



**City of Sturgis**

Notes to the Financial Statements

**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:

	<b>General Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>
<b>Nonspendable</b>			
Prepaid items	\$ -	\$ 10,313	\$ 10,313
Inventory	895	55,087	55,982
<b>Total nonspendable</b>	895	65,400	66,295
<b>Restricted</b>			
Streets	-	1,325,789	1,325,789
Capital projects	-	140,190	140,190
Cemetery trust	-	631,562	631,562
<b>Total restricted</b>	-	2,097,541	2,097,541
<b>Committed</b>			
Streets	-	2,343,426	2,343,426
Capital projects	-	981,429	981,429
Building department	-	138,361	138,361
Housing department	-	29,417	29,417
Cemetery	-	33,087	33,087
Drug enforcement	-	18,204	18,204
Recreation	-	37,745	37,745
Auditorium	-	20,148	20,148
Arts Council	-	30,403	30,403
Recreation center	-	77,808	77,808
Airport	-	44,531	44,531
<b>Total committed</b>	-	3,754,559	3,754,559
<b>Unassigned</b>	2,937,380	-	2,937,380
<b>Total Fund Balance</b>	\$ 2,938,275	\$ 5,917,500	\$ 8,855,775

**City of Sturgis**

Notes to the Financial Statements

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

Interfund receivables and payables consisted of the following at September 30, 2018:

<b>Fund</b>	<b>Advance Receivable</b>	<b>Fund</b>	<b>Advance Payable</b>
Electric	\$ 624,744	Water	\$ 624,744

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

Transfers consisted of the following for the year ended September 30, 2018:

<b>Fund</b>	<b>Transfers Out</b>	<b>Fund</b>	<b>Transfers In</b>
General	\$ 1,435,480	Capital Projects	\$ 500,000
		Building Department	30,000
		Housing Development	60,000
		Cemetery	199,980
		Recreation	105,000
		Civic Auditorium	295,500
		Doyle Community Center	35,000
		Airport	100,000
		Sanitary Sewer	30,000
		Electric	80,000
	1,435,480		1,435,480
Capital Projects	14,839	Civic Auditorium	14,839
Cemetery Trust	4,736	Cemetery	4,736
<b>Totals</b>	<b>\$ 1,455,055</b>		<b>\$ 1,455,055</b>

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 the Financial Statements

### NOTE 6 - CAPITAL ASSETS

Capital assets activity of the primary government for the year ended September 30, 2018 was as follows:

<b>Governmental Activities</b>	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated				
Land	\$ 566,260	\$ -	\$ -	\$ 566,260
Construction in Process	1,785,516	-	-	1,785,516
Total capital assets not being depreciated	<u>2,351,776</u>	<u>-</u>	<u>-</u>	<u>2,351,776</u>
Capital assets being depreciated				
Infrastructure	13,109,323	502,533	-	13,611,856
Land Improvements	6,033,909	50,662	-	6,084,571
Building and Improvements	8,736,535	711,956	-	9,448,491
Machinery and Equipment	2,654,642	58,614	-	2,713,256
Vehicles	4,688,382	128,115	(164,156)	4,652,341
Office Furniture and Equipment	389,987	-	-	389,987
Total capital assets being depreciated	<u>35,612,778</u>	<u>1,451,880</u>	<u>(164,156)</u>	<u>36,900,502</u>
Less accumulated depreciation				
Infrastructure	3,991,497	972,603	-	4,964,100
Land Improvements	3,907,234	282,755	-	4,189,989
Building and Improvements	4,048,398	296,830	-	4,345,228
Machinery and Equipment	2,222,041	193,829	-	2,415,870
Vehicles	3,098,468	415,328	(164,156)	3,349,640
Office Furniture and Equipment	387,692	-	-	387,692
Total accumulated depreciation	<u>17,655,330</u>	<u>2,161,345</u>	<u>(164,156)</u>	<u>19,652,519</u>
Net capital assets being depreciated	<u>17,957,448</u>	<u>(709,465)</u>	<u>-</u>	<u>17,247,983</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 20,309,224</u>	<u>\$ (709,465)</u>	<u>\$ -</u>	<u>\$ 19,599,759</u>

## City of Sturgis

### Notes to the Financial Statements

<b>Business-type Activities</b>	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated				
Land	\$ 577,093	\$ -	\$ -	\$ 577,093
Construction in Process	680,262	508,177	(118,236)	1,070,203
Total capital assets not being depreciated	<u>1,257,355</u>	<u>508,177</u>	<u>(118,236)</u>	<u>1,647,296</u>
Capital assets being depreciated				
Land Improvements	1,622,268	193,187	-	1,815,455
Building, Improvements, and System	116,745,110	141,586	(2,594,342)	114,292,354
Machinery and Equipment	1,701,619	144,910	-	1,846,529
Office Furniture and Equipment	24,952	-	-	24,952
Total capital assets being depreciated	<u>120,093,949</u>	<u>479,683</u>	<u>(2,594,342)</u>	<u>117,979,290</u>
Less accumulated depreciation				
Land Improvements	1,423,764	178,061	-	1,601,825
Building, Improvements, and System	73,412,420	3,451,790	(2,593,053)	74,271,157
Machinery and Equipment	444,767	74,568	-	519,335
Office Furniture and Equipment	24,952	-	-	24,952
Total accumulated depreciation	<u>75,305,903</u>	<u>3,704,419</u>	<u>(2,593,053)</u>	<u>76,417,269</u>
Net capital assets being depreciated	<u>44,788,046</u>	<u>(3,224,736)</u>	<u>(1,289)</u>	<u>41,562,021</u>
<b><i>Business-type Activities Capital Assets, Net</i></b>	<b><u>\$ 46,045,401</u></b>	<b><u>\$ (2,716,559)</u></b>	<b><u>\$ (119,525)</u></b>	<b><u>\$ 43,209,317</u></b>

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

#### **Governmental Activities**

General Government	\$ 344,330
Public Safety	570,502
Public Works	439,063
Recreation and Culture	283,354
Internal Service Funds	524,096
<b><i>Total Governmental Activities</i></b>	<b><u>\$ 2,161,345</u></b>

#### **Business-type Activities**

Electric	\$ 1,991,066
Sanitary Sewer	1,257,785
Water	455,568
<b><i>Total Business-type Activities</i></b>	<b><u>\$ 3,704,419</u></b>

## City of Sturgis

### Notes to the Financial Statements

Capital assets activity of the component units (DDA) for the year ended September 30, 2018 was as follows:

<b>Downtown Development Authority</b>	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets being depreciated				
Land Improvements	\$ 283,662	\$ -	\$ -	\$ 283,662
Building and Improvements	378,364	-	(75,664)	302,700
Total capital assets being depreciated	<u>662,026</u>	<u>-</u>	<u>(75,664)</u>	<u>586,362</u>
Less accumulated depreciation				
Land Improvements	203,360	18,911	-	222,271
Building and Improvements	266,648	15,135	(40,664)	241,119
Total accumulated depreciation	<u>470,008</u>	<u>34,046</u>	<u>(40,664)</u>	<u>463,390</u>
Net capital assets being depreciated	<u>192,018</u>	<u>(34,046)</u>	<u>(35,000)</u>	<u>122,972</u>
<b><i>Business-type Activities Capital Assets, Net</i></b>	<b><u>\$ 192,018</u></b>	<b><u>\$ (34,046)</u></b>	<b><u>\$ (35,000)</u></b>	<b><u>\$ 122,972</u></b>

Depreciation expense of \$34,046 was charged to the community and economic development function of the DDA.

### NOTE 7 - LONG-TERM DEBT

Following is a summary of governmental activities long-term debt transactions for the year ended September 30, 2018:

	Balance at October 1, 2017	Additions	Deletions	Balance at September 30, 2018	Due Within One Year
<b>Governmental Activities</b>					
2010 Capital Improvement	\$ 628,009	\$ -	\$ (62,583)	\$ 565,426	\$ 63,568
Fire Truck Note Payable	185,099	-	(26,448)	158,651	30,279
Fire Vehicle Note Payable	476,950	-	(32,244)	444,706	32,646
Gym Equipment Note Payable	-	237,000	(13,068)	223,932	12,848
<b>Total Long-term Debt</b>	<u>1,290,058</u>	<u>237,000</u>	<u>(134,343)</u>	<u>1,392,715</u>	<u>139,341</u>
Compensated Absences	568,038	25,122	-	593,160	-
<b>Total Governmental Activities</b>	<b><u>\$ 1,858,096</u></b>	<b><u>\$ 262,122</u></b>	<b><u>\$ (134,343)</u></b>	<b><u>\$ 1,985,875</u></b>	<b><u>\$ 139,341</u></b>

Long-term debt payables at September 30, 2018 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%

\$ 565,426

## City of Sturgis

### Notes to the Financial Statements

Note payable to Bank in the amount of \$398,106, monthly payment of \$3,065 including interest at 4.50%, final payment due July 1, 2023, secured by Fire Truck with a net book value of \$121,644	158,651
Note payable to Bank in the amount of \$516,334, monthly payment of \$3,161 including interest at 1.23%, final payment due May 12, 2031, secured by Fire Truck with a net book value of \$509,055	444,706
Note payable to Bank in the amount of \$237,000, monthly payment of \$1,658 including interest at 3.19%, final payment due October 1, 2032, secured by gym equipment with a net book value of \$225,150	223,932
Total Governmental Activities Long-Term Debt	<u>\$ 1,392,715</u>

Following is a summary of business-type activities long-term debt transactions for the year ended September 30, 2018:

	Balance at October 1, 2017	Additions	Deletions	Balance at September 30, 2018	Due Within One Year
<b>Business-type Activities</b>					
2010 Capital Improvement	\$ 2,186,990	\$ -	\$ (217,416)	\$ 1,969,574	\$ 221,431
2007 State/Clean Water	591,070	-	(55,000)	536,070	55,000
2007 State/Clean Water	1,545,587	-	(130,000)	1,415,587	135,000
2008 Sanitary Sewer System	3,082,172	-	(225,000)	2,857,172	230,000
2013A State/Clean Water	2,175,918	-	(109,999)	2,065,919	110,000
2013B State/Clean Water	371,674	-	(20,000)	351,674	20,000
<b>Total Long-term Debt</b>	9,953,411	-	(757,415)	9,195,996	771,431
Compensated Absences	231,000	-	-	231,000	-
<b>Total Business-type Activities</b>	\$ 10,184,411	\$ -	\$ (757,415)	\$ 9,426,996	\$ 771,431

Long-term debt payables at September 30, 2018, consisted of the following individual issues:

#### Business-Type Activities

\$3,416,554 2010 Capital Improvement bonds payable annually, beginning November 1, 2011 and ending November 1, 2025, ranging from \$198,007 to \$275,657, plus interest paid semi-annually at 1.4% to 6.0%	\$ 1,969,574
--	--------------

## City of Sturgis

### Notes to the Financial Statements

\$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%	536,070
\$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%	1,415,587
\$5,505,000 2008 Sanitary Sewer System revenue bonds, payable in semi-annual installments ranging from \$215,000 to \$292,172 plus interest at 2.50%, final payment due October 1, 2029	2,857,172
\$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	2,065,919
\$476,674 2013 State/Clean Water Revolving Fund loan payable in semi-annual installments ranging from \$15,000 to \$26,674 plus interest at 2.50%, final payment due April 1, 2034	351,674
Total Business-type Activities Long-Term Debt	<u>\$ 9,195,996</u>

### Debt Service Requirements

The annual requirements to service all debt outstanding for the primary government as of September 30, 2018 (excluding compensated absences), including both principal and interest, are as follows:

	Governmental Activities		
	Principal	Interest	Total
2019	\$ 139,341	\$ 41,013	\$ 180,354
2020	143,774	36,236	180,010
2021	146,430	32,878	179,308
2022	149,741	30,671	180,412
2023	144,959	24,404	169,363
2024-2028	484,613	53,202	537,815
2029-2033	183,857	6,314	190,171
Totals	\$ 1,392,715	\$ 224,718	\$ 1,617,433

## City of Sturgis

### Notes to the Financial Statements

	Business-type Activities		
	Principal	Interest	Total
2019	\$ 771,431	\$ 255,302	\$ 1,026,733
2020	794,201	233,029	1,027,230
2021	803,086	209,639	1,012,725
2022	825,855	185,136	1,010,991
2023	843,625	159,279	1,002,904
2024-2028	3,863,033	398,777	4,261,810
2029-2033	1,117,172	69,143	1,186,315
2034	177,593	1,842	179,435
Totals	\$ 9,195,996	\$ 1,512,147	\$ 10,708,143

### *Discretely Presented Component Units*

#### **Downtown Development Authority**

Following is a summary of long-term debt transactions for the year ended September 30, 2018:

	Balance at October 1, 2017	Additions	Deletions	Balance at September 30, 2018	Due Within One Year
<b>Downtown Development</b>					
Farmers State Bank Note Payabl	\$ 116,866	\$ -	\$ (11,564)	\$ 105,302	\$ 12,041

Long-term debt payable at September 30, 2018, 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 \$ 105,302

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.



## City of Sturgis

### Notes to the Financial Statements

#### Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2018 including both principal and interest, are as follows:

	Principal	Interest	Total
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
2023	13,719	1,577	15,296
Thereafter	40,768	3,927	44,695
<b>Totals</b>	<b>\$ 105,302</b>	<b>\$ 15,873</b>	<b>\$ 121,175</b>

#### Brownfield Redevelopment Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2018:

	Balance at October 1, 2017	Additions	Deletions	Balance at September 30, 2018	Due Within One Year
<b>Brownfield Redevelopment Authority</b>					
Michigan Department of Environmental Quality Note Payable	\$ 219,954	\$ -	\$ (73,792)	\$ 146,162	\$ 31,143
City of Sturgis - Electric Fund	1,700,000	-	-	1,700,000	-
<b>Total Brownfield Redevelopment</b>	<b>\$ 1,919,954</b>	<b>\$ -</b>	<b>\$ (73,792)</b>	<b>\$ 1,846,162</b>	<b>\$ 31,143</b>

Long-term debt payable at September 30, 2018, 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 \$ 146,162

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

Total \$ 1,846,162

## City of Sturgis

### Notes to the Financial Statements

#### Debt Service Requirements

The annual requirements to service the Michigan Department of Environmental Quality debt outstanding as of September 30, 2018 including both principal and interest, are as follows:

	Principal	Interest	Total
2019	\$ 31,143	\$ 2,192	\$ 33,335
2020	31,610	1,725	33,335
2021	32,084	1,251	33,335
2022	32,565	770	33,335
2023	18,760	282	19,042
<b>Totals</b>	<b>\$ 146,162</b>	<b>\$ 6,220</b>	<b>\$ 152,382</b>

The note payable to the City of Sturgis Electric Fund is unscheduled.

#### Building Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2018:

	Balance at October 1, 2017	Additions	Deletions	Balance at September 30, 2018	Due Within One Year
<b>Building Authority</b>					
Series 2014 Refunding Bonds	\$ 8,530,000	\$ -	\$ (330,000)	\$ 8,200,000	\$ 340,000

Long-term debt payable at September 30, 2018, 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>\$ 8,200,000</u>
---	---------------------

**City of Sturgis**

Notes to the Financial Statements

**Debt Service Requirements**

The annual requirements to service all debt outstanding as of September 30, 2018 including both principal and interest, are as follows:

	Principal	Interest	Total
2019	\$ 340,000	\$ 308,913	\$ 648,913
2020	350,000	302,113	652,113
2021	370,000	291,613	661,613
2022	385,000	280,513	665,513
2023	410,000	268,963	678,963
2024-2028	2,420,000	1,099,038	3,519,038
2029-2033	3,180,000	549,313	3,729,313
2034	745,000	29,797	774,797
Totals	\$ 8,200,000	\$ 3,130,263	\$ 11,330,263

**NOTE 8 - NOTES RECEIVABLE**

At September 30, 2018, 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	\$ 134,847
Note receivable from Brownfield Development Authority - component unit collectible beginning in 2021 with interest accruing at 2.468%, due in full within thirty years	1,700,000
Total	\$ 1,834,847

**NOTE 9 - LEASE RECEIVABLE**

***Discretely Presented Component Unit***

**Building Authority**

At September 30, 2018, 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

# City of Sturgis

## Notes to the Financial Statements

---

principal and interest on the Authority Bonds payable \$ 8,200,000

### NOTE 10 - RISK MANAGEMENT

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

Prior to May 1, 2013, the City was internally self-insured for claims arising from workers' compensation for all employees. Effective May 1, 2013, the City purchased commercial insurance for workers' compensation claims. 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, 2018, 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, 2018, 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 \$747,859 in 2018 and are reported in the Employee Benefit Fund.

Changes in the Employee Benefit Fund self-insured claims liability for the year ended September 30, 2018, was as follows:

Claims liability October 1	\$ 276,100
Current year claims and changes in estimates	747,859
Claim payments	<u>747,859</u>
Claims liability September 30	<u>\$ 276,100</u>

### NOTE 11 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457 that is administered by ICMA Retirement Corporation. The plan,

# City of Sturgis

## Notes to the Financial Statements

---

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 2018, the City contributed \$127,590 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**

#### **Defined Benefit Pension Plan**

##### ***Benefits Provided***

*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. The plan does not issue a separate financial report.

**City of Sturgis**

Notes to the Financial Statements

Retirement benefits for employees are calculated as follows:

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

**City of Sturgis**

Notes to the Financial Statements

---

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

**City of Sturgis**

Notes to the Financial Statements

<b>Eligibility</b>	<b>Amount</b>
--------------------	---------------

***Non-Duty Disability Retirement***

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

***Duty Disability Retirement***

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

***Member Contributions***

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

Required contributions in excess of the Employer Cap are paid by active employees. Contribution balances are credited with 3.0% interest annually.

***Cap on Employer Contributions***

General (hired on or after 12/31/2012)	10.0% of gross pension wages.
Electric (hired on or after 3/1/2012)	10.0% of gross pension wages.
Police (hired on or after 10/1/2011)	16.2% of gross pension wages.
Fire (hired on or after 10/1/2012)	16.2% of gross pension wages.

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



# City of Sturgis

## Notes to the Financial Statements

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

### ***Post-Retirement Adjustment***

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

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.

### ***Employees Covered by Benefit Terms***

At the September 30, 2018 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	106
Inactive plan members entitled to but not yet receiving benefits	27
Active plan members	96
Total employees covered by MERS	229

### ***Contributions***

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. The funding policy provides for periodic employer contributions at actuarially determined rates.

## City of Sturgis

### Notes to the Financial Statements

For the year ended September 30, 2018, the City had the following contribution rates:

Division	Employer Contributions	Employee Contributions
General	6.77%	N/A
Electric Union	12.55%	2.76%
Police	19.32%	3.52%
Fire	19.61%	3.77%

### *Net Pension Liability*

The net pension liability reported at September 30, 2018 was determined using a measure of the total pension liability and the pension net position as of September 30, 2018. The September 30, 2018 total pension liability was determined by an actuarial valuation performed as of that date.

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

Changes in Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
<b>Balance at September 30, 2017</b>	\$ 35,113,976	\$ 35,555,349	\$ (441,373)
Service cost	801,729	-	801,729
Interest	2,248,088	-	2,248,088
Difference between expected and actual experience	69,707	-	69,707
Contributions - Employer	-	484,776	(484,776)
Contributions - Employee	-	168,973	(168,973)
Net investment income	-	2,268,382	(2,268,382)
Benefit payments, including refunds	(1,857,728)	(1,857,728)	-
Administrative expenses	-	(57,848)	57,848
<b>Net changes</b>	1,261,796	1,006,555	255,241
<b>Balance at September 30, 2018</b>	\$ 36,375,772	\$ 36,561,904	\$ (186,132)

The net pension asset was allocated among governmental activities (\$111,679) and business-type activities (\$74,453). Business-type activities were further allocated among the electric (\$59,562), sanitary sewer (\$11,168), and water (\$3,723) funds.

# City of Sturgis

## Notes to the Financial Statements

---

### *Actuarial Assumptions*

The total pension liability in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3.0%

Salary Increases: 4.00% to 14.00%

Investment rate of return: 7.00%

Mortality: RP-2000 Table projected to 2020 with scale AA for both men and women)

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

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>
Global equity	72%
Global fixed income	28%
Real assets	1%
	<u>100.0%</u>

### *Discount Rate*

The discount rate used to measure the total pension liability is 6.50%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

## City of Sturgis

### Notes to the Financial Statements

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

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

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net pension liability (asset) of the City	\$ 4,634,255	\$ (186,132)	\$ (4,178,461)

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

For the year ended September 30, 2018, the City recognized pension expense of \$1,191,877. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 170,939	\$ 236,418
Changes in assumptions	801,145	2,304
Net difference between projected and actual earnings on pension plan investments	534,312	985,961
Total	\$ 1,506,396	\$ 1,224,683

Deferred outflows of resources were allocated among governmental activities (\$903,837) and business-type activities (\$602,559). Business-type activities were further allocated among the electric (\$482,047), sanitary sewer (\$90,384), and water (\$30,128) funds. Deferred inflows of resources were also allocated among governmental activities (\$734,809) and business-type activities (\$489,874). Business-type activities were further allocated among the electric (\$391,899), sanitary sewer (\$73,481), and water (\$24,494) funds.

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

Years Ending September 30	Amount
2019	\$ 573,231
2020	(112,783)
2021	(192,056)
2022	13,321

# City of Sturgis

## Notes to the Financial Statements

---

### NOTE 13 - POSTEMPLOYMENT HEALTH CARE BENEFITS

#### *Plan Description*

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

#### *Benefits Provided and Contributions*

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

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (September 30, 2018):

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

#### *Methods and Assumptions*

The total OPEB liability was determined by an actuarial valuation as of September 30, 2018 and a measurement date of September 30, 2018 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.00%
Salary increases	0.05% to 10.00%
Investment rate of return	7.00%
Discount rate	7.00%
Average retirement age	47
Mortality	Based on RPH-2018 Tables with Scale MP-2018.

Healthcare cost trend rates starting at 8% in 2019 for pre and post-Medicare health care decreasing to a rate of 4.5% by 0.5% steps each year.

## City of Sturgis

### Notes to the Financial Statements

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

The discount rate used to measure the total OPEB liability was 7.00 percent. This discount rate is used to determine the Total OPEB Liability. September 30, 2018 is the first year of required compliance with GASB 75, so there is no required discount rate change to disclose.

Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Fixed Income	40.00%	3.76%
Global Equity	60.00%	8.65%
Total	100.00%	6.69%

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

	Increase (Decrease)		
Changes in OPEB Liability	Total OPEB Liability	Plan Net Position	OPEB Liability
<b>Balance at September 30, 2017</b>	\$ 11,000,656	\$ 7,096,892	\$ 3,903,764
Service cost	72,300	-	72,300
Interest	757,030	-	757,030
Changes in assumptions	(87,285)	-	(87,285)
Differences between expected and actual experience	(674,013)	-	(674,013)
Contributions - employer	-	907,200	(907,200)
Net investment income	-	429,888	(429,888)
Benefit payments	(525,378)	(525,378)	-
Trust administrative expenses	-	(18,121)	18,121
Net changes	(457,346)	793,589	(1,250,935)
<b>Balance at September 30, 2018</b>	\$ 10,543,310	\$ 7,890,481	\$ 2,652,829

The net OPEB liability was allocated among governmental activities (\$2,016,150) and business-type activities (\$636,679). Business-type activities were further allocated among the electric (\$504,037), sanitary sewer (\$79,585), and water (\$53,057) funds.

**City of Sturgis**

Notes to the Financial Statements

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

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

	1% Decrease (6.00%)	Current Rate (7.00%)	1% Increase (8.00%)
Net OPEB Liability	\$ 3,807,447	\$ 2,652,829	\$ 1,674,919

Plan fiduciary position as a percentage of the total OPEB liability at the current discount rate was 74.80%.

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

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate of 8.00 percent, as well as what the employer’s net OPEB liability would be using a healthcare cost trend rate that is 1 percentage point lower or higher than the current rate:

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
Net OPEB Liability	\$ 1,714,707	\$ 2,652,829	\$ 3,750,375

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$163,712. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (505,510)
Changes in assumptions	-	(65,464)
Net difference between projected and actual earnings in OPEB plan investments	63,527	-
Total	\$ 63,527	\$ (570,974)

Deferred outflows of resources were allocated among governmental activities (\$42,280) and business-type activities (\$15,247). Business-type activities were further allocated among the electric (\$12,070), sanitary sewer (\$1,906), and water (\$1,271) funds. Deferred inflows of resources were also allocated among governmental activities (\$433,939) and business-type

# City of Sturgis

## Notes to the Financial Statements

activities (\$137,035). Business-type activities were further allocated among the electric (\$108,485), sanitary sewer (\$17,131), and water (\$11,419) funds.

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

Years Ending September 30	Amount
2019	\$ (174,442)
2020	(174,442)
2021	(174,444)
2022	15,881

### 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, 2018, the City incurred purchased power cost under this agreement of \$17,615,904 which is included in the Electric Fund as Purchased Power expense and includes an estimated liability of \$256,000 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



## City of Sturgis

### Notes to the Financial Statements

---

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, 2018, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

The transfers out line item had a negative variance of \$242,000 due to an amended budget of \$1,193,480 and the actual amount being \$1,435,480.

#### **NOTE 17 - FUND EQUITY DEFICITS**

The Brownfield Redevelopment Authority component unit had a deficit net position (full accrual basis) of \$1,891,327 at September 30, 2018. 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 2018 as a result of industrial facilities tax exemptions (IFT's) and brownfield redevelopment agreements entered into by the City.

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property in the City. The abatements amounted to \$91,423 in reduced City tax revenues for 2018.

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 \$45,698 in reduced City tax revenues for 2018.

#### **NOTE 19 - CHANGE IN ACCOUNTING PRINCIPLE**

During the current year, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, the government-wide

# City of Sturgis

## Notes to the Financial Statements

statements now include an increase in OPEB liability by \$628,014 that corresponded with a decrease in net position of the same amount.

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

	<u>Governmental Activities</u>	<u>Electric</u>	<u>Sanitary Sewer</u>	<u>Water</u>	<u>Business-type Activities</u>
Net Position - September 30, 2017, as previously reported					
As previously reported, including reclassification	\$ 26,460,138	\$ 38,539,245	\$ 11,813,165	\$ 5,739,171	\$ 56,091,581
Adoption of GASB Statement No. 75	<u>(477,291)</u>	<u>(119,323)</u>	<u>(18,841)</u>	<u>(12,559)</u>	<u>(150,723)</u>
Net Position - September 30, 2017 - as restated	<u>\$ 25,982,847</u>	<u>\$ 38,419,922</u>	<u>\$ 11,794,324</u>	<u>\$ 5,726,612</u>	<u>\$ 55,940,858</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Sturgis**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Year Ended September 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Positive (Negative) Final to Actual</b>
<b>Revenues</b>				
Property Taxes	\$ 2,747,460	\$ 3,012,460	\$ 3,002,672	\$ (9,788)
Licenses and Permits	7,800	7,800	9,770	1,970
State Sources	1,124,900	1,124,900	1,062,016	(62,884)
Charges for Services	220,000	220,000	244,300	24,300
Fines and Forfeits	33,000	33,000	21,581	(11,419)
Investment Income	150,000	150,000	191,486	41,486
Contributions	30,000	68,000	51,970	(16,030)
Payments in Lieu of Taxes	2,596,860	2,596,860	2,601,817	4,957
Administrative Reimbursement	1,020,120	1,020,120	1,020,120	--
Other	162,750	162,750	186,473	23,723
<b>Total Revenues</b>	<u>8,092,890</u>	<u>8,395,890</u>	<u>8,392,205</u>	<u>(3,685)</u>
<b>Expenditures</b>				
Legislative	45,080	45,080	41,862	3,218
General Government	1,277,655	1,277,655	1,243,263	34,392
Public Safety	4,635,125	4,505,125	4,263,303	241,822
Public Works	432,940	432,940	413,467	19,473
Health and Welfare	2,000	2,000	1,500	500
Recreation and Culture	714,140	632,140	621,072	11,068
Community and Economic Development	210,515	215,515	195,423	20,092
Capital Outlay	15,000	448,000	386,568	61,432
Debt Service - Principal	12,728	12,728	12,728	--
Debt Service - Interest	7,172	7,172	6,492	680
<b>Total Expenditures</b>	<u>7,352,355</u>	<u>7,578,355</u>	<u>7,185,678</u>	<u>392,677</u>
<b>Other Financing Uses</b>				
Transfers Out	1,193,480	1,193,480	1,435,480	(242,000)
<b>Total Expenditures and Other Financing Uses</b>	<u>8,545,835</u>	<u>8,771,835</u>	<u>8,621,158</u>	<u>150,677</u>
<b>Excess (Deficiency) of Revenues Over Expenditures and Other Uses</b>	<u>(452,945)</u>	<u>(375,945)</u>	<u>(228,953)</u>	<u>146,992</u>
<b>Net Change in Fund Balance</b>	<u>(452,945)</u>	<u>(375,945)</u>	<u>(228,953)</u>	<u>146,992</u>
<b>Fund Balance at Beginning of Period</b>	3,167,228	3,167,228	3,167,228	--
<b>Fund Balance at End of Period</b>	<u>\$ 2,714,283</u>	<u>\$ 2,791,283</u>	<u>\$ 2,938,275</u>	<u>\$ 146,992</u>

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

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

**City of Sturgis**  
**Required Supplementary Information**  
**Schedule of Contributions**  
**Last Five Fiscal Years**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contribution	\$ 484,776	\$ 511,855	\$ 512,328	\$ 559,403	\$ 605,570
Contributions in Relation to the Actuarially Determined Contribution	505,737	483,387	521,972	561,708	574,553
Contribution Deficiency (Excess)	<u>\$ (20,961)</u>	<u>\$ 28,468</u>	<u>\$ (9,644)</u>	<u>\$ (2,305)</u>	<u>\$ 31,017</u>
Covered Payroll	6,116,674	5,532,246	5,642,470	5,347,161	5,090,884
Contributions as a Percentage of Covered Payroll	7.93%	9.25%	9.08%	10.46%	11.90%

*Notes*

**Valuation Date**

Actuarially determined contribution amounts are calculated as of September 30, 2018.

**Methods and assumptions used to determine contribution rates**

Actuarial cost method	Individual Entry Age Normal Cost
Amortization method	Level percentage of pay, open
Remaining amortization period	15 years
Asset valuation method	Market value with 5-year smoothing; 20% corridor
Inflation	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.
Mortality	RP-2000 Table projected to 2020 with scale AA for both men and women.

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

	2018
<b>Total OPEB Liability</b>	
Service Cost	\$ 72,300
Interest	757,030
Changes in assumptions	(87,285)
Differences between expected and actual experience	(674,013)
Benefit payments	(525,378)
<i><b>Net Change in total OPEB Liability</b></i>	<i>(457,346)</i>
<i>Total OPEB Liability - Beginning</i>	<i>11,000,656</i>
<i><b>Total OPEB Liability - Ending (a)</b></i>	<i><b>\$ 10,543,310</b></i>
<b>Plan Fiduciary Net Position</b>	
Contributions/benefit payments made from general operating funds	\$ 907,200
Net investment income	429,888
Benefit payments	(525,378)
Trust administrative expenses	(18,121)
<i><b>Net Change in Plan Fiduciary Net Position</b></i>	<i>793,589</i>
<i>Plan Fiduciary Net Position - Beginning</i>	<i>7,096,892</i>
<i><b>Plan Fiduciary Net Position - Ending (b)</b></i>	<i><b>\$ 7,890,481</b></i>
<i><b>Net OPEB Liability - Ending (a) - (b)</b></i>	<i><b>\$ 2,652,829</b></i>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	74.8%
Covered Payroll	\$ 3,748,674
Net OPEB Liability as a Percentage of Covered Payroll	70.8%

\* Built prospectively upon implementation of GASB 75

**City of Sturgis**  
**Required Supplementary Information**  
**Schedule of Contributions - OPEB**  
**Last Fiscal Year**

	2018
Actuarially Determined Contribution	\$ 906,796
Contributions in Relation to the Actuarially Determined Contribution	907,200
Contribution Deficiency (Excess)	\$ (404)
 Covered Payroll	 \$ 3,748,674
 Contributions as a Percentage of Covered Payroll	 24.2%

*Notes*

**Valuation Date: September 30, 2018**

**Methods and assumptions used to determine contribution rates**

Actuarial cost method	Entry Age Normal Level % of Salary
Amortization method	Level Dollar
Remaining amortization period	10 Years
Asset valuation method	Market Value
Inflation	4.00%
Salary increases	4.5% to 14.00%
Investment rate of return	7.00%
Retirement Age	Average - 47 years
Mortality	Based on RPH-2018 Tables with Scale MP-2018.

*\* Built prospectively upon implementation of GASB 75*



**Combining and Individual Fund Statements and Schedules**

**City of Sturgis  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2018**

	<b>Special Revenue</b>					
	<b>Major Streets</b>	<b>Local Streets</b>	<b>Municipal Street</b>	<b>Municipal Street/Sidewalk Improvement</b>	<b>Building Department</b>	<b>Housing Department</b>
<b>ASSETS</b>						
Cash and Investments	\$ 607,638	\$ 570,142	\$ 2,369,375	\$ 133,972	\$ 141,190	\$ 30,414
Accounts Receivable	--	--	--	--	--	--
Taxes Receivable	--	--	--	67,257	--	--
Special Assessments Receivable	--	--	--	25,794	--	--
Inventory	--	--	--	--	--	--
Prepaid Items	--	--	--	--	--	--
Due from Other Governmental Units	132,000	47,897	--	27,331	--	--
Restricted Assets	--	--	--	--	--	--
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 739,638</b>	<b>\$ 618,039</b>	<b>\$ 2,369,375</b>	<b>\$ 254,354</b>	<b>\$ 141,190</b>	<b>\$ 30,414</b>
<b>LIABILITIES</b>						
Accounts Payable	\$ 11,967	\$ 6,445	\$ 25,949	\$ 33,399	\$ 274	\$ 497
Accrued Expenses	7,773	5,703	--	--	2,555	--
Customer Deposits	--	--	--	--	--	500
Unearned Revenue	--	--	--	54,971	--	--
<b>Total Liabilities</b>	<b>19,740</b>	<b>12,148</b>	<b>25,949</b>	<b>88,370</b>	<b>2,829</b>	<b>997</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue	--	--	--	25,794	--	--
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>19,740</b>	<b>12,148</b>	<b>25,949</b>	<b>114,164</b>	<b>2,829</b>	<b>997</b>
<b>FUND BALANCE</b>						
Nonspendable	--	--	--	--	--	--
Restricted	719,898	605,891	--	140,190	--	--
Committed	--	--	2,343,426	--	138,361	29,417
Unassigned	--	--	--	--	--	--
<b>Total Fund Balance</b>	<b>719,898</b>	<b>605,891</b>	<b>2,343,426</b>	<b>140,190</b>	<b>138,361</b>	<b>29,417</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 739,638</b>	<b>\$ 618,039</b>	<b>\$ 2,369,375</b>	<b>\$ 254,354</b>	<b>\$ 141,190</b>	<b>\$ 30,414</b>

**City of Sturgis  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2018**

	<b>Special Revenue</b>					
	<b>Cemetery</b>	<b>Drug Enforcement</b>	<b>Recreation</b>	<b>Civic Auditorium</b>	<b>Sturgis Arts Council</b>	<b>Doyle Community Center</b>
<b>ASSETS</b>						
Cash and Investments	\$ 35,678	\$ 18,204	\$ 42,083	\$ 47,278	\$ 37,060	\$ 117,422
Accounts Receivable	4,342	--	--	38,618	575	--
Taxes Receivable	--	--	--	--	--	--
Special Assessments Receivable	--	--	--	--	--	--
Inventory	--	--	--	21,722	--	--
Prepaid Items	--	--	--	--	7,500	--
Due from Other Governmental Units	--	--	--	--	--	--
Restricted Assets	--	--	--	--	--	--
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 40,020</b>	<b>\$ 18,204</b>	<b>\$ 42,083</b>	<b>\$ 107,618</b>	<b>\$ 45,135</b>	<b>\$ 117,422</b>
<b>LIABILITIES</b>						
Accounts Payable	\$ 485	\$ --	\$ 1,521	\$ 54,410	\$ 4,192	\$ 8,072
Accrued Expenses	6,448	--	2,817	9,713	283	6,356
Customer Deposits	--	--	--	1,625	--	--
Unearned Revenue	--	--	--	--	2,757	25,186
<b>Total Liabilities</b>	<b>6,933</b>	<b>--</b>	<b>4,338</b>	<b>65,748</b>	<b>7,232</b>	<b>39,614</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue	--	--	--	--	--	--
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>6,933</b>	<b>--</b>	<b>4,338</b>	<b>65,748</b>	<b>7,232</b>	<b>39,614</b>
<b>FUND BALANCE</b>						
Nonspendable	--	--	--	21,722	7,500	--
Restricted	--	--	--	--	--	--
Committed	33,087	18,204	37,745	20,148	30,403	77,808
Unassigned	--	--	--	--	--	--
<b>Total Fund Balance</b>	<b>33,087</b>	<b>18,204</b>	<b>37,745</b>	<b>41,870</b>	<b>37,903</b>	<b>77,808</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 40,020</b>	<b>\$ 18,204</b>	<b>\$ 42,083</b>	<b>\$ 107,618</b>	<b>\$ 45,135</b>	<b>\$ 117,422</b>

**City of Sturgis  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2018**

	<u>Special Revenue</u>		<u>Permanent</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Airport</u>	<u>Capital Projects</u>	<u>Cemetery Trust</u>	
<b>ASSETS</b>				
Cash and Investments	\$ 43,022	\$ 1,028,196	\$ --	\$ 5,221,674
Accounts Receivable	5,607	--	--	49,142
Taxes Receivable	--	--	--	67,257
Special Assessments Receivable	--	--	--	25,794
Inventory	33,365	--	--	55,087
Prepaid Items	2,813	--	--	10,313
Due from Other Governmental Units	--	--	--	207,228
Restricted Assets	--	--	631,562	631,562
<b><i>Total Assets and Deferred Outflows of Resources</i></b>	<b><u>\$ 84,807</u></b>	<b><u>\$ 1,028,196</u></b>	<b><u>\$ 631,562</u></b>	<b><u>\$ 6,268,057</u></b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 3,409	\$ 46,767	\$ --	\$ 197,387
Accrued Expenses	689	--	--	42,337
Customer Deposits	--	--	--	2,125
Unearned Revenue	--	--	--	82,914
<b><i>Total Liabilities</i></b>	<b><u>4,098</u></b>	<b><u>46,767</u></b>	<b><u>--</u></b>	<b><u>324,763</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	--	--	--	25,794
<b><i>Total Liabilities and Deferred Inflows of Resources</i></b>	<b><u>4,098</u></b>	<b><u>46,767</u></b>	<b><u>--</u></b>	<b><u>350,557</u></b>
<b>FUND BALANCE</b>				
Nonspendable	36,178	--	--	65,400
Restricted	--	--	631,562	2,097,541
Committed	44,531	981,429	--	3,754,559
Unassigned	--	--	--	--
<b><i>Total Fund Balance</i></b>	<b><u>80,709</u></b>	<b><u>981,429</u></b>	<b><u>631,562</u></b>	<b><u>5,917,500</u></b>
<b><i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i></b>	<b><u>\$ 84,807</u></b>	<b><u>\$ 1,028,196</u></b>	<b><u>\$ 631,562</u></b>	<b><u>\$ 6,268,057</u></b>

**City of Sturgis**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended September 30, 2018**

	<b>Special Revenue</b>					
	<b>Major Streets</b>	<b>Local Streets</b>	<b>Municipal Street</b>	<b>Municipal Street/Sidewalk Improvement</b>	<b>Building Department</b>	<b>Housing Department</b>
<b>Revenues</b>						
Property Taxes	\$ --	\$ 333,359	\$ --	\$ 648,236	\$ --	\$ --
Licenses and Permits	--	--	--	--	65,001	--
State Sources	901,981	384,507	--	--	--	48,800
County Sources	--	--	--	--	--	--
Charges for Services	--	--	--	--	--	24,497
Fines and Forfeits	--	--	--	--	--	--
Contributions	--	--	--	--	--	--
Other	1,733	5,086	--	49,357	--	--
Investment Income (Loss)	4,380	4,356	28,810	--	329	77
<b>Total Revenues</b>	<b>908,094</b>	<b>727,308</b>	<b>28,810</b>	<b>697,593</b>	<b>65,330</b>	<b>73,374</b>
<b>Expenditures</b>						
General Government	--	--	--	--	--	--
Public Safety	--	--	--	--	112,573	--
Public Works	674,677	456,463	86,114	600,187	--	--
Recreation and Culture	--	--	--	--	--	--
Community and Economic Development	--	--	--	--	--	101,456
Capital Outlay	--	--	--	--	--	17,317
Debt Service - Principal	--	--	--	--	--	--
Debt Service - Interest	--	--	--	--	--	--
<b>Total Expenditures</b>	<b>674,677</b>	<b>456,463</b>	<b>86,114</b>	<b>600,187</b>	<b>112,573</b>	<b>118,773</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>233,417</b>	<b>270,845</b>	<b>(57,304)</b>	<b>97,406</b>	<b>(47,243)</b>	<b>(45,399)</b>
<b>Other Financing Sources (Uses)</b>						
Proceeds from Loan Issuance	--	--	--	--	--	--
Transfers In	--	--	--	--	30,000	60,000
Transfers Out	--	--	--	--	--	--
<b>Net Other Financing Sources (Uses)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>30,000</b>	<b>60,000</b>
<b>Net Change in Fund Balance</b>	<b>233,417</b>	<b>270,845</b>	<b>(57,304)</b>	<b>97,406</b>	<b>(17,243)</b>	<b>14,601</b>
<i>Fund Balance at Beginning of Period</i>	486,481	335,046	2,400,730	42,784	155,604	14,816
<b>Fund Balance at End of Period</b>	<b>\$ 719,898</b>	<b>\$ 605,891</b>	<b>\$ 2,343,426</b>	<b>\$ 140,190</b>	<b>\$ 138,361</b>	<b>\$ 29,417</b>

**City of Sturgis**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended September 30, 2018**

	<b>Special Revenue</b>					
	<b>Cemetery</b>	<b>Drug Enforcement</b>	<b>Recreation</b>	<b>Civic Auditorium</b>	<b>Sturgis Arts Council</b>	<b>Doyle Community Center</b>
<b>Revenues</b>						
Property Taxes	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Licenses and Permits	--	--	--	--	--	--
State Sources	--	--	--	--	--	--
County Sources	--	--	--	--	--	--
Charges for Services	80,621	--	56,613	289,777	56,476	417,851
Fines and Forfeits	--	836	--	--	--	--
Contributions	--	--	12,875	134,974	3,688	42,696
Other	2,330	105	--	78,918	--	58,112
Investment Income (Loss)	34	75	116	--	104	184
<b>Total Revenues</b>	<b>82,985</b>	<b>1,016</b>	<b>69,604</b>	<b>503,669</b>	<b>60,268</b>	<b>518,843</b>
<b>Expenditures</b>						
General Government	280,223	--	--	--	--	--
Public Safety	--	7,153	--	--	--	--
Public Works	--	--	--	--	--	--
Recreation and Culture	--	--	176,239	575,630	73,607	445,958
Community and Economic Development	--	--	--	--	--	--
Capital Outlay	--	--	--	160,966	--	255,532
Debt Service - Principal	--	--	--	40,635	--	22,288
Debt Service - Interest	--	--	--	20,731	--	11,536
<b>Total Expenditures</b>	<b>280,223</b>	<b>7,153</b>	<b>176,239</b>	<b>797,962</b>	<b>73,607</b>	<b>735,314</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(197,238)</b>	<b>(6,137)</b>	<b>(106,635)</b>	<b>(294,293)</b>	<b>(13,339)</b>	<b>(216,471)</b>
<b>Other Financing Sources (Uses)</b>						
Proceeds from Loan Issuance	--	--	--	--	--	237,000
Transfers In	204,716	--	105,000	310,339	--	35,000
Transfers Out	--	--	--	--	--	--
<b>Net Other Financing Sources (Uses)</b>	<b>204,716</b>	<b>--</b>	<b>105,000</b>	<b>310,339</b>	<b>--</b>	<b>272,000</b>
<b>Net Change in Fund Balance</b>	<b>7,478</b>	<b>(6,137)</b>	<b>(1,635)</b>	<b>16,046</b>	<b>(13,339)</b>	<b>55,529</b>
<i>Fund Balance at Beginning of Period</i>	25,609	24,341	39,380	25,824	51,242	22,279
<b>Fund Balance at End of Period</b>	<b>\$ 33,087</b>	<b>\$ 18,204</b>	<b>\$ 37,745</b>	<b>\$ 41,870</b>	<b>\$ 37,903</b>	<b>\$ 77,808</b>

**City of Sturgis**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended September 30, 2018**

	<u>Special Revenue</u>		<u>Permanent</u>	<b>Total Nonmajor Governmental Funds</b>
	<u>Airport</u>	<u>Capital Projects</u>	<u>Cemetery Trust</u>	
<b>Revenues</b>				
Property Taxes	\$ --	\$ --	\$ --	\$ 981,595
Licenses and Permits	--	--	--	65,001
State Sources	--	--	--	1,335,288
County Sources	--	111,043	--	111,043
Charges for Services	114,545	--	4,214	1,044,594
Fines and Forfeits	--	--	--	836
Contributions	--	141,937	--	336,170
Other	50,207	--	--	245,848
Investment Income (Loss)	96	6,607	7,563	52,731
<b>Total Revenues</b>	<u>164,848</u>	<u>259,587</u>	<u>11,777</u>	<u>4,173,106</u>
<b>Expenditures</b>				
General Government	--	--	--	280,223
Public Safety	--	--	--	119,726
Public Works	236,209	--	--	2,053,650
Recreation and Culture	--	3,028	--	1,274,462
Community and Economic Development	--	--	--	101,456
Capital Outlay	4,162	467,530	--	905,507
Debt Service - Principal	--	--	--	62,923
Debt Service - Interest	--	--	--	32,267
<b>Total Expenditures</b>	<u>240,371</u>	<u>470,558</u>	<u>--</u>	<u>4,830,214</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(75,523)</u>	<u>(210,971)</u>	<u>11,777</u>	<u>(657,108)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Loan Issuance	--	--	--	237,000
Transfers In	100,000	500,000	--	1,345,055
Transfers Out	--	(14,839)	(4,736)	(19,575)
<b>Net Other Financing Sources (Uses)</b>	<u>100,000</u>	<u>485,161</u>	<u>(4,736)</u>	<u>1,562,480</u>
<b>Net Change in Fund Balance</b>	<u>24,477</u>	<u>274,190</u>	<u>7,041</u>	<u>905,372</u>
<i>Fund Balance at Beginning of Period</i>	56,232	707,239	624,521	5,012,128
<b>Fund Balance at End of Period</b>	<u>\$ 80,709</u>	<u>\$ 981,429</u>	<u>\$ 631,562</u>	<u>\$ 5,917,500</u>

**City of Sturgis**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
**September 30, 2018**

	<b>Internal Service</b>			<b>Total Internal Service Funds</b>
	<b>Workers' Compensation Insurance</b>	<b>Motor Vehicle and Equipment</b>	<b>Employee Benefit</b>	
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and Investments	\$ 195,591	\$ 1,490,128	\$ 306,933	\$ 1,992,652
Accounts Receivable	--	92	35,000	35,092
Inventory	--	2,588	--	2,588
Prepaid Items	97,018	--	192,701	289,719
<b>Total Current Assets</b>	<b>292,609</b>	<b>1,492,808</b>	<b>534,634</b>	<b>2,320,051</b>
<i>Noncurrent Assets</i>				
Capital Assets being Depreciated	--	1,478,724	--	1,478,724
<b>Total Assets</b>	<b>292,609</b>	<b>2,971,532</b>	<b>534,634</b>	<b>3,798,775</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	20,884	31,388	157,379	209,651
Accrued Expenses	--	2,536	274,500	277,036
Current Portion of Long-term Debt	--	62,925	--	62,925
<b>Total Current Liabilities</b>	<b>20,884</b>	<b>96,849</b>	<b>431,879</b>	<b>549,612</b>
<i>Noncurrent Liabilities</i>				
Long-term Debt, net of Current Position	--	540,432	--	540,432
<b>Total Liabilities</b>	<b>20,884</b>	<b>637,281</b>	<b>431,879</b>	<b>1,090,044</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	--	875,367	--	875,367
<i>Unrestricted</i>	271,725	1,458,884	102,755	1,833,364
<b>Total Net Position</b>	<b>\$ 271,725</b>	<b>\$ 2,334,251</b>	<b>\$ 102,755</b>	<b>\$ 2,708,731</b>



**City of Sturgis**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Internal Service Funds**  
**For the Year Ended September 30, 2018**

	<b>Internal Service</b>			<b>Total Internal Service Funds</b>
	<b>Workers' Compensation Insurance</b>	<b>Motor Vehicle and Equipment</b>	<b>Employee Benefit</b>	
<b>Operating Revenues</b>				
Charges for Services	\$ 140,444	\$ 1,072,951	\$ 2,001,220	\$ 3,214,615
Other	--	1,148	--	1,148
<b>Total Operating Revenues</b>	<u>140,444</u>	<u>1,074,099</u>	<u>2,001,220</u>	<u>3,215,763</u>
<b>Operating Expenses</b>				
Material, Maintenance, and Other	--	382,356	--	382,356
General and Administrative	1,200	100,651	36,220	138,071
Depreciation	--	524,096	--	524,096
Insurance Premiums and Claims	143,773	40,787	1,955,847	2,140,407
<b>Total Operating Expenses</b>	<u>144,973</u>	<u>1,047,890</u>	<u>1,992,067</u>	<u>3,184,930</u>
<b>Operating Income (Loss)</b>	<u>(4,529)</u>	<u>26,209</u>	<u>9,153</u>	<u>30,833</u>
<b>Non-Operating Revenues (Expenses)</b>				
Investment Income (Loss)	281	13,912	3,327	17,520
Gain (Loss) on Sale of Assets	--	9,140	--	9,140
Interest Expense	--	(12,952)	--	(12,952)
<b>Net Non-Operating Revenues (Expenses)</b>	<u>281</u>	<u>10,100</u>	<u>3,327</u>	<u>13,708</u>
<b>Change In Net Position</b>	<u>(4,248)</u>	<u>36,309</u>	<u>12,480</u>	<u>44,541</u>
<i>Net Position at Beginning of Period</i>	275,973	2,297,942	90,275	2,664,190
<b>Net Position at End of Period</b>	<u>\$ 271,725</u>	<u>\$ 2,334,251</u>	<u>\$ 102,755</u>	<u>\$ 2,708,731</u>

**City of Sturgis**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended September 30, 2018**

	Internal Service			Total Internal Service Funds
	Workers' Compensation Insurance	Motor Vehicle and Equipment	Employee Benefit	
<b>Cash Flows from Operating Activities</b>				
Cash received from Interfund Services	\$ 140,444	\$ 1,074,007	\$ 2,004,952	\$ 3,219,403
Cash payments for Goods and Services	(135,126)	(445,697)	(1,994,952)	(2,575,775)
Cash payments to Employees	--	(65,048)	--	(65,048)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>5,318</u>	<u>563,262</u>	<u>10,000</u>	<u>578,580</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Change in Capital Assets	--	(150,665)	--	(150,665)
Principal and Interest Paid on Long-term Debt	--	(71,644)	--	(71,644)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>--</u>	<u>(222,309)</u>	<u>--</u>	<u>(222,309)</u>
<b>Cash Flows from Investing Activities</b>				
Investment Income	281	13,912	3,327	17,520
<b>Net Cash Provided by from Investing Activities</b>	<u>281</u>	<u>13,912</u>	<u>3,327</u>	<u>17,520</u>
<b>Net Increase (Decrease) in Cash and Equivalents</b>	5,599	354,865	13,327	373,791
<i>Cash and Equivalents - Beginning of Year</i>	189,992	1,135,263	293,606	1,618,861
<b>Cash and Equivalents - End of Year</b>	<u>\$ 195,591</u>	<u>\$ 1,490,128</u>	<u>\$ 306,933</u>	<u>\$ 1,992,652</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>				
<b>Operating Income (Loss)</b>	(4,529)	26,209	9,153	30,833
Adjustments to Reconcile Operating Income to Net Cash <b>Provided (Used) by Operating Activities</b>				
Depreciation Expense	--	524,096	--	524,096
<b>Changes in Assets &amp; Liabilities</b>				
Receivables	--	(92)	3,732	3,640
Prepaid Items	9,973	--	(26,222)	(16,249)
Inventory	--	118	--	118
Accounts Payable	(126)	12,563	(251,163)	(238,726)
Accrued Expenses	--	368	274,500	274,868
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 5,318</u>	<u>\$ 563,262</u>	<u>\$ 10,000</u>	<u>\$ 578,580</u>

**CITY OF STURGIS  
 COMPONENT UNIT FUND  
 DOWNTOWN DEVELOPMENT AUTHORITY  
 BALANCE SHEET  
 SEPTEMBER 30, 2018**

	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 145,823
Accounts receivable	1,829
Due from governmental units	-
Prepaid assets	<u>2,539</u>
Total assets	<u><u>\$ 150,191</u></u>
<b>LIABILITIES</b>	
Liabilities	
Accounts Payable	\$ 5,970
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue	32,585
<b>FUND BALANCE</b>	
Nonspendable	2,539
Restricted	<u>109,097</u>
Total fund balance	<u><u>111,636</u></u>
Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 150,191</u></u>

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

Total fund balance - governmental fund		\$ 111,636
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	586,362	
Less accumulated depreciation	<u>(463,390)</u>	122,972
Certain liabilities are not due and payable in the current periods and therefore are not reported in the funds		
Note payable		<u>(105,302)</u>
Net position of governmental activities		<u><u>\$ 129,306</u></u>

**CITY OF STURGIS  
 COMPONENT UNIT FUND  
 DOWNTOWN DEVELOPMENT AUTHORITY  
 STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGE IN FUND BALANCE  
 YEAR ENDED SEPTEMBER 30, 2018**

	<u>General</u>
REVENUE	
Captured property taxes	\$ 37,989
State sources	4,157
Charges for services	16,223
Interest	251
Rents	-
Other	35,000
Total revenues	93,620
EXPENDITURES	
Economic development	33,212
Debt service - principal	11,564
Debt service - interest	-
Total expenditures	44,776
EXCESS OF REVENUE OVER EXPENDITURES	48,844
FUND BALANCE – BEGINNING OF YEAR	62,792
FUND BALANCE – END OF YEAR	\$ 111,636

**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	\$ 48,844
--	-----------

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 disposal	(35,000)
Expenditures for capital assets	-
Depreciated expense	(34,046)

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	11,564
--	--------

Change in net position of governmental activities	\$ (8,638)
---	------------

**CITY OF STURGIS  
 COMPONENT UNIT FUND  
 BROWNFIELD REDEVELOPMENT AUTHORITY  
 BALANCE SHEET  
 SEPTEMBER 30, 2018**

	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 38,747
Accounts receivable	68,318
Total assets	\$ 107,065
<b>LIABILITIES</b>	
Accounts payable	\$ -
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue	68,318
<b>FUND BALANCE</b>	
Restricted (deficit)	38,747
Total liabilities, deferred inflows of resources, and fund balance	\$ 107,065

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

Total fund balance (deficit) - governmental fund	\$ 38,747
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	(83,912)
Notes payable	(1,846,162)
Net position of governmental activities (deficit)	\$ (1,823,009)

**CITY OF STURGIS  
 COMPONENT UNIT FUND  
 BROWNFIELD REDEVELOPMENT AUTHORITY  
 STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCE  
 YEAR ENDED SEPTEMBER 30, 2018**

	<u>General</u>
REVENUE	
Captured property taxes	\$ 172,943
Other	7,500
Total revenues	180,443
EXPENDITURES	
Community development	-
Debt service - principal	73,792
Debt service - interest	3,299
Total expenditures	77,091
EXCESS OF REVENUES OVER EXPENDITURES	103,352
FUND BALANCE – BEGINNING OF YEAR	(64,605)
FUND BALANCE (DEFICIT) – END OF YEAR	\$ 38,747

**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	\$ 103,352
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	77,091
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	73,792
Change in net position of governmental activities	\$ 212,279

**CITY OF STURGIS  
 COMPONENT UNIT FUND  
 LOCAL DEVELOPMENT FINANCE AUTHORITY  
 BALANCE SHEET  
 SEPTEMBER 30, 2018**

	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 84,850
Accounts receivable	<u>5,413</u>
Total assets	<u><u>\$ 90,263</u></u>
 <b>LIABILITIES</b>	
Accounts payable	\$ 2,509
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue	5,411
 <b>FUND BALANCE</b>	
Restricted	<u>82,343</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u><u>\$ 90,263</u></u>

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

Total fund balance - governmental fund	\$ 82,343
<p>Amounts reported for the governmental activities in the statement of net position are different because:</p>	
<p>Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>	
Note payable	<u>-</u>
Net position of governmental activities	<u><u>\$ 82,343</u></u>

**CITY OF STURGIS  
 COMPONENT UNIT FUND  
 LOCAL DEVELOPMENT FINANCE AUTHORITY  
 STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCE  
 YEAR ENDED SEPTEMBER 30, 2018**

	<u>General</u>
REVENUE	
Captured property taxes	\$ 48,234
Interest	<u>189</u>
Total revenues	48,423
EXPENDITURES	
Other	<u>2,508</u>
EXCESS OF REVENUE OVER EXPENDITURES	45,915
FUND BALANCE – BEGINNING OF YEAR	<u>36,428</u>
FUND BALANCE – END OF YEAR	<u>\$ 82,343</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	\$ 45,915
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>\$ 45,915</u>



**CITY OF STURGIS  
 COMPONENT UNIT FUND  
 BUILDING AUTHORITY  
 BALANCE SHEET  
 SEPTEMBER 30, 2018**

	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>2,319</u>
 <b>LIABILITIES AND FUND BALANCE</b>	
Liabilities	\$ -
Fund Balance	
Restricted	<u>2,319</u>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 \$ <u>2,069</u>

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

Total fund balance - governmental fund	\$ 2,319
--	----------

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	8,200,000
------------------	-----------

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

Bonds payable	<u>(8,200,000)</u>
---------------	--------------------

Net position of governmental activities	\$ <u>2,319</u>
---	-----------------

**CITY OF STURGIS  
 COMPONENT UNIT FUND  
 BUILDING AUTHORITY  
 STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCE  
 YEAR ENDED SEPTEMBER 30, 2018**

	<u>General</u>
REVENUE	
Lease income	\$ 646,013
Other	-
Total Revenues	646,013
EXPENDITURES	
Debt service - principal	330,000
Debt service - interest and other	315,763
Total Expenditures	645,763
EXCESS OF REVENUE OVER EXPENDITURES	250
FUND BALANCE – BEGINNING OF YEAR	2,069
FUND BALANCE – END OF YEAR	\$ 2,319

**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	(330,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	330,000
Change in net position of governmental activities	\$ 250

April 1, 2019

To the City Commission  
City of Sturgis, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sturgis for the year ended September 30, 2018. Our report includes a reference to other auditors. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 15, 2018. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Sturgis are described in Note 1 to the financial statements. The City implemented GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions during 2018. Refer to Note 19 to the financial statements for more information on how implementing the new OPEB standard impacted the City's financial statements as of and during the year ended September 30, 2018. We noted no transactions entered into by the City of Sturgis during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

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

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

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

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

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 1, 2019.

#### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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

### Other Matters

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

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

### Restriction on Use

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

Very truly yours,



Norman Paulsen  
Sturgis, MI