

CITY OF STURGIS, MICHIGAN
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2016

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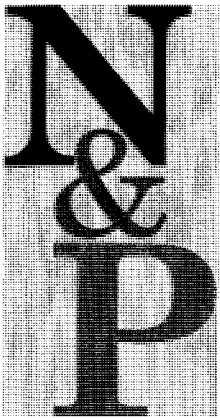
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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Sturgis, Michigan, as of and for the year ended September 30, 2016, 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Sturgis as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2017, on our consideration of the City of Sturgis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sturgis' internal control over financial reporting and compliance.

March 30, 2017

Norman & Paulsen, P.C.



CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Sturgis financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the City's financial statements.

Financial Highlights

The City's overall financial position increased by \$1,899,392 during the fiscal year ended September 30, 2016, which represents a 2.5 percent increase in net position from \$75,090,130 at the beginning of the year to \$76,989,522 at the end of the year. Included in the City's total net position are the Electric Utility Fund. The Electric Utility's net position increased by \$604,834 to \$37,078,582.

The City's Governmental Funds reflected a total fund balance at September 30, 2016 of \$8,570,220, which was a decrease of \$210,051 from the prior year end. This decrease was primarily the result of budgeted capital outlay expenditures of \$614,318.

The City's General Fund reflected a total fund balance at September 30, 2016 of \$3,215,895, which was a decrease of \$1,728 from the prior year end.

The City's Municipal Street Fund reflected a total fund balance at September 30, 2016 of \$1,779,473 which was an increase of \$858,966 from the prior year end and included an operating transfer from the Capital Projects Fund of \$1,000,000.

The City's Municipal Street/Sidewalk Improvement Fund reflected a total fund balance at September 30, 2016 of \$387,959 which was a decrease of \$64,357 from the prior year end and included voter approved property tax revenue of \$670,800.

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

State revenue sharing amounted to \$976,911 which was a \$806 decrease. This is down by \$331,050 or 25% from a 2001 high of \$1,307,961.

The Net Position of the Pension Trust Fund increased by \$1,809,513 or 6% of beginning net position of \$31,587,166. This was the result of a net appreciation in the fair value of investments of \$2,203,257.

The Net Position of the Other Post Employment Benefit Trust Fund increased by \$1,460,605 or 39% of beginning net position of \$3,760,062. This was the result of employer contributions and a net appreciation in the fair value of investments of \$495,991.

The total Governmental Fund expenditures for the year ended September 30, 2016, amounted to \$11,793,244, of which \$4,191,037 (36 percent) was for public safety, \$2,861,201 (24 percent) was for public works, \$1,589,989 (13 percent) was for recreation and cultural, \$742,974 (6 percent) was for community and economic development, \$614,318 (5 percent) was for capital outlay, and \$1,575,446 (13 percent) was for general government.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using This Annual Report

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

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

The City as a Whole

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

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2016	2015	2016	2015
Assets	\$ 12,324	\$ 13,403	\$ 70,009	\$ 71,230
Liabilities	3,754	4,623	15,691	17,501
Fund Equity				
Invested in capital assets, net of related debt	-	-	33,537	30,764
Retained Earnings				
Restricted	-	-	1,017	1,012
Unreserved	-	-	19,764	21,953
Fund Balances				
Reserved	1,877	1,751	-	-
Unreserved	6,693	7,029	-	-
Total Fund Equity	\$ 8,570	\$ 8,780	\$ 54,318	\$ 53,729

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's governmental fund equity decreased by 2.4 percent or \$210,051 from a year ago. In contrast the prior years governmental fund equity decreased by 13 percent or \$1,323,075.

The City's enterprise fund equity increased by 2.6 percent or \$1,394,065 from a year ago. In contrast the prior years enterprise fund equity increased by 4.1 percent or \$2,113,981.

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

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 15,596	\$ 16,199	\$ 24,790	\$ 27,122
Capital assets	<u>17,088</u>	<u>16,125</u>	<u>45,219</u>	<u>44,108</u>
Total assets	32,684	32,324	70,009	71,230
Long-term debt outstanding	1,411	989	11,682	13,344
Other liabilities	<u>8,602</u>	<u>8,553</u>	<u>4,009</u>	<u>4,157</u>
Total liabilities	10,013	9,542	15,691	17,501
Net position				
Invested in capital assets, net of related debt	15,676	15,136	33,537	30,764
Restricted	1,815	1,703	1,017	1,012
Unrestricted	<u>5,181</u>	<u>5,943</u>	<u>19,764</u>	<u>21,953</u>
Total net position	<u>\$ 22,672</u>	<u>\$ 22,782</u>	<u>\$ 54,318</u>	<u>\$ 53,729</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2016	2015	2016	2015
Revenue				
Property taxes	\$ 3,590	\$ 3,623	\$ -	\$ -
In lieu of taxes	2,544	2,387	-	-
Special assessments	-	-	-	-
Licenses and permits	215	208	-	-
Grants	977	1,091	904	1,453
State shared revenues	1,792	1,744	-	-
Charges for services	1,189	1,403	30,644	29,753
Fines and forfeits	24	32	-	-
Investment income	193	246	45	71
Administrative reim.	951	932	-	-
Other	346	437	829	770
Debt proceeds	-	-	-	-
Transfers	(240)	(80)	240	80
	11,583	12,023	32,662	32,127
Program expenses				
General government	1,633	1,580	-	-
Public safety	4,191	4,290	-	-
Public works	2,861	4,618	-	-
Recreation and culture	1,590	1,607	-	-
Community development	743	896	-	-
Health and welfare	64	70	-	-
Capital outlay	614	188	-	-
Debt service	97	97	-	-
Electric system	-	-	21,764	21,376
Sewer system	-	-	2,487	1,835
Water system	-	-	845	834
Other	-	-	-	29
In lieu of taxes	-	-	2,536	2,383
Depreciation	-	-	3,261	3,124
Interest expense	-	-	375	432
	11,793	13,346	31,268	30,013
Excess (Deficiency)	\$ (210)	\$ (1,323)	\$ 1,394	\$ 2,114

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues				
Program revenues				
Charges for services	\$ 2,205	\$ 2,355	\$ 31,010	\$ 30,104
Operating grants and contributions	1,692	1,906	925	119
Capital grants and contributions	619	933	-	1,334
General revenues				
Property taxes	3,591	3,623	-	-
State shared revenues	1,002	978	-	-
Unrestricted investment earnings	200	255	45	71
Miscellaneous	295	586	443	419
Payments in lieu of taxes	2,544	2,387	-	-
Transfers	<u>(240)</u>	<u>(80)</u>	<u>240</u>	<u>80</u>
Total revenues	11,909	12,943	32,662	32,127
Expenses				
General government	2,468	2,470	-	-
Public safety	4,029	3,959	-	-
Public works	2,264	2,299	-	-
Recreation and cultural	1,786	1,798	-	-
Community development	743	896	-	-
Unallocated	64	70	-	-
Interest on long-term debt	49	50	-	-
Electric system	-	-	25,874	25,372
Sewer system	-	-	4,068	3,320
Water system	-	-	1,326	1,292
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>29</u>
Total expenses	<u>11,403</u>	<u>11,542</u>	<u>31,268</u>	<u>30,013</u>
Change in net position	<u>\$ 505</u>	<u>\$ 1,401</u>	<u>\$ 1,394</u>	<u>\$ 2,114</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

For the year ended September 30, 2016, the net position of governmental activities increased by \$505,327 or 2.3 percent of beginning net position. The majority of this increase will be used for 2017 street projects.

Business-Type Activities

For the year ended September 30, 2016, the net position of business-type activities increased by \$1,394,065 or 2.6 percent of beginning net position. This increase was comprised of the following by specific activity:

	Increase (Decrease)	
	<u>2016</u>	<u>2015</u>
Electric system	\$ 604,834	\$ 337,824
Sewer system	475,028	1,516,539
Water system	314,203	287,703
Other	<u>-</u>	<u>(28,085)</u>
Total	<u>\$ 1,394,065</u>	<u>\$ 2,113,981</u>

The Electric system's increase in net position of \$604,834 is up from the prior year increase of \$337,824 as the prior year was lower than expected due to prior year true-up cost charges from the purchased power supplier.

The Sewer system's increase in net position of \$475,028 is down from the prior year increase of \$1,516,539 primarily due to the prior year increase including capital contributions of \$1,334,645. The City continues to increase utility rates in an attempt to improve the Sewer system's net position.

The Water system's increase in net assets of \$314,203 is similar to the prior year increase of \$287,703. The City continues to increase utility rates in an attempt to improve the Water system's net position.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Component Units

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

The City's Funds

Our analysis of the City's major funds begins on page 16, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended September 30, 2016 include the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Municipal Street/Sidewalk Improvement Fund, Capital Project Fund, and Public Improvement Grant Fund.

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

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

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

General Fund Budgetary Highlights

As shown in the required supplemental information, the City budgeted a decrease of \$396,680 in the original budget and a decrease of \$467,680 in the amended budget. Actual operating results ended up as a decrease in fund balance of \$1,728.

The original budget was amended for:

Decrease in total revenues	\$ 71,000
Decrease in public safety expenditures	50,000
Increase in operating transfers out	50,000

Actual revenues ended the year \$30,100 under the amended budget or 0.4 percent.

Actual expenditures ended the year \$496,052 under the amended budget or 7.0 percent.

There were no significant budget-to-actual differences.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

During the year ended September 30, 2016, the total capital assets of the City increased by \$7,258,000. Additional detail relating to the asset additions follows:

The Electric Utility System capital assets increased by \$3,913,000, which was funded internally.

The Sewer Utility System capital assets increased by \$409,000, which was \$16,230 financed with revenue bond debt receipts and the balance financed internally.

The Water Utility System capital assets increased by \$49,000, which was financed internally.

The Motor Vehicle and Equipment Fund capital assets increased by \$923,900 which was \$519,334 financed with bank debt proceeds and the balance financed internally.

Governmental capital assets increased in total by \$1,963,000. \$1,105,000 was for street reconstruction which was \$200,000 funded by state grants and the balance funded internally. \$618,000 was for land improvements which was funded internally. \$57,000 was for Airport building improvements which was funded internally. \$49,000 was for Doyle Community Center equipment which was funded internally. \$69,000 was for police and fire equipment which was funded internally. \$65,000 was for Civic Auditorium equipment which was funded internally.

During the year ended September 30, 2016, the total debt obligations of the City decreased by principal payments of \$1,796,893. Total debt obligations at September 30, 2016 amounted to \$13,093,481.

At September 30, 2016, the City is contingently liable for component unit debt obligations totaling \$9,232,605.

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

Economic Factors and Next Year's Budgets and Rates

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

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

During the ensuing fiscal year, the City will be investing in several capital projects. The first project, funded primarily from a St. Joseph County Grant Program, will construct a new softball complex. Other major infrastructure projects include downtown streetscape and parking lot improvements, street reconstruction and repairs, water main replacements, wastewater treatment asset management plan development, lift station replacement, and completion of the implementation of distribution automation technology.

The City Commission has adopted a conservative budget for 2016-2017. This includes a decrease in fund balance for all governmental funds of \$567,230 or 8.74 percent of total beginning fund balances and maintenance of the City’s current below-maximum tax levy. The City has maintained stable financial operations and strong general fund reserves which provide flexibility in the wake of uncertain economic times and legislative actions. Because of the difficult economic climate during the last several years, the City has continued to address a challenging budget that includes decreasing revenue and increasing expenditures.

The City is anticipating a decrease in property tax revenue of approximately thirteen percent due to the elimination of personal property tax. The effect of this decrease is mitigated by state reimbursement to municipalities for a portion of the lost tax revenue via the Local Community Stabilization Authority. The property tax base consists of 46 percent residential, 34 percent industrial and 20 percent commercial. State revenue sharing is down slightly from the previous year. The PILOT, which is paid to the General Fund from the utility funds, is down one percent due to decreased total revenue in 2015. Investment earnings are expected to decrease due to continued low interest rate of return on fixed income investments.

The 2016-2017 budget year includes maintaining total employee costs near current levels. This has been accomplished by evaluating vacant positions, investigating options to decrease benefit costs, implementing cost sharing methods, and searching for operational efficiencies with minimal impacts to the level of customer service. The City continues to address unfunded liabilities through changes in plan design, eligibility and increased pre-funding.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The City's charter, adjusted for Headlee rollback, allows for the assessment of 11.8894 mils on the taxable value of each property. Since 2007, the City levied an operating millage of 10.0285 mils, which compares favorably to other like cities in southwest Michigan and is the lowest levied by the City since 1967. For 2017, the inflation rate multiplier which is applied to taxable values is 0.9 percent compared to 0.3 percent in 2016. Decreases in tax revenue are anticipated in 2017 due to elimination of personal property taxes.

Improving City streets remains a high priority for the Commission and a focus of the Sturgis 2022 initiative. In May of 2013, the City voters approved a three mil dedicated street millage to provide for ten years of funding for street and sidewalk improvements. In addition, as a result of new State Restricted revenue, the 2016-2017 budget projects that Major and Local Streets Act 51 funding will have substantial increases of nearly thirty percent.

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

Contacting the City's Management

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF STURGIS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Primary Government			
	Governmental Activities	Business Type Activities	Total	Component Units
ASSETS				
Cash and investments	\$ 12,246,176	\$ 16,342,182	\$ 28,588,358	\$ 1,039,284
Receivables, net	451,883	3,827,118	4,279,001	370,009
Receivables, long-term portion	-	1,861,815	1,861,815	8,530,000
Internal balances	-	-	-	-
Inventories, prepaid items and other assets	419,801	1,127,646	1,547,447	2,460
Restricted assets	868,277	1,016,666	1,884,943	-
Capital assets - net	<u>17,087,517</u>	<u>45,218,717</u>	<u>62,306,234</u>	<u>257,146</u>
Total assets	<u>31,073,654</u>	<u>69,394,144</u>	<u>100,467,798</u>	<u>10,198,899</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	<u>1,610,600</u>	<u>614,794</u>	<u>2,225,394</u>	<u>-</u>
LIABILITIES				
Accounts payable	1,611,856	2,434,583	4,046,439	776,058
Accrued and other liabilities	171,491	680,879	852,370	825
Unearned revenue	83,036	-	83,036	-
Debt obligations:				
Due within one year	120,961	1,728,639	1,849,600	365,856
Due in more than one year	1,290,572	9,953,309	11,243,881	10,566,749
Compensated absences	578,241	325,000	903,241	-
Net pension Liability	267,000	174,286	441,286	-
Other postemployment benefits	<u>3,552,000</u>	<u>394,385</u>	<u>3,946,385</u>	<u>-</u>
Total liabilities	<u>7,675,157</u>	<u>15,691,081</u>	<u>23,366,238</u>	<u>11,709,488</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	<u>2,337,432</u>	<u>-</u>	<u>2,337,432</u>	<u>57,148</u>
NET POSITION				
Invested in capital assets, net of related debt	15,675,984	33,536,769	49,212,753	129,087
Restricted:				
Debt service	-	959,000	959,000	-
Streets	946,312	-	946,312	-
Cemetery trust	868,277	-	868,277	-
Other purposes	-	57,666	57,666	-
Unrestricted (deficit)	<u>5,181,092</u>	<u>19,764,422</u>	<u>24,945,514</u>	<u>(1,696,824)</u>
Total net position (deficit)	<u>\$ 22,671,665</u>	<u>\$ 54,317,857</u>	<u>\$ 76,989,522</u>	<u>\$ (1,567,737)</u>

See accompanying notes to the financial statements

CITY OF STURGIS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities:				
General government	\$ 2,468,435	\$ 859,694	\$ -	\$ -
Public safety	4,029,170	306,488	44,735	-
Public works	2,264,032	242,324	1,007,223	618,617
Recreation and cultural	1,785,720	780,432	118,628	-
Community/economic development	742,974	16,548	520,970	-
Unallocated	64,415	-	-	-
Interest on long-term debt	48,687	-	-	-
Total governmental activities	11,403,433	2,205,486	1,691,556	618,617
Business-type activities:				
Electric	25,874,298	25,923,403	-	-
Sanitary sewer	4,067,954	3,456,719	925,192	-
Water	1,325,851	1,629,728	-	-
Total business-type activities	31,268,103	31,009,850	925,192	-
Total primary government	\$ 42,671,536	\$ 33,215,336	\$ 2,616,748	\$ 618,617
Component units	\$ 1,938,720	\$ 349,399	\$ 34,485	\$ -

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

Total general revenues and transfers

CHANGE IN NET POSITION

NET POSITION – BEGINNING OF YEAR, AS RESTATED

NET POSITION – END OF YEAR

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Position

Primary Government

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Units</u>
\$ (1,608,741)	\$ -	\$ (1,608,741)	\$ -
(3,677,947)	-	(3,677,947)	-
(395,868)	-	(395,868)	-
(886,660)	-	(886,660)	-
(205,456)	-	(205,456)	-
(64,415)	-	(64,415)	-
<u>(48,687)</u>	<u>-</u>	<u>(48,687)</u>	<u>-</u>
(6,887,774)	-	(6,887,774)	-
-	49,105	49,105	-
-	313,957	313,957	-
<u>-</u>	<u>303,877</u>	<u>303,877</u>	<u>-</u>
<u>-</u>	<u>666,939</u>	<u>666,939</u>	<u>-</u>
(6,887,774)	666,939	(6,220,835)	<u>\$ -</u>
			\$ (1,554,836)
3,590,852	-	3,590,852	85,819
1,002,278	-	1,002,278	-
200,187	44,603	244,790	57
295,381	442,852	738,233	525
2,544,074	-	2,544,074	-
<u>(239,671)</u>	<u>239,671</u>	<u>-</u>	<u>-</u>
<u>7,393,101</u>	<u>727,126</u>	<u>8,120,227</u>	<u>86,401</u>
505,327	1,394,065	1,899,392	(1,468,435)
<u>22,166,338</u>	<u>52,923,792</u>	<u>75,090,130</u>	<u>(99,302)</u>
<u>\$ 22,671,665</u>	<u>\$ 54,317,857</u>	<u>\$76,989,522</u>	<u>\$ (1,567,737)</u>

FUND FINANCIAL STATEMENTS

**CITY OF STURGIS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2016**

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
ASSETS			
Cash and cash equivalents	\$ 26,766	\$ 224,490	\$ 211,646
Investments	5,574,169	-	-
Receivables			
Accounts	47,248	1,161	-
Property taxes	73,447	-	-
Special assessments	1,275	-	-
Interest	4,965	-	-
Due from other funds	-	-	-
Due from other governmental units	4,461	109,910	35,351
Prepaid items	15,987	-	-
Inventory	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 5,748,318</u>	<u>\$ 335,561</u>	<u>\$ 246,997</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 89,158	\$ 6,680	\$ 5,287
Due to other funds	-	-	-
Accrued expenses	126,312	5,860	6,378
Unearned revenue	<u>13,299</u>	<u>-</u>	<u>-</u>
Total liabilities	228,769	12,540	11,665
Deferred inflows of resources			
Unavailable revenue	2,303,654	-	-
FUND BALANCE			
Nonspendable	15,987	-	-
Restricted	-	323,021	235,332
Committed	-	-	-
Unassigned	<u>3,199,908</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>3,215,895</u>	<u>323,021</u>	<u>235,332</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 5,748,318</u>	<u>\$ 335,561</u>	<u>\$ 246,997</u>

See accompanying notes to the financial statements

<u>Municipal Street Fund</u>	<u>Municipal Street/ Sidewalk Improvement Fund</u>	<u>Capital Projects Fund</u>	<u>Public Improvement Grant Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 61,718	\$ 26,421	\$ 91,812	\$ -	\$ 494,770	\$ 1,137,623
2,004,231	1,010,000	1,310,830	-	816,700	10,715,930
-	-	-	-	81,156	129,565
-	49,371	-	-	-	122,818
-	-	-	-	-	1,275
-	-	-	-	-	4,965
-	-	-	-	-	-
-	-	-	-	-	149,722
-	-	-	-	2,500	18,487
-	-	-	-	43,682	43,682
<u>\$ 2,065,949</u>	<u>\$ 1,085,792</u>	<u>\$ 1,402,642</u>	<u>\$ -</u>	<u>\$ 1,438,808</u>	<u>\$ 12,324,067</u>
\$ 286,476	\$ 664,055	\$ 7,570	\$ -	\$ 104,583	\$ 1,163,809
-	-	-	-	-	-
-	-	-	-	31,020	169,570
-	-	-	-	69,737	83,036
286,476	664,055	7,570	-	205,340	1,416,415
-	33,778	-	-	-	2,337,432
-	-	-	-	46,182	62,169
-	387,959	-	-	868,277	1,814,589
1,779,473	-	1,395,072	-	319,009	3,493,554
-	-	-	-	-	3,199,908
<u>1,779,473</u>	<u>387,959</u>	<u>1,395,072</u>	<u>-</u>	<u>1,233,468</u>	<u>8,570,220</u>
<u>\$ 2,065,949</u>	<u>\$ 1,085,792</u>	<u>\$ 1,402,642</u>	<u>\$ -</u>	<u>\$ 1,438,808</u>	<u>\$ 12,324,067</u>

**CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2016**

Total governmental fund balances \$ 8,570,220

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

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

Governmental capital assets	\$ 26,929,886	
Less accumulated depreciation	<u>(11,899,499)</u>	15,030,387

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

Deferred outflows of resources - pension		1,610,600
Net pension liability		<u>(267,000)</u>

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

Notes payable		(689,474)
Compensated absences		(578,241)
Other postemployment benefits		<u>(3,552,000)</u>

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

Net position of the internal service funds		<u>2,547,173</u>
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Net position of governmental activities		<u>\$ 22,671,665</u>
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See accompanying notes to the financial statements

**CITY OF STURGIS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2016**

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
REVENUE			
Taxes	\$ 2,664,233	\$ -	\$ 255,819
Licenses and permits	82,261	-	-
Federal grants	1,321	-	-
State grants	38,564	131,641	85,626
State shared revenue	1,002,278	578,046	211,910
Charges for services	155,217	-	-
Fines and forfeits	24,125	-	-
Investment income	164,388	79	67
Contributions	13,415	-	-
Payments in lieu of taxes	2,544,074	-	-
Administrative reimbursement	951,290	-	-
Other	<u>154,054</u>	<u>-</u>	<u>5,581</u>
Total revenue	7,795,220	709,766	559,003
EXPENDITURES			
Legislative	57,357	-	-
General government	1,313,384	-	-
Public safety	4,080,106	-	-
Public works	415,918	624,551	449,490
Health and welfare	64,415	-	-
Recreation and cultural	392,906	-	-
Community and economic development	-	-	-
Capital outlay	277,366	-	-
Debt services	<u>19,626</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>6,621,078</u>	<u>624,551</u>	<u>449,490</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	1,174,142	85,215	109,513
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	<u>(1,175,870)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,175,870)</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(1,728)	85,215	109,513
FUND BALANCE – BEGINNING OF YEAR	<u>3,217,623</u>	<u>237,806</u>	<u>125,819</u>
FUND BALANCE – END OF YEAR	<u>\$ 3,215,895</u>	<u>\$ 323,021</u>	<u>\$ 235,332</u>

See accompanying notes to the financial statements

Municipal Street Fund	Municipal Street/ Sidewalk Improvement Fund	Capital Projects Fund	Public Improvement Grant Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 670,800	\$ -	\$ -	\$ -	\$ 3,590,852
-	-	-	-	132,522	214,783
-	-	-	520,970	-	522,291
199,248	-	-	-	-	455,079
-	-	-	-	-	1,792,234
-	-	-	-	1,033,715	1,188,932
-	-	-	-	537	24,662
6,061	204	15,631	-	6,194	192,624
-	-	-	-	110,063	123,478
-	-	-	-	-	2,544,074
-	-	-	-	-	951,290
4,607	-	-	-	58,323	222,565
<u>209,916</u>	<u>671,004</u>	<u>15,631</u>	<u>520,970</u>	<u>1,341,354</u>	<u>11,822,864</u>
-	-	-	-	-	57,357
-	-	-	-	262,062	1,575,446
-	-	-	-	110,931	4,191,037
350,950	735,361	-	-	284,931	2,861,201
-	-	-	-	-	64,415
-	-	-	-	1,197,083	1,589,989
-	-	-	520,970	222,004	742,974
-	-	129,390	-	207,562	614,318
-	-	-	-	76,881	96,507
<u>350,950</u>	<u>735,361</u>	<u>129,390</u>	<u>520,970</u>	<u>2,361,454</u>	<u>11,793,244</u>
(141,034)	(64,357)	(113,759)	-	(1,020,100)	29,620
1,000,000	-	250,000	-	994,535	2,244,535
<u>-</u>	<u>-</u>	<u>(1,277,566)</u>	<u>-</u>	<u>(30,770)</u>	<u>(2,484,206)</u>
<u>1,000,000</u>	<u>-</u>	<u>(1,027,566)</u>	<u>-</u>	<u>963,765</u>	<u>(239,671)</u>
858,966	(64,357)	(1,141,325)	-	(56,335)	(210,051)
<u>920,507</u>	<u>452,316</u>	<u>2,536,397</u>	<u>-</u>	<u>1,289,803</u>	<u>8,780,271</u>
<u>\$ 1,779,473</u>	<u>\$ 387,959</u>	<u>\$ 1,395,072</u>	<u>\$ -</u>	<u>\$ 1,233,468</u>	<u>\$ 8,570,220</u>

**CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016**

Net change in fund balances - total governmental funds \$ (210,051)

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

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

Net effect of asset disposals	-
Contributed capital assets	419,369
Expenditures for capital assets	1,543,327
Depreciation expense	(1,437,764)

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

Proceeds from debt obligations	-
Principal payments on debt obligations	60,348

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

Decrease in net pension liability and deferred outflows	(388,103)
Increase in the accrual for compensated absences	(21,548)
Decrease in the accrual for other postemployment benefits	500,000

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

Net change from internal service funds related to governmental activities	<u>39,749</u>
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Change in net position of governmental activities	<u>\$ 505,327</u>
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See accompanying notes to the financial statements

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2016**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 40,584	\$ 57,385
Investments	13,009,515	2,253,595
Receivables		
Notes - Current portion	29,218	-
Accounts	3,130,147	385,846
Interest	78,327	-
Grant	-	38,316
Inventory	981,965	89,714
Prepaid items	-	-
Due from other funds	-	-
Advances due from other funds	<u>-</u>	<u>-</u>
Total current assets	17,269,756	2,824,856
NONCURRENT ASSETS		
Restricted assets	907,666	109,000
Notes receivable	1,861,815	-
Advances due from other funds	-	-
Capital assets, net of depreciation	<u>22,827,093</u>	<u>17,139,628</u>
Total noncurrent assets	<u>25,596,574</u>	<u>17,248,628</u>
Total assets	<u>42,866,330</u>	<u>20,073,484</u>
DEFERRED OUTFLOWS		
Deferred outflows of resources - pension	<u>454,094</u>	<u>113,600</u>

Continued on next page

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 77,028	\$ 174,997	\$ 255,022
904,075	16,167,185	1,005,878
-	29,218	-
165,264	3,681,257	43,538
-	78,327	-
-	38,316	-
55,967	1,127,646	3,063
-	-	354,569
-	-	-
-	-	-
<u>1,202,334</u>	<u>21,296,946</u>	<u>1,662,070</u>
-	1,016,666	-
-	1,861,815	-
-	-	-
<u>5,251,996</u>	<u>45,218,717</u>	<u>2,057,130</u>
<u>5,251,996</u>	<u>48,097,198</u>	<u>2,057,130</u>
<u>6,454,330</u>	<u>69,394,144</u>	<u>3,719,200</u>
<u>47,100</u>	<u>614,794</u>	<u>-</u>

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION - Continued
 SEPTEMBER 30, 2016**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	816,213	843,713
Accounts payable	2,320,880	63,545
Accrued expenses	432,338	18,239
Customer deposits	215,259	-
Due to other funds	-	-
Advances due to other funds	-	-
Unearned revenue	-	-
	<hr/>	<hr/>
Total current liabilities	3,784,690	925,497
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	1,803,781	7,366,905
Compensated absences	270,000	40,000
Net pension liability	142,186	22,700
Other postemployment benefits	241,185	112,000
Advances due to other funds	-	-
	<hr/>	<hr/>
Total noncurrent liabilities	2,457,152	7,541,605
Total liabilities	<hr/>	<hr/>
	6,241,842	8,467,102
NET POSITION		
Invested in capital assets, net of related debt	20,207,099	8,929,010
Restricted	907,666	109,000
Unrestricted	<u>15,963,817</u>	<u>2,681,972</u>
Total net position	<u>\$37,078,582</u>	<u>\$ 11,719,982</u>

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
68,713	1,728,639	59,600
50,158	2,434,583	448,047
15,043	465,620	1,921
-	215,259	-
-	-	-
-	-	-
-	-	-
<u>133,914</u>	<u>4,844,101</u>	<u>509,568</u>
782,623	9,953,309	-
15,000	325,000	662,459
9,400	174,286	-
41,200	394,385	-
-	-	-
<u>848,223</u>	<u>10,846,980</u>	<u>662,459</u>
<u>982,137</u>	<u>15,691,081</u>	<u>1,172,027</u>
4,400,660	33,536,769	1,335,071
-	1,016,666	-
<u>1,118,633</u>	<u>19,764,422</u>	<u>1,212,102</u>
<u>\$ 5,519,293</u>	<u>\$ 54,317,857</u>	<u>\$ 2,547,173</u>

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES,
 AND CHANGES IN NET POSITION
 YEAR ENDED SEPTEMBER 30, 2016**

	Electric Fund	Sanitary Sewer Fund
OPERATING REVENUE		
Charges for services	\$ 25,731,351	\$ 3,392,234
State grants	-	925,192
Other	192,052	64,485
Total operating revenue	25,923,403	4,381,911
OPERATING EXPENSES		
Purchased power	16,237,640	-
Material, maintenance and other	2,770,098	2,093,799
General and administrative	2,756,138	393,770
Payments in lieu of taxes	2,227,500	209,940
Depreciation	1,731,698	1,172,457
Total operating expenses	25,723,074	3,869,966
OPERATING INCOME (LOSS)	200,329	511,945
NONOPERATING REVENUE (EXPENSES)		
Investment income (loss)	22,603	16,300
Interest expense	(151,224)	(197,988)
(Loss) Gain on sale of assets	-	-
Other	453,126	6,019
Total non-operating revenue (expenses)	324,505	(175,669)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	524,834	336,276
CAPITAL CONTRIBUTIONS	-	(20,919)
TRANSFERS		
Transfers in	80,000	159,671
Transfers out	-	-
Total transfers	80,000	159,671
CHANGE IN NET POSITION	604,834	475,028
NET POSITION - BEGINNING OF YEAR, AS RESTATED	36,473,748	11,244,954
NET POSITION - ENDING OF YEAR	\$ 37,078,582	\$ 11,719,982

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 1,520,989	\$ 30,644,574	\$ 2,668,063
-	925,192	-
<u>108,739</u>	<u>365,276</u>	<u>455,030</u>
1,629,728	31,935,042	3,123,093
-	16,237,640	-
444,458	5,308,355	2,558,876
400,409	3,550,317	57,097
98,460	2,535,900	-
<u>357,034</u>	<u>3,261,189</u>	<u>486,406</u>
<u>1,300,361</u>	<u>30,893,401</u>	<u>3,102,379</u>
329,367	1,041,641	20,714
5,700	44,603	7,563
(25,490)	(374,702)	(12,528)
-	-	24,000
<u>4,626</u>	<u>463,771</u>	<u>-</u>
<u>(15,164)</u>	<u>133,672</u>	<u>19,035</u>
314,203	1,175,313	39,749
-	(20,919)	-
-	239,671	-
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>239,671</u>	<u>-</u>
314,203	1,394,065	39,749
<u>5,205,090</u>	<u>52,923,792</u>	<u>2,507,424</u>
<u>\$ 5,519,293</u>	<u>\$ 54,317,857</u>	<u>\$ 2,547,173</u>

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 YEAR ENDED SEPTEMBER 30, 2016**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
Cash flows from operating activities		
Receipts from customers and users	\$ 26,121,192	\$ 3,420,977
Receipts from operating grants	-	886,876
Receipts for internal services	-	-
Other operating revenue	192,052	64,485
Payments to employees and suppliers	<u>(24,469,986)</u>	<u>(2,790,446)</u>
Net cash provided by (used for) operating activities	1,843,258	1,581,892
Cash flows from non-capital financing activities		
Contributions and other receipts	453,126	(14,900)
Transfers in	80,000	159,671
Transfers out	<u>-</u>	<u>-</u>
Net cash provided by non-capital financing activities	533,126	144,771
Cash flows from capital and related financing activities		
Principal paid on debt	(782,834)	(811,260)
Interest paid on debt	(166,057)	(199,155)
Receipts from interfund loans	-	-
Payments against interfund loans	(1,700,000)	-
Customer deposits	12,739	-
Acquisition of capital assets	(3,913,366)	(409,251)
Proceeds from sale of capital assets	-	-
Receipts from capital grants/contributions	-	-
Proceeds from issuance of debt	<u>-</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	(6,549,518)	(1,419,666)
Cash flows from investing activities		
Interest received on investments	2,440	16,300
Purchase of investments	-	(362,185)
Proceeds from maturity of investments	3,506,613	-
Change in net pension asset	275,192	36,700
Collections of loans receivable	<u>62,178</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>3,846,423</u>	<u>(309,185)</u>
Net increase (decrease) in cash	(326,711)	(2,188)
Cash - beginning of year	<u>367,295</u>	<u>59,573</u>
Cash - ending of year	<u>\$ 40,584</u>	<u>\$ 57,385</u>

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 1,528,103	\$ 31,070,272	\$ 398,140
-	886,876	-
-	-	2,655,208
108,739	365,276	-
<u>(885,768)</u>	<u>(28,146,200)</u>	<u>(2,553,690)</u>
751,074	4,176,224	499,658
4,626	442,852	-
-	239,671	-
<u>-</u>	<u>-</u>	<u>-</u>
4,626	682,523	-
(68,409)	(1,662,503)	(36,893)
(25,715)	(390,927)	(12,528)
-	-	-
-	(1,700,000)	-
-	12,739	-
(49,233)	(4,371,850)	(923,900)
-	-	24,000
-	-	-
<u>-</u>	<u>-</u>	<u>519,334</u>
(143,357)	(8,112,541)	(429,987)
5,700	24,440	7,563
(704,075)	(1,066,260)	(405,878)
-	3,506,613	-
15,200	327,092	-
<u>-</u>	<u>62,178</u>	<u>-</u>
<u>(683,175)</u>	<u>2,854,063</u>	<u>(398,315)</u>
(70,832)	(399,731)	(328,644)
<u>147,860</u>	<u>574,728</u>	<u>583,666</u>
<u>\$ 77,028</u>	<u>\$ 174,997</u>	<u>\$ 255,022</u>

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT CASH FLOWS - Continued
 YEAR ENDED SEPTEMBER 30, 2016**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 200,329	\$ 511,945
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	1,731,699	1,172,456
Provision for bad debts	-	-
Provision for purchased power adjustment	(11,000)	-
(Increase) decrease in:		
Accounts receivable	197,789	28,743
Loans receivable	-	-
Interest receivable	-	-
Grants receivable	-	(38,316)
Inventory	(3,162)	(7,873)
Prepaid items	-	-
Due from other funds	-	-
Other current assets	-	-
Increase (decrease) in:		
Accounts payable	(269,895)	(60,603)
Accrued expenses	(2,502)	(24,460)
Due to other funds	-	-
Unearned revenue	-	-
Net cash provided by (used for) operating activities	<u>\$ 1,843,258</u>	<u>\$ 1,581,892</u>

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 329,367	\$ 1,041,641	\$ 20,714
357,034	3,261,189	486,406
-	-	-
-	(11,000)	-
7,114	233,646	(18,973)
-	-	-
-	-	-
-	(38,316)	-
7,079	(3,956)	655
-	-	(78,503)
-	-	-
-	-	-
43,749	(286,749)	87,754
6,731	(20,231)	1,605
-	-	-
-	-	-
<u>\$ 751,074</u>	<u>\$ 4,176,224</u>	<u>\$ 499,658</u>

**CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2016**

	Pension Trust Fund	Other Postemployment Benefit Trust Fund	Agency Fund
	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 31,954	\$ -	\$ 47,643
Investments at market value			
Money market funds	545,659	-	-
U.S. Government agencies	3,888,129	-	-
Mutual funds	4,161,083	5,220,667	-
Corporate bonds and notes	2,899,216	-	-
Common and preferred stock	21,793,001	-	-
Accounts receivable	109,231	-	-
Dividends and interest receivable	61,023	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	33,489,296	5,220,667	47,643
 <u>LIABILITIES</u>			
Accounts payable	92,617	-	-
Due to other governmental units	-	-	18,878
Other liabilities	-	-	28,765
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	92,617	-	47,643
 NET POSITION			
Held in trust for			
pension benefits and post			
employment benefits	<u>\$ 33,396,679</u>	<u>\$ 5,220,667</u>	<u>\$ -</u>

See accompanying notes to the financial statements

**CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED SEPTEMBER 30, 2016**

	<u>Pension Trust Fund</u>	<u>Other Postemployment Benefit Trust Fund</u>
ADDITIONS		
Contributions:		
Employer	\$ 512,329	\$ 1,439,270
Employee/Retiree	<u>159,472</u>	<u>80,635</u>
Total contributions	671,801	1,519,905
Investment income:		
Interest and dividends	845,336	-
Net appreciation (depreciation) in fair value of investments	2,203,257	495,991
Investment expenses	<u>(196,381)</u>	<u>-</u>
Total investment income (loss)	<u>2,852,212</u>	<u>495,991</u>
Total additions	3,524,013	2,015,896
DEDUCTIONS		
Benefits	1,658,682	555,291
Refunds	15,978	-
Administrative expense	<u>39,840</u>	<u>-</u>
Total deductions	<u>1,714,500</u>	<u>555,291</u>
Net increase (decrease)	1,809,513	1,460,605
Net position held in trust for pension benefits and postemployment benefits		
Beginning of year	<u>31,587,166</u>	<u>3,760,062</u>
End of year	<u>\$ 33,396,679</u>	<u>\$ 5,220,667</u>

See accompanying notes to the financial statements

COMPONENT UNITS FINANCIAL STATEMENTS

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 79,645	\$ 929,320
Accounts receivable	400	44,609
Prepaid assets	2,460	-
Lease receivable - current portion	-	-
Lease receivable - long-term portion	-	-
Capital assets		
Other capital assets, net of depreciation	<u>257,146</u>	<u>-</u>
Total assets	339,651	973,929
 <u>LIABILITIES</u>		
Accounts payable	2,993	773,065
Rental deposits	825	-
Unearned revenue	-	-
Debt Obligations:		
Due within one year	11,264	29,592
Due in more than one year	<u>116,795</u>	<u>1,919,954</u>
Total liabilities	<u>131,877</u>	<u>2,722,611</u>
Deferred inflows of resources		
Unavailable revenue	<u>29,639</u>	<u>-</u>
 NET POSITION		
Invested in capital assets, net of related debt	129,087	-
Unrestricted (deficit)	<u>49,048</u>	<u>(1,748,682)</u>
Total net position (deficit)	<u>\$ 178,135</u>	<u>\$ (1,748,682)</u>

See accompanying notes to the financial statements

<u>Local Development Finance Authority</u>	<u>Building Authority</u>	<u>Combined Totals</u>
\$ 28,500	\$ 1,819	\$ 1,039,284
-	-	45,009
-	-	2,460
-	325,000	325,000
-	8,530,000	8,530,000
-	-	257,146
28,500	8,856,819	10,198,899
-	-	776,058
-	-	825
-	-	-
-	325,000	365,856
-	8,530,000	10,566,749
-	8,855,000	11,709,488
27,509	-	57,148
-	-	129,087
991	1,819	(1,696,824)
\$ 991	\$ 1,819	\$ (1,567,737)

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	
Downtown Development Authority	\$ 96,022	\$ 20,887	\$ 1,150
Brownfield Redevelopment Authority	1,514,436	-	33,335
Local Development Finance Authority	-	-	-
Building Authority	<u>328,262</u>	<u>328,512</u>	<u>-</u>
Total discretely presented component units	<u>\$ 1,938,720</u>	<u>\$ 349,399</u>	<u>\$ 34,485</u>

General revenues:

Captured property taxes
Unrestricted
investment earnings
Miscellaneous

Total general revenues

Change in net position

Net position (deficit) - beginning of year

Net position (deficit) - end of year

See accompanying notes to the financial statements

Net (Expense) Revenue and Change in Net Position

<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Local Development Finance Authority</u>	<u>Building Authority</u>	<u>Combined Totals</u>
\$ (73,985)	\$ -	\$ -	\$ -	\$ (73,985)
-	(1,481,101)	-	-	(1,481,101)
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>250</u>	<u>250</u>
(73,985)	(1,481,101)	-	250	(1,554,836)
36,284	11,120	38,415	-	85,819
48	-	9	-	57
<u>525</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>525</u>
<u>36,857</u>	<u>11,120</u>	<u>38,424</u>	<u>-</u>	<u>86,401</u>
(37,128)	(1,469,981)	38,424	250	(1,468,435)
<u>215,263</u>	<u>(278,701)</u>	<u>(37,433)</u>	<u>1,569</u>	<u>(99,302)</u>
<u>\$ 178,135</u>	<u>\$ (1,748,682)</u>	<u>\$ 991</u>	<u>\$ 1,819</u>	<u>\$ (1,567,737)</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Discretely Presented Component Units

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

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

The City reports the following major funds:

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

Special Revenue Funds

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

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

Enterprise Funds

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

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

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

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

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

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

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

- * Prior to August 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- * Public hearings are conducted at the City hall to obtain public comments.
- * Prior to August 20th the budget and annual appropriations act are legally adopted by the City Commission.
- * Formal budget integration is employed as a management control device during the year for all budgetary funds.
- * Budgetary control is exercised at the department level in the general fund, and at the total expenditure or "fund" level for the special revenue funds. Similarly, the City's "appropriation centers" are defined at the department level in the general fund and at the total expenditure or "fund" level for the special revenue funds. The City Manager is empowered to transfer line-item budget amounts within appropriation centers.
- * Budget transfers between appropriation centers or changes to appropriation center totals require formal amendment by the City Commission. Expenditures in the special revenue funds are classified by major functional category for informational purposes. Budgets for the current year are carefully reviewed throughout the year for any revisions of estimates. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary. In 2016, the general fund and special revenue fund budgets were amended to reflect actual expenditures that were higher than originally budgeted.
- * All budget appropriations lapse at the end of the year.
- * Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on July 1 of the following year and are payable from the date of levy through August 15. Taxes levied on July 1 are recorded as receivables and unearned revenue. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year following the levy date. The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in the current tax fund. The City is permitted by state law without voter approval to levy taxes up to \$11.8894 per \$1,000 of state equalized valuation for general governmental purposes. The tax rate to finance City services for the year ended September 30, 2016, was \$10.0285 per \$1,000 of taxable valuation. The tax rate to finance City street/sidewalk improvements for the year ended September 30, 2016, was \$3.00 per \$1,000 taxable valuation. The 2015 taxable value of the City was \$238,981,401.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

Deferred Outflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plan. More detailed information can be found in Note 12.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

Deferred Inflows of Resources - In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, from receivables and from property taxes levied and collected for next fiscal years operation. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. More detailed information can be found in Note 3.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

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

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

Change in Accounting - During the current year, the City adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government’s financial position.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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:

	Deposits	Investments	Total
Financial statement caption:			
Primary Government:			
Cash and investments	\$ 1,182,274	\$ 27,406,084	\$ 28,588,358
Restricted assets	26,068	1,858,875	1,884,943
Component Units:			
Cash and Investments	1,039,284	-	1,039,284
Fiduciary Funds:			
Cash and cash equivalents	79,597	-	79,597
Investments	-	38,507,755	38,507,755
Total	\$ 2,327,223	\$ 67,772,714	\$ 70,099,937

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2016, the maturities and credit quality rating of debt securities are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>S&P Rating</u>
		<u>< Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>> Than 10</u>	
* Primary Government						
Michigan Municipal Bonds	\$ 535,661	120,646	415,015	-	-	AAA-AA
First Merit Bank - Federated US						
Treasury Cash Reserve	639,795					Not Rated
Michigan Cooperative Liquid Assets						
Securities System	3,147,914					AAAm
U.S. Government Agencies	<u>24,941,589</u>	7,372,149	17,569,440	-	-	AAA-AA
Total Primary Government	<u>29,264,959</u>					
* Pension Trust Fund						
Comerica Bank						
Open ENDMF - Fixed Inc Tax						
Western Asset Smash Fund	4,161,083					Not Rated
U.S. Government Agencies	3,888,129	-	506,827	215,556	3,165,746	AAA-AA
AIM Premier Portfolio Ins Invesco	26,308					Not Rated
Corporate Bonds and Notes	2,899,216	117,628	1,315,834	739,842	725,912	AAA-AA
Morgan Stanley Bank Deposit Program	509,942					Not Rated
Goldman Sachs FS Govn. Fund	9,409					Not Rated
Common and Preferred Stocks	<u>21,793,001</u>					N/A
Total Pension Trust Fund	33,287,088					
* OPEB Trust Fund						
Municipal Employee's Retirement System of Michigan						
MERS Established Market Fund	<u>5,220,667</u>					Not Rated
Total Investments	<u>\$ 67,772,714</u>					

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

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

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

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. At September 30, 2016, the City had \$2,079,770 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Component Units had \$-0- of bank deposits that were uninsured and uncollateralized. The City and the Component Units believe that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City and the Component Units evaluates each financial institution with which they deposit funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

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

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

The City has the following recurring fair value measurements as of June 30, 2016:

Primary Government

- U.S. Government Agency debt obligations of \$24,941,589 are valued using quoted market prices (Level 1 inputs).
- Michigan Municipal Bonds of \$535,661 are valued using a matrix pricing model (Level 2 inputs).
- The Michigan Class Pool of \$3,147,914 and the Federated U.S. Treasury Cash Reserve of \$639,795 are interests in pooled investments and are measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

Pension Trust Fund

- U.S. Government Agency debt obligations of \$3,888,129 and Corporate Bonds and Notes of \$2,899,216 and common and Preferred Equities of \$21,793,001 are valued using quoted market prices (Level 1 inputs).
- The Open ENDMF of \$4,161,083 and AIM Premier Portfolio of \$26,308 and Morgan Stanley Bank Deposit Program of \$509,942 and Goldman Sachs FS Government Fund of \$9,409 are interests in pooled investments and are measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

OPEB Trust Fund

- The MERS Established Market Fund of \$5,220,667 are interests in pooled investments and are measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3 - RECEIVABLES - UNAVAILABLE/UNEARNED REVENUE

Receivables in the governmental activities are 27 percent property tax, 33 percent due from other governments, 39 percent accounts receivable, and 1 percent accrued interest. Business-type activities receivables are 64 percent due from customers, 33 percent loans, 2 percent due from other governments, and 1 percent accrued interest.

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

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes levied and collected for next fiscal years operation (general fund and municipal street fund)	\$ 2,337,432	\$ -	\$ 2,337,432
Customer deposits for future services/events (general and special revenue funds)	-	83,036	83,036
	<u>\$ 2,337,432</u>	<u>\$ 83,036</u>	<u>\$ 2,420,468</u>

Component Units

Property taxes levied and collected for next fiscal years operation	\$ <u>57,148</u>	\$ <u>-</u>	\$ <u>57,148</u>
Accounts receivable that do not meet the definition of available under modified accrual accounting	\$ <u>44,609</u>	\$ <u>-</u>	\$ <u>44,609</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 4 - FUND BALANCES - GOVERNMENTAL FUNDS

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

	<u>General Fund</u>	<u>Other Major Funds</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:				
Prepaid items	\$ 15,987	\$ -	\$ 2,500	\$ 18,487
Inventory	<u>-</u>	<u>-</u>	<u>43,682</u>	<u>43,682</u>
	<u>15,987</u>	<u>-</u>	<u>46,182</u>	<u>62,169</u>
Restricted:				
Streets	-	946,312	-	946,312
Cemetery trust	<u>-</u>	<u>-</u>	<u>868,277</u>	<u>868,277</u>
	<u>-</u>	<u>946,312</u>	<u>868,277</u>	<u>1,814,589</u>
Committed:				
Streets	-	1,779,473	-	1,779,473
Capital projects	-	1,395,072	-	1,395,072
Building Dept.	-	-	160,980	160,980
Housing Dept.	-	-	6,779	6,779
Cemetery	-	-	8,531	8,531
Drug Enforcement	-	-	10,701	10,701
Recreation	-	-	47,107	47,107
Auditorium	-	-	8	8
Arts Council	-	-	58,540	58,540
Recreation center	-	-	23,014	23,014
Airport	<u>-</u>	<u>-</u>	<u>3,349</u>	<u>3,349</u>
	<u>-</u>	<u>3,174,545</u>	<u>319,009</u>	<u>3,493,554</u>
Unassigned	<u>3,199,908</u>	<u>-</u>	<u>-</u>	<u>3,199,908</u>
Total fund balances -				
Governmental				
funds	<u>\$ 3,215,895</u>	<u>\$ 4,120,857</u>	<u>\$ 1,233,468</u>	<u>\$ 8,570,220</u>

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at September 30, 2016:

Fund/ Component Unit	Receivable	Fund/ Component Unit	Payable
<u>Due from/to other funds</u>			
Total	<u>NONE</u>		<u>NONE</u>
<u>Advances from/to other funds</u>			
Total	<u>NONE</u>		<u>NONE</u>
Total Primary Government	<u>NONE</u>		<u>NONE</u>

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Transfers consisted of the following for the year ended September 30, 2016:

<u>Transfers Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>In</u>
General	\$ 1,175,870	Capital Projects	\$ 250,000
		Building Department	-
		Housing Development	140,000
		Cemetery	166,000
		Drug Enforcement	12,000
		Recreation	105,000
		Civic Auditorium - operating	245,000
		Civic Auditorium - debt service	52,870
		Doyle Community Center	35,000
		Airport	90,000
		Electric	<u>80,000</u>
	<u>1,175,870</u>		<u>1,175,870</u>
Capital Projects	1,277,566	Sanitary Sewer	159,671
		Airport	55,000
		Auditorium	62,895
		Municipal Street	<u>1,000,000</u>
	<u>1,277,566</u>		<u>1,277,566</u>
Cemetery Trust	<u>30,770</u>	Cemetery	<u>30,770</u>
Total Primary Government	<u>\$ 2,484,206</u>		<u>\$ 2,484,206</u>

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2016, was as follows:

	<u>Balance October 1, 2015</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance September 30, 2016</u>
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 566,260	\$ -	\$ -	\$ 566,260
Capital assets, being depreciated:				
Infrastructure	8,902,262	1,524,765	-	10,427,027
Land - improvements	5,279,284	197,910	-	5,477,194
Buildings and improvements	8,624,816	57,118	-	8,681,934
Machinery and equipment	2,397,235	356,928	83,625	2,670,538
Vehicles	4,215,616	749,876	-	4,965,492
Office furniture and equipment	<u>389,987</u>	<u>-</u>	<u>-</u>	<u>389,987</u>
Subtotal	29,809,200	2,886,597	83,625	32,612,172
Accumulated depreciation				
Infrastructure	1,982,988	925,873	-	2,908,861
Land improvements	3,442,032	212,287	-	3,654,319
Buildings and improvements	3,562,978	241,068	-	3,804,046
Machinery and equipment	2,021,977	146,699	83,625	2,085,051
Vehicles	2,861,876	393,657	-	3,255,533
Office furniture and equipment	<u>378,518</u>	<u>4,587</u>	<u>-</u>	<u>383,105</u>
Subtotal	<u>14,250,369</u>	<u>1,924,171</u>	<u>83,625</u>	<u>16,090,915</u>
Net capital assets being depreciated	<u>15,558,831</u>			<u>16,521,257</u>
Net capital assets	<u>\$ 16,125,091</u>			<u>\$ 17,087,517</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 - CAPITAL ASSETS - Continued

	Balance October 1, 2015	Additions	Disposals/ Transfers	Balance Sept. 30, 2016
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 577,093	\$ -	\$ -	\$ 577,093
Construction in progress	<u>1,751,337</u>	<u>2,598,187</u>	<u>1,087,084</u>	<u>3,262,440</u>
Subtotal	2,328,430	2,598,187	1,087,084	3,839,533
Capital assets, being depreciated:				
Land improvements	1,622,268	-	-	1,622,268
Buildings, improvements and system	107,747,184	2,860,747	-	110,607,931
Machinery and equipment	1,145,685	-	-	1,145,685
Office furniture and equipment	<u>24,952</u>	<u>-</u>	<u>-</u>	<u>24,952</u>
Subtotal	110,540,089	2,860,747	-	113,400,836
Accumulated depreciation				
Land improvements	1,072,506	173,197	-	1,245,703
Buildings, improvements and system	67,369,956	3,010,842	-	70,380,798
Machinery and equipment	295,631	74,568	-	370,199
Office furniture and equipment	<u>22,370</u>	<u>2,582</u>	<u>-</u>	<u>24,952</u>
Subtotal	<u>68,760,463</u>	<u>3,261,189</u>	<u>-</u>	<u>72,021,652</u>
Net capital assets being depreciated	<u>41,779,626</u>			<u>41,379,184</u>
Net capital assets	<u>\$ 44,108,056</u>			<u>\$ 45,218,717</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 - CAPITAL ASSETS - Continued

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

Governmental activities:		Business-type activities:	
General government	\$ 345,790	Electric	\$ 1,731,698
Public safety	553,443	Sanitary Sewer	1,172,457
Public works	769,115	Water	<u>357,034</u>
Recreation and cultural	<u>255,823</u>		
Total	<u>\$ 1,924,171</u>	Total	<u>\$ 3,261,189</u>

Discretely Presented Component Units

Downtown Development Authority

	Balance October 1, 2015	Additions	Disposals	Balance September 30, 2016
Capital assets, being depreciated				
Land improvements	\$ 283,662	\$ -	\$ -	\$ 283,662
Buildings and improvements	<u>404,364</u>	<u>-</u>	<u>-</u>	<u>404,364</u>
Subtotal	688,026	-	-	688,026
Accumulated depreciation				
Land improvements	165,540	18,910	-	184,450
Buildings and improvements	<u>226,212</u>	<u>20,218</u>	<u>-</u>	<u>246,430</u>
Subtotal	<u>391,752</u>	<u>39,128</u>	<u>-</u>	<u>430,880</u>
Net capital assets being depreciated	<u>\$ 296,274</u>			<u>\$ 257,146</u>

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

Downtown Development Authority	<u>\$ 39,128</u>
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CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 7 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended September 30, 2016:

	Balance October 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2016</u>	<u>Current Portion</u>
Governmental Activities					
Loans payable	\$ 989,440	\$ 519,334	\$ 97,241	\$ 1,411,533	\$ 120,961
Compensated absences	556,693	437,583	416,035	578,241	-
Net OPEB obligation	<u>4,052,000</u>	<u>1,449,480</u>	<u>1,949,480</u>	<u>3,552,000</u>	<u>-</u>
	5,598,133	2,406,397	2,462,756	5,541,774	120,961
Business-Type Activities					
Revenue bonds	13,344,451	37,149	1,699,652	11,681,948	1,728,639
Compensated absences	308,000	244,050	227,050	325,000	-
Net OPEB obligation	<u>450,000</u>	<u>160,970</u>	<u>216,585</u>	<u>394,385</u>	<u>-</u>
	<u>14,102,451</u>	<u>442,169</u>	<u>2,143,287</u>	<u>12,401,333</u>	<u>1,728,639</u>
Total Primary Government Long-Term Debt	<u>\$ 19,700,584</u>	<u>\$ 2,848,566</u>	<u>\$ 4,606,043</u>	<u>\$ 17,943,107</u>	<u>\$ 1,849,600</u>

Long-term debt payables at September 30, 2016, 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% \$ 689,474

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 \$174,724 213,256

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 \$589,964 508,803

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 7 - LONG-TERM DEBT - Continued

Compensated absence	578,241
Net OPEB obligation	<u>3,552,000</u>
Total Governmental Activities	
Long-Term Liability	<u>\$ 5,541,774</u>
 Business-Type Activities	
\$3,416,554 2010 Capital Improvement bonds payable annually, beginning November 1, 2011 and ending November 1, 2025, ranging from \$198,007 to \$275,657, plus interest paid semi-annually at 1.4% to 6.0%	\$ 2,400,526
\$5,725,000 2005 Electric revenue refunding bonds, payable in semi-annual installments ranging from \$430,000 to \$640,000, plus interest at 3.25% to 5.0%, final payment due May, 2017	640,000
\$1,086,070 2007 State/Drinking Water Revolving Fund loan payable annually, beginning October 1, 2011 and ending October 1, 2027, ranging from \$45,000 to \$66,070, including interest paid semi-annually at 2.125%	641,070
\$5,745,000 1996 Sanitary Sewer System revenue bonds, payable in semi-annual installments ranging from \$240,000 to \$355,000, plus interest at 2.25%, final payment due September 30, 2017	355,000
\$2,660,000 2007 State/Clean Water Revolving Fund loan payable annually, beginning April 1, 2013 and ending April 1, 2028, ranging from \$115,000 to \$145,587, including interest paid semi-annually at 1.625%	1,675,587
\$5,505,000 2008 Sanitary Sewer System revenue bonds, payable in semi-annual installments ranging from \$215,000 to \$292,172 plus interest at 2.50%, final payment due October 1, 2029	3,302,172
\$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	2,280,919
\$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	386,674

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 7 - LONG-TERM DEBT - Continued

Compensated Absences	325,000
Net OPEB Obligation	<u>394,385</u>
Total Business-Type Activities Long-Term Liabilities	<u>12,401,333</u>
Total Primary Government Long-Term Debt	<u>\$ 17,943,107</u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2016 (excluding compensated absences), including both principal and interest, are as follows:

	Governmental Activities		
	Principal	Interest	Total
2017	\$ 120,961	\$ 49,258	\$ 170,219
2018	123,746	45,312	169,058
2019	126,593	40,947	167,540
2020	130,623	36,170	166,793
2021	132,793	32,844	165,637
2022-2026	597,747	96,015	693,762
2027-2031	<u>179,070</u>	<u>18,570</u>	<u>197,640</u>
Total	<u>\$ 1,411,533</u>	<u>\$ 319,116</u>	<u>\$ 1,730,649</u>

	Business-Type Activities		
	Principal	Interest	Total
2017	\$ 1,728,639	\$ 335,283	\$ 2,063,922
2018	757,523	276,106	1,033,629
2019	771,408	255,291	1,026,699
2020	794,176	233,019	1,027,195
2021	803,061	209,631	1,012,692
2022-2026	4,305,720	653,211	4,958,931
2027-2031	2,003,828	144,682	2,148,510
2032-2034	<u>517,593</u>	<u>16,264</u>	<u>533,857</u>
Total	<u>\$ 11,681,948</u>	<u>\$ 2,123,487</u>	<u>\$ 13,805,435</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 7 - LONG-TERM DEBT - Continued

Discretely Presented Component Units

Downtown Development Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2016:

	<u>Balance October 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2016</u>	<u>Current Portion</u>
Loan Payable	\$ 138,877	\$ -	\$ 10,818	\$ 128,059	\$ 11,264

Long-term debt payable at September 30, 2016, consisted of the following individual issue:

Note payable to Farmers State Bank in the amount of \$180,000, monthly payment of \$1,275 including interest at 3.29%, final payment due August 1, 2026, unsecured	<u>\$ 128,059</u>
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Prepayment Penalty - the loan agreement contains the following prepayment penalty clause: prepayment penalty of 5% on the current balance if payoff is within the first year; second year will require a 4% penalty; third year will require a 3% penalty; fourth year will require a 2% penalty; fifth year will require a 1% penalty on current balance at time of payoff.

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2016 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 11,264	\$ 4,032	\$ 15,296
2018	11,642	3,654	15,296
2019	12,041	3,255	15,296
2020	12,493	2,803	15,296
2021	13,006	2,290	15,296
Thereafter	<u>67,613</u>	<u>7,596</u>	<u>75,209</u>
Total	<u>\$ 128,059</u>	<u>\$ 23,630</u>	<u>\$ 151,689</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 7 - LONG-TERM DEBT - Continued

Discretely Presented Component Units

Brownfield Redevelopment Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2016:

	<u>Balance October 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2016</u>	<u>Current Portion</u>
Loans Payable	\$ 278,701	\$ 1,700,000	\$ 29,155	\$ 1,949,546	\$ 29,592

Long-term debt payable at September 30, 2016, 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	\$ 249,546
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Note payable to City of Sturgis - Electric Fund in the amount (not to exceed) \$1,700,000, deferred payments until June 1, 2021, thirty years maximum, annual payment, interest accrues at 2.468%, payments apply to principal until paid, interest balance accrues and will be paid last per Development Agreement and Brownfield Plan	<u>1,700,000</u>
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Total	<u>\$ 1,949,546</u>
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Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2016 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 29,592	\$ 3,743	\$ 33,335
2018	30,036	3,299	33,335
2019	30,487	2,848	33,335
2020	30,944	2,391	33,335
2021	31,408	1,927	33,335
2022-2024	<u>97,079</u>	<u>2,926</u>	<u>100,005</u>
Total - scheduled debt	249,546	17,134	266,680
Unscheduled debt	<u>1,700,000</u>	<u>-</u>	<u>1,700,000</u>
Total	<u>\$ 1,949,546</u>	<u>\$ 17,134</u>	<u>\$ 1,966,680</u>

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 7 - LONG-TERM DEBT - Continued

Discretely Presented Component Units

Building Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2016:

	<u>Balance October 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2016</u>	<u>Current Portion</u>
Revenue					
Bonds	<u>\$ 9,155,000</u>	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 8,855,000</u>	<u>\$ 325,000</u>

Long-term debt payable at September 30, 2016, consisted of the following individual issue:

Sturgis Building Authority Series 2014 Refunding Bonds, payable annually beginning October 1, 2016 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>\$ 8,855,000</u>
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Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2016 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 325,000	\$ 322,012	\$ 647,012
2018	330,000	315,513	645,513
2019	340,000	308,912	648,912
2020	350,000	302,112	652,112
2021	370,000	291,613	661,613
2022-2026	2,165,000	1,266,462	3,431,462
2027-2031	2,855,000	788,363	3,643,363
2032-2034	<u>2,120,000</u>	<u>172,800</u>	<u>2,292,800</u>
Total	<u>\$ 8,855,000</u>	<u>\$ 3,767,787</u>	<u>\$ 12,622,787</u>

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 8 - NOTES RECEIVABLE

At September 30, 2016, 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	\$ 191,033
Note receivable from Brownfield Development Authority - component unit collectible beginning in 2021 with interest accruing at 2.468%, due in full within thirty years	<u>1,700,000</u>
Total	<u>\$ 1,891,033</u>

NOTE 9 - LEASE RECEIVABLE

Discretely Presented Component Units

BUILDING AUTHORITY

At September 30, 2016, the Building Authority reflected the following lease receivable:

Lease receivable from Sturgis Hospital, Inc. collectible in monthly installments beginning March 1, 2010 and ending September 1, 2034, ranging from \$322,561 to \$411,159, receipts are pledged to the payment of the principal and interest on the Authority Bonds payable	<u>\$ 8,855,000</u>
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CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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, 2016, a total of \$4,542 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, 2016, was as follows:

Claims liability October 1	\$ 20,000
Current year claims and changes in estimates	4,542
Claim payments	<u>(4,542)</u>
Claims liability September 30	<u>\$ 20,000</u>

For all eligible City employees, the City purchases commercial health care insurance. Stop-loss insurance coverage limits claim expense to \$60,000 per contract annually. Health care insurance premiums are accounted for in the Employee Benefit Fund. The City is self-insured for employee medical benefits which totaled \$858,271 in 2016 and are reported in the Employee Benefit Fund.

Changes in the Employee Benefit Fund self-insured claims liability for the year ended September 30, 2016, was as follows:

Claims liability October 1	\$ 315,000
Current year claims and changes in estimates	819,371
Claim payments	<u>(858,271)</u>
Claims liability September 30	<u>\$ 276,100</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 11 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457, that is administered by ICMA Retirement Corporation. The plan, available to all city employees, permits them to defer a portion of their payroll until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan trustee holds all assets of the plan, maintains accounting of each plan participant's accumulated assets and makes distributions to participants in accordance with the plan document. Participants may contribute any amount allowed by the plan. The City will match the employee contribution at different percentages based on the employee group. In fiscal year 2016, the City contributed \$136,532 in employer matching contributions. Plan provision and contribution requirements can only be amended by authorization of the City Commission.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

Plan Description

The City maintains a single-employer defined benefit pension plan (City of Sturgis Employers' Retirement System) which covers all City unionized employees who normally work 1,950 hours or more a year, and all other full time City employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. At September 30, 2016, the date of the most recent actuarial valuation, membership consisted of 98 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 94 current active employees. The plan does not issue a separate financial report.

Summary of Significant Accounting Policies

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

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

Contributions

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

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS

<u>Eligibility</u>	<u>Amount</u>
REGULAR RETIREMENT (no reduction factor for age)	
General (hired prior to 1/1/2016 and Electric Union (hired prior to 3/1/15): Any age with 25 years of service.	<u>Total service multiplied by:</u> General, - the sum of (a) 1.2% of the first \$4,200 of final average compensation (FAC) and (b) 1.7% of FAC in excess of \$4,200.
General (hired prior to 1/1/2016 and Electric Union (hired prior to 3/1/15): Age 55 with 25 years of service.	Electrical - 2.0% of FAC
General and Electric: Age 60 with 10 years of service of 65 with 5 years of service.	
Police and Fire Any age with 25 years of service, or age 55 with 10 years of service, or at age 60 with 5 years.	2.5% of FAC
Type of final average compensation	Fire: Highest 3 consecutive years out of last 5. Others: Highest 5 consecutive years out of last 10
DEFERRED RETIREMENT	
Electrical (hired prior to 3/1/2008) and Non-Union (hired prior to 1/1/2009): 5 years of service.	Computed as a regular retirement but based upon service and final average compensation at termination date. Benefit begins at normal retirement age.
Electric (hired on or after 3/1/ 2008 and prior to 3/1/2015) and Non-Union (hired on or after 1/1/2009) and prior to 1/1/2016): 8 years of service.	
Electric (hired on or after 3/1/2015) and Non-Union (hired on or after 1/1/2016): 10 years of service.	
Fire: 8 years of service, 5 years of service if retiring at age 60	
Other: 10 years of service.	

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS

<u>Eligibility</u>	<u>Amount</u>
NON-DUTY DEATH BEFORE RETIREMENT	
10 years of service.	Computed as a regular retirement but actuarially reduced in accordance with a 100% joint and survivor election.

DUTY DEATH BEFORE RETIREMENT

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

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

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

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

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

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS

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

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

MEMBER FAC FACTOR BUY-UP CONTRIBUTIONS

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

POST-RETIREMENT ADJUSTMENT

Police Union	In addition to normal pension benefits, the City will pay as a cost of living adjustment \$500 per year for 15 years, on a cumulative basis, to the first 2 employees who irrevocably notify the City and retire in each of the contract years commencing 10/1/2003, 2004, and 2005.
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CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

For the year ended September 30, 2016, the City recognized pension expense of \$1,284,230 computed as follows:

Service cost	\$ 728,751
Interest on total pension liability	2,129,388
Current-period benefit changes	-
Employee contributions	(159,472)
Projected earnings on plan investments	(2,174,017)
Pension plan administrative expense	56,707
Other changes in plan fiduciary net position	-
Recognition of Outflow (Inflow) of Resources due to liabilities	308,940
Recognition of Outflow (Inflow) of Resources due to assets	<u>393,933</u>
Total Pension Expense	<u>\$ 1,284,230</u>

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Net Deferred Outflows of Resources</u>
Difference between expected and actual experience	\$ (672,882)
Changes in assumptions	1,855,489
Net difference between projected and actual earnings on plan investments	<u>1,042,787</u>
Total	<u>\$ 2,225,394</u>

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

	<u>Year Ending September 30,</u>	<u>Net Deferred Outflows of Resources</u>
	2017	\$ 702,873
	2018	702,873
	2019	752,831
	2020	<u>66,817</u>
Total		<u>\$ 2,225,394</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

Pension Plan Disclosures under GASB Statement 67

Actuarial Valuation Date	September 30, 2016
Pension Plan's fiscal Year Ending Date (Measurement Date & Reporting Date)	September 30, 2016

Membership

Number of	
-Retirees and Beneficiaries	98
-Inactive, Nonretired Members	29
-Active Members	94
-Total	221
Covered Payroll	\$ 5,642,470

Net Pension Liability

Total Pension Liability	\$ 33,837,964
Plan Fiduciary Net Position	33,396,678
Net pension Liability	\$ 441,286
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	98.70%
Net Pension Liability as a Percentage of Covered Payroll	7.82%

Development of the Single Discount Rate

Single Discount Rate	6.50%
Long-Term Expected Rate of Return	6.50%
Long-Term Municipal Bond Rate*	3.06%
Last year ending September 30 in the 2017 to 2116 projection period for which projected benefit payments are fully funded	2,094

Total Pension Expense \$ 1,284,230

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 672,882
Changes in assumptions	1,855,489	-
Net difference between projected and actual earnings on pension plan investments	1,598,837	556,050
	\$ 3,454,326	\$ 1,228,932

*Source "20-Bond GO Index" is the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. In describing this index, the Bond Buyer notes that the bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA. The rate shown is as of September 29, 2016, the most recent date available on or before the measurement date.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

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

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

MEASUREMENT OF THE NET PENSION LIABILITY

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

A Single Discount Rate of 6.50% was used to measure the total pension liability. This Single Discount Rate was based on the expected rate of return on pension plan investments of 6.50% and a municipal bond rate of 3.06%. The projection of cash flows used to determine this Single Discount Rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2094. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2094, and the municipal bond rate was applied to all benefit payments after that date.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

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

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

1% Decrease <u>5.50%</u>	Current Single Discount Rate Assumption <u>6.50%</u>	1% Increase <u>7.50%</u>
\$ 4,924,907	\$ 441,286	\$ (3,267,621)

NOTE 13 - POST-EMPLOYMENT HEALTH CARE BENEFITS

Description

Effective October 1, 2007, the City adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. In addition to the relevant disclosures within this note related to the implementation of GASB Statement No. 45, the financial statements reflect a long-term liability and related expenses of \$3,552,000 and \$394,385 in governmental and business-type activities, respectively.

The City provides certain health care benefits for retirees, as per the requirements of union contracts and the authority of the City Commission. Currently 75 percent of the City's full-time employees may become eligible for these benefits if they retire from the City and receive a pension. The City covers the majority of the cost by purchasing health care insurance. Currently, 93 retirees are eligible for health care benefits of which 68 are enrolled.

Funding Policy

The Plan is financed by annual employer contributions to the Other Postemployment Benefit Trust Fund and by charges for services revenues accounted for in the Employee Benefit Internal Service Fund. Post-employment health care costs are accounted for in the Employee Benefits Fund. Contribution levels are determined annually by the City Commission during the annual budget process after considering the actuarially determined annual required contribution and the expected cash outlay for the annual benefits and available resources. For fiscal year 2016 the City contributed \$1,439,270 to the Plan of which \$555,291 was used to pay benefits and \$883,979 was held in a trust fund. Transfers to the Employee Benefits Fund in excess of the actual pay-as-you-go costs are held in trust, so they do reduce the City's net-OPEB obligation.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 13 - POST-EMPLOYMENT HEALTH CARE BENEFITS - Continued

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 1,610,450
Interest on net OPEB obligation	-
Annual OPEB cost	1,610,450
Increase in assets held in trust fund	495,991
Contributions made	1,670,074
Increase (decrease) in net OPEB obligation	(555,615)
Net OPEB obligation - beginning of year	4,502,000
Net OPEB obligation - end of year	\$ 3,946,385

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2008 through 2016 were as follows:

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

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

Funding Status and Funding Progress

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 13 - POST-EMPLOYMENT HEALTH CARE BENEFITS - Continued

Funding Status and Funding Progress - Continued

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

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

Actuarial Methods and Assumptions

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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, 2016, the City incurred purchased power cost under this agreement of \$16,237,640 which is included in the Electric Fund as Purchased Power expense and includes an estimated liability of \$315,000 for future true-up cost charges.

NOTE 16 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

During the year ended September 30, 2016, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

None Were Material

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 17 - FUND EQUITY DEFICITS

The Brownfield Redevelopment Authority component unit had a deficit net position (full accrual basis) of \$1,748,682 at September 30, 2016. The City plans to eliminate the net position deficit with future tax increment financing collections.

NOTE 18 - RESTATEMENT OF BEGINNING NET POSITION

Beginning net position has been restated for governmental activities and for business type activities due to a correction of overstated special assessment receivables.

Governmental Activities

Beginning net position	\$ 22,782,169
Overstated special assessment receivables	<u>615,831</u>
Restated beginning net position	<u>\$ 22,166,338</u>

Business Type Activities

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Beginning net position	\$ 36,595,805	\$ 11,608,935	\$ 5,524,106	\$ 53,728,846
Overstated special assessment receivables	<u>122,057</u>	<u>363,981</u>	<u>319,016</u>	<u>805,054</u>
Restated beginning net position	<u>\$ 36,473,748</u>	<u>\$ 11,244,954</u>	<u>\$ 5,205,090</u>	<u>\$ 52,923,792</u>

NOTE 19 - GASB PRONOUNCEMENTS

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans other than Pension Plans, addressed reporting by OPEB plans, whereas GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, addressed accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive note disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the City will, after, adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The City is currently evaluating the impact of these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016, whereas GASB Statement No. 75 is effective one year later.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 19 - GASB PRONOUNCEMENTS - Continued

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*. The Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments and requires the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

In March 2016, the GASB issued Statement No. 82, *Pension issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017-2018 fiscal year.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	\$ 2,638,540	\$ 2,657,540	\$ 2,664,233	\$ 6,693
Licenses and permits	71,900	81,900	82,261	361
Federal grants	1,400	1,400	1,321	(79)
State grants	93,000	43,000	38,564	(4,436)
State shared revenue	1,019,890	1,019,890	1,002,278	(17,612)
Charges for services	140,000	150,000	155,217	5,217
Fines and forfeits	33,500	23,500	24,125	625
Investment income	250,000	200,000	164,388	(35,612)
Payments in lieu of taxes	2,538,900	2,538,900	2,544,074	5,174
Administrative reimbursement	953,640	953,640	951,290	(2,350)
Other	<u>155,550</u>	<u>155,550</u>	<u>167,469</u>	<u>11,919</u>
Total revenue	7,896,320	7,825,320	7,795,220	(30,100)
EXPENDITURES				
Legislative	56,820	56,820	57,357	(537)
General government	1,404,980	1,404,980	1,313,384	91,596
Public safety	4,450,535	4,400,535	4,080,106	320,429
Public works	474,170	474,170	415,918	58,252
Health and welfare	68,000	68,000	64,415	3,585
Recreation and cultural	411,850	411,850	392,906	18,944
Capital outlay	280,800	280,800	277,366	3,434
Debt services	<u>19,975</u>	<u>19,975</u>	<u>19,626</u>	<u>349</u>
Total expenditures	<u>7,167,130</u>	<u>7,117,130</u>	<u>6,621,078</u>	<u>496,052</u>
EXCESS OF REVENUE OVER EXPENDITURES	729,190	708,190	1,174,142	465,952
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(1,125,870)</u>	<u>(1,175,870)</u>	<u>(1,175,870)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,125,870)</u>	<u>(1,175,870)</u>	<u>(1,175,870)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(396,680)	(467,680)	(1,728)	465,952
FUND BALANCE – BEGINNING OF YEAR	<u>3,217,623</u>	<u>3,217,623</u>	<u>3,217,623</u>	<u>-</u>
FUND BALANCE – END OF YEAR	<u>\$ 2,820,943</u>	<u>\$ 2,749,943</u>	<u>\$ 3,215,895</u>	<u>\$ 465,952</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
Taxes	\$ -	\$ -	\$ -	\$ -
State grants	119,660	119,660	131,641	11,981
State shared revenue	545,000	545,000	578,046	33,046
Investment income	100	100	79	(21)
Other	<u>1,100</u>	<u>1,100</u>	<u>-</u>	<u>(1,100)</u>
Total revenue	665,860	665,860	709,766	43,906
 EXPENDITURES				
Public works	<u>649,590</u>	<u>649,590</u>	<u>624,551</u>	<u>25,039</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	16,270	16,270	85,215	68,945
 OTHER FINANCING SOURCES				
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	16,270	16,270	85,215	68,945
 FUND BALANCE – BEGINNING OF YEAR	<u>237,806</u>	<u>237,806</u>	<u>237,806</u>	<u>-</u>
 FUND BALANCE – END OF YEAR	<u>\$ 254,076</u>	<u>\$ 254,076</u>	<u>\$ 323,021</u>	<u>\$ 68,945</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2016**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
Taxes	\$ 255,000	\$ 255,000	\$ 255,819	\$ 819
Special assessments	-	-	-	-
State grants	87,070	87,070	85,626	(1,444)
State shared revenue	200,000	200,000	211,910	11,910
Investment income	50	50	67	17
Other	<u>-</u>	<u>-</u>	<u>5,581</u>	<u>5,581</u>
Total revenue	542,120	542,120	559,003	16,883
 EXPENDITURES				
Public works	<u>462,980</u>	<u>462,980</u>	<u>449,490</u>	<u>13,490</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	79,140	79,140	109,513	30,373
 FUND BALANCE – BEGINNING OF YEAR	<u>125,819</u>	<u>125,819</u>	<u>125,819</u>	<u>-</u>
 FUND BALANCE – END OF YEAR	<u>\$ 204,959</u>	<u>\$ 204,959</u>	<u>\$ 235,332</u>	<u>\$ 30,373</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MUNICIPAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2016**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
State grants	\$ 259,400	\$ 259,400	\$ 199,248	\$ (60,152)
Investment income	-	-	6,061	6,061
Other	<u>500</u>	<u>500</u>	<u>4,607</u>	<u>4,107</u>
Total revenue	259,900	259,900	209,916	(49,984)
 EXPENDITURES				
Public works	<u>372,800</u>	<u>408,000</u>	<u>350,950</u>	<u>57,050</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(112,900)	(148,100)	(141,034)	7,066
 OTHER FINANCING SOURCES (USES)				
Operating transfers in	1,000,000	1,000,000	1,000,000	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>-</u>
 EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	887,100	851,900	858,966	7,066
 FUND BALANCE – BEGINNING OF YEAR	<u>920,507</u>	<u>920,507</u>	<u>920,507</u>	<u>-</u>
 FUND BALANCE – END OF YEAR	<u>\$ 1,807,607</u>	<u>\$ 1,772,407</u>	<u>\$ 1,779,473</u>	<u>\$ 7,066</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MUNICIPAL STREET/SIDEWALK IMPROVEMENT FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
Taxes	\$ 630,500	\$ 655,000	\$ 670,800	\$ 15,800
State grants	-	-	-	-
Special assessments	4,000	-	-	-
Investment income	-	-	204	204
Other	<u>500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	635,000	655,000	671,004	16,004
EXPENDITURES				
Public works	<u>810,000</u>	<u>860,000</u>	<u>735,361</u>	<u>124,639</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(175,000)	(205,000)	(64,357)	140,643
FUND BALANCE – BEGINNING OF YEAR	<u>452,316</u>	<u>452,316</u>	<u>452,316</u>	<u>-</u>
FUND BALANCE – END OF YEAR	<u>\$ 277,316</u>	<u>\$ 247,316</u>	<u>\$ 387,959</u>	<u>\$ 140,643</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2016**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
Investment income	\$ 25,000	\$ 25,000	\$ 15,631	\$ (9,369)
EXPENDITURES				
Capital Outlay	<u>-</u>	<u>151,400</u>	<u>129,390</u>	<u>22,010</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	25,000	(126,400)	(113,759)	12,641
OTHER FINANCING SOURCES (USES)				
Operating transfers in	250,000	250,000	250,000	-
Operating transfers out	<u>(1,277,566)</u>	<u>(1,277,566)</u>	<u>(1,277,566)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,027,566)</u>	<u>(1,027,566)</u>	<u>(1,027,566)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(1,002,566)	(1,153,966)	(1,141,325)	12,641
FUND BALANCE – BEGINNING OF YEAR	<u>2,536,397</u>	<u>2,536,397</u>	<u>2,536,397</u>	<u>-</u>
FUND BALANCE – END OF YEAR	<u>\$ 1,533,831</u>	<u>\$ 1,382,431</u>	<u>\$ 1,395,072</u>	<u>\$ 12,641</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
PUBLIC IMPROVEMENT GRANT FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2016**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
Federal grants	\$ -	\$ 698,000	\$ 520,970	\$ (177,030)
EXPENDITURES				
Community development	-	256,000	265,200	(9,200)
Economic development	<u>-</u>	<u>442,000</u>	<u>255,770</u>	<u>186,230</u>
Total expenditures	<u>-</u>	<u>698,000</u>	<u>520,970</u>	<u>177,030</u>
EXCESS OF REVENUE OVER EXPENDITURES	-	-	-	-
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
EMPLOYEE RETIREMENT SYSTEM

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

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

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

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
EMPLOYEE RETIREMENT SYSTEM

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

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

Schedule of Investment Returns

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

Schedule of City Contributions

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

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

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Individual Entry Age Normal Cost
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	15 years
Asset Valuation Method	Market Value with 5-Year Smoothing; 20% corridor
Inflation	Although not used in the calculation, the rate of price inflation is 2.5%
Salary Increases	3.25% to 13.25% including pay inflation
Investment Rate of Return	6.50%
Retirement Age	Age and experience-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2011 valuation.
Mortality	As of the September 30, 2016 valuation, RP2014 table with fully generational mortality using MP2016.

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
POSTEMPLOYMENT HEALTHCARE BENEFITS

Schedule of Funding Progress

(Dollars represented in thousands)

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

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

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

Schedule of Employer Contributions

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

OTHER SUPPLEMENTAL INFORMATION

**CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2016**

	<u>Special Revenue Funds</u>	<u>Permanent Funds Cemetery Trust Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 443,193	\$ 51,577	\$ 494,770
Investments	-	816,700	816,700
Receivables			
Accounts	81,156	-	81,156
Interest	-	-	-
Due from other funds	-	-	-
Due from other governmental units	-	-	-
Prepaid items	2,500	-	2,500
Inventory	<u>43,682</u>	<u>-</u>	<u>43,682</u>
 Total assets	 <u>\$ 570,531</u>	 <u>\$ 868,277</u>	 <u>\$ 1,438,808</u>
 LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 104,583	\$ -	\$ 104,583
Due to other funds	-	-	-
Accrued expenses	31,020	-	31,020
Unearned revenue	<u>69,737</u>	<u>-</u>	<u>69,737</u>
 Total liabilities	 205,340	 -	 205,340
 Fund Balance			
Nonspendable	46,182	-	46,182
Restricted	-	868,277	868,277
Committed	<u>319,009</u>	<u>-</u>	<u>319,009</u>
 Total fund balance	 <u>365,191</u>	 <u>868,277</u>	 <u>1,233,468</u>
 Total liabilities and fund balance	 <u>\$ 570,531</u>	 <u>\$ 868,277</u>	 <u>\$ 1,438,808</u>

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2016

	<u>Special Revenue Funds</u>	<u>Permanent Funds Cemetery Trust Fund</u>	<u>Total Non-Major, Governmental Funds</u>
Revenue			
License and permits	\$ 132,522	\$ -	\$ 132,522
State grants	-	-	-
Charges for services	1,027,720	5,995	1,033,715
Fines and forfeits	537	-	537
Investment income (loss)	-	6,194	6,194
Contributions	110,063	-	110,063
Other	<u>58,323</u>	<u>-</u>	<u>58,323</u>
Total revenue	1,329,165	12,189	1,341,354
Expenditures			
General government	262,062	-	262,062
Public safety	110,931	-	110,931
Public works	284,931	-	284,931
Recreation and cultural	1,197,083	-	1,197,083
Community development	222,004	-	222,004
Capital outlay	207,562	-	207,562
Debt service	<u>76,881</u>	<u>-</u>	<u>76,881</u>
Total expenditures	<u>2,361,454</u>	<u>-</u>	<u>2,361,454</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(1,032,289)	12,189	(1,020,100)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	994,535	-	994,535
Operating transfers out	<u>-</u>	<u>(30,770)</u>	<u>(30,770)</u>
Total other financing sources (uses)	<u>994,535</u>	<u>(30,770)</u>	<u>963,765</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(37,754)	(18,581)	(56,335)
FUND BALANCE – BEGINNING OF YEAR	<u>402,945</u>	<u>886,858</u>	<u>1,289,803</u>
FUND BALANCE – END OF YEAR	<u>\$ 365,191</u>	<u>\$ 868,277</u>	<u>\$ 1,233,468</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2016

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
ASSETS				
Cash and cash equivalents	\$ 164,458	\$ 8,829	\$ 15,807	\$ 11,143
Accounts receivables	-	-	7,776	-
Due from other funds	-	-	-	-
Due from other governmental units	-	-	-	-
Prepaid items	-	-	-	-
Inventory	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 164,458</u>	 <u>\$ 8,829</u>	 <u>\$ 23,583</u>	 <u>\$ 11,143</u>
 LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 1,695	\$ 2,050	\$ 8,453	\$ 60
Due to other funds	-	-	-	-
Accrued expenses	1,783	-	6,599	382
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total liabilities	 3,478	 2,050	 15,052	 442
 Fund Balance				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	<u>160,980</u>	<u>6,779</u>	<u>8,531</u>	<u>10,701</u>
 Total fund balance	 <u>160,980</u>	 <u>6,779</u>	 <u>8,531</u>	 <u>10,701</u>
 Total liabilities and fund balance	 <u>\$ 164,458</u>	 <u>\$ 8,829</u>	 <u>\$ 23,583</u>	 <u>\$ 11,143</u>

<u>Recreation Fund</u>	<u>Civic Auditorium Fund</u>	<u>Sturgis Arts Council Fund</u>	<u>Doyle Community Center Fund</u>	<u>Airport Fund</u>	<u>Combined Totals</u>
\$ 51,366	\$ 26,798	\$ 52,160	\$ 105,912	\$ 6,720	\$ 443,193
-	11,307	11,401	45,140	5,532	81,156
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,500	-	2,500
<u>-</u>	<u>19,851</u>	<u>-</u>	<u>-</u>	<u>23,831</u>	<u>43,682</u>
<u>\$ 51,366</u>	<u>\$ 57,956</u>	<u>\$ 63,561</u>	<u>\$ 153,552</u>	<u>\$ 36,083</u>	<u>\$ 570,531</u>
\$ 1,450	\$ 25,836	\$ 3,764	\$ 52,946	\$ 8,329	\$ 104,583
-	-	-	-	-	-
2,809	12,261	-	6,612	574	31,020
<u>-</u>	<u>-</u>	<u>1,257</u>	<u>68,480</u>	<u>-</u>	<u>69,737</u>
4,259	38,097	5,021	128,038	8,903	205,340
-	19,851	-	2,500	23,831	46,182
-	-	-	-	-	-
<u>47,107</u>	<u>8</u>	<u>58,540</u>	<u>23,014</u>	<u>3,349</u>	<u>319,009</u>
<u>47,107</u>	<u>19,859</u>	<u>58,540</u>	<u>25,514</u>	<u>27,180</u>	<u>365,191</u>
<u>\$ 51,366</u>	<u>\$ 57,956</u>	<u>\$ 63,561</u>	<u>\$ 153,552</u>	<u>\$ 36,083</u>	<u>\$ 570,531</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2016

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
Revenue				
License and permits	\$ 132,522	\$ -	\$ -	\$ -
State grants	-	-	-	-
Charges for services	-	16,548	77,875	-
Fines and forfeits	-	-	-	537
Contributions	-	-	-	-
Other	<u>184</u>	<u>20</u>	<u>10,690</u>	<u>6</u>
Total revenue	132,706	16,568	88,565	543
Expenditures				
General government	-	-	262,062	-
Public safety	97,387	-	-	13,544
Public works	-	-	-	-
Recreation and cultural	-	-	-	-
Community development	-	222,004	-	-
Capital outlay	-	-	24,576	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>97,387</u>	<u>222,004</u>	<u>286,638</u>	<u>13,544</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	35,319	(205,436)	(198,073)	(13,001)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	140,000	196,770	12,000
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>140,000</u>	<u>196,770</u>	<u>12,000</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	35,319	(65,436)	(1,303)	(1,001)
FUND BALANCE – BEGINNING OF YEAR	<u>125,661</u>	<u>72,215</u>	<u>9,834</u>	<u>11,702</u>
FUND BALANCE – END OF YEAR	<u>\$ 160,980</u>	<u>\$ 6,779</u>	<u>\$ 8,531</u>	<u>\$ 10,701</u>

<u>Recreation Fund</u>	<u>Civic Auditorium Fund</u>	<u>Sturgis Arts Council Fund</u>	<u>Doyle Community Center Fund</u>	<u>Airport Fund</u>	<u>Combined Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 132,522
-	-	-	-	-	-
64,456	297,798	33,206	369,039	168,798	1,027,720
-	-	-	-	-	537
11,500	-	42,986	55,577	-	110,063
<u>29</u>	<u>13,941</u>	<u>-</u>	<u>2,892</u>	<u>30,561</u>	<u>58,323</u>
75,985	311,739	76,192	427,508	199,359	1,329,165
-	-	-	-	-	262,062
-	-	-	-	-	110,931
-	-	-	-	284,931	284,931
177,959	543,990	73,930	401,204	-	1,197,083
-	-	-	-	-	222,004
-	64,768	-	52,108	66,110	207,562
<u>-</u>	<u>62,664</u>	<u>-</u>	<u>14,217</u>	<u>-</u>	<u>76,881</u>
<u>177,959</u>	<u>671,422</u>	<u>73,930</u>	<u>467,529</u>	<u>351,041</u>	<u>2,361,454</u>
(101,974)	(359,683)	2,262	(40,021)	(151,682)	(1,032,289)
105,000	360,765	-	35,000	145,000	994,535
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>105,000</u>	<u>360,765</u>	<u>-</u>	<u>35,000</u>	<u>145,000</u>	<u>994,535</u>
3,026	1,082	2,262	(5,021)	(6,682)	(37,754)
<u>44,081</u>	<u>18,777</u>	<u>56,278</u>	<u>30,535</u>	<u>33,862</u>	<u>402,945</u>
<u>\$ 47,107</u>	<u>\$ 19,859</u>	<u>\$ 58,540</u>	<u>\$ 25,514</u>	<u>\$ 27,180</u>	<u>\$ 365,191</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	<u>Motor Vehicle and Equipment Fund</u>	<u>Workers' Compensation Insurance Fund</u>	<u>Employee Benefit Fund</u>	<u>Combined Totals</u>
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 38,808	\$ 176,417	\$ 39,797	\$ 255,022
Investments	904,870	-	101,008	1,005,878
Receivables	-	-	43,538	43,538
Due from other funds	-	-	-	-
Prepaid items	-	100,758	253,811	354,569
Inventory	<u>3,063</u>	<u>-</u>	<u>-</u>	<u>3,063</u>
Total current assets	946,741	277,175	438,154	1,662,070
NONCURRENT ASSETS				
Capital assets, net of depreciation	<u>2,057,130</u>	<u>-</u>	<u>-</u>	<u>2,057,130</u>
Total assets	3,003,871	277,175	438,154	3,719,200
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	59,600	-	-	59,600
Accounts payable	49,240	23,368	375,439	448,047
Accrued expenses	1,921	-	-	1,921
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	110,761	23,368	375,439	509,568
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>662,459</u>	<u>-</u>	<u>-</u>	<u>662,459</u>
Total liabilities	773,220	23,368	375,439	1,172,027
NET POSITION				
Invested in capital assets, net of related debt	1,335,071	-	-	1,335,071
Unrestricted	<u>895,580</u>	<u>253,807</u>	<u>62,715</u>	<u>1,212,102</u>
Total net position	<u>\$2,230,651</u>	<u>\$ 253,807</u>	<u>\$ 62,715</u>	<u>\$ 2,547,173</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2016

	<u>Motor Vehicle and Equipment Fund</u>	<u>Workers' Compensation Insurance Fund</u>	<u>Employee Benefit Fund</u>	<u>Combined Totals</u>
OPERATING REVENUE				
Charges to other funds	\$ 969,514	\$ 171,659	\$1,526,890	\$ 2,668,063
Other revenues	<u>31,129</u>	<u>-</u>	<u>423,901</u>	<u>455,030</u>
Total operating revenue	1,000,643	171,659	1,950,791	3,123,093
OPERATING EXPENSES				
Operating and administrative	480,016	1,560	55,537	537,113
Insurance premiums and claims	-	140,797	1,938,063	2,078,860
Depreciation	<u>486,406</u>	<u>-</u>	<u>-</u>	<u>486,406</u>
Total operating expenses	<u>966,422</u>	<u>142,357</u>	<u>1,993,600</u>	<u>3,102,379</u>
OPERATING INCOME (LOSS)	34,221	29,302	(42,809)	20,714
NONOPERATING REVENUE (EXPENSE)				
Investment income	6,220	152	1,191	7,563
Gain (loss) on sale of fixed assets	24,000	-	-	24,000
Interest expense	<u>(12,528)</u>	<u>-</u>	<u>-</u>	<u>(12,528)</u>
Total nonoperating revenue (expense)	<u>17,692</u>	<u>152</u>	<u>1,191</u>	<u>19,035</u>
CHANGE IN NET POSITION	51,913	29,454	(41,618)	39,749
NET POSITION – BEGINNING OF YEAR	<u>2,178,738</u>	<u>224,353</u>	<u>104,333</u>	<u>2,507,424</u>
NET POSITION – END OF YEAR	<u>\$2,230,651</u>	<u>\$ 253,807</u>	<u>\$ 62,715</u>	<u>\$ 2,547,173</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2016

	<u>Motor Vehicle and Equipment Fund</u>	<u>Workers' Compensation Insurance Fund</u>	<u>Employee Benefit Fund</u>	<u>Combined Totals</u>
Cash flows from operating activities				
Receipts from customers	\$ 13,355	\$ -	\$ 384,785	\$ 398,140
Receipts for internal services provided	956,659	171,659	1,526,890	2,655,208
Payments to suppliers	(351,695)	(120,303)	(2,013,952)	(2,485,950)
Payments to employees	<u>(67,740)</u>	<u>-</u>	<u>-</u>	<u>(67,740)</u>
Net cash provided by (used for) operating activities	550,579	51,356	(102,277)	499,658
Cash flows from capital and related financing activities				
Acquisition of capital assets	(923,900)	-	-	(923,900)
Proceeds from sale of capital assets	24,000	-	-	24,000
Proceeds from long-term debt	519,334	-	-	519,334
Principal paid on debt	(36,893)	-	-	(36,893)
Interest paid on debt	<u>(12,528)</u>	<u>-</u>	<u>-</u>	<u>(12,528)</u>
Net cash provided by (used for) capital and related financing activities	(429,987)	-	-	(429,987)
Cash flows from investing activities				
Purchase of investments	(304,870)	-	(101,008)	(405,878)
Interest on investments	<u>6,220</u>	<u>152</u>	<u>1,191</u>	<u>7,563</u>
Net cash provided by investment activities	<u>(298,650)</u>	<u>152</u>	<u>(99,817)</u>	<u>(398,315)</u>
Net increase (decrease) in cash	(178,058)	51,508	(202,094)	(328,644)
Cash – Beginning of Year	<u>216,866</u>	<u>124,909</u>	<u>241,891</u>	<u>583,666</u>
Cash – End of Year	<u>\$ 38,808</u>	<u>\$ 176,417</u>	<u>\$ 39,797</u>	<u>\$ 255,022</u>

Continued on next page

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2016

	<u>Motor Vehicle and Equipment Fund</u>	<u>Workers' Compensation Insurance Fund</u>	<u>Employee Benefit Fund</u>	<u>Combined Totals</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ 34,221	\$ 29,302	\$ (42,809)	\$ 20,714
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	486,406	-	-	486,406
(Increase) decrease in				
Receivables	-	20,143	(39,116)	(18,973)
Due from other funds	-	-	-	-
Prepaid items	-	(1,457)	(77,046)	(78,503)
Inventory	655	-	-	655
Increase (decrease) in				
Accounts payable	27,692	3,368	56,694	87,754
Accrued expenses	1,605	-	-	1,605
Due to other funds	-	-	-	-
Net cash provided by (used for) operating activities	<u>\$ 550,579</u>	<u>\$ 51,356</u>	<u>\$ (102,277)</u>	<u>\$ 499,658</u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 DOWNTOWN DEVELOPMENT AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2016**

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 79,645
Accounts receivable	400
Due from governmental units	-
Prepaid assets	<u>2,460</u>
Total assets	<u><u>\$ 82,505</u></u>
 LIABILITIES	
Liabilities	
Accounts Payable	\$ 2,993
Customer deposits	<u>825</u>
Total liabilities	3,818
 DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	29,639
 FUND BALANCE	
Nonspendable	2,460
Restricted	<u>46,588</u>
Total fund balance	<u>49,048</u>
Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 82,505</u></u>

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

Total fund balance - governmental fund		\$ 49,048
Amounts reported for the governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		
Governmental capital assets	688,026	
Less accumulated depreciation	<u>(430,880)</u>	257,146
Certain liabilities are not due and payable in the current periods and therefore are not reported in the funds		
Note payable		<u>(128,059)</u>
Net position of governmental activities		<u><u>\$ 178,135</u></u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 DOWNTOWN DEVELOPMENT AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGE IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2016**

	<u>General</u>
REVENUE	
Captured property taxes	\$ 36,284
Charges for services	12,799
Interest	48
Rents	8,088
Other	1,675
Total revenues	58,894
EXPENDITURES	
Economic development	52,416
Debt service - principal	10,818
Debt service - interest	4,478
Total expenditures	67,712
EXCESS OF REVENUE OVER EXPENDITURES	(8,818)
FUND BALANCE – BEGINNING OF YEAR	57,866
FUND BALANCE – END OF YEAR	\$ 49,048

**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	\$ (8,818)
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Amounts reported for governmental activities in the statement of activities are different because:

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

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

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

Principal payments on debt obligations	10,818
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Change in net position of governmental activities	\$ (37,128)
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**CITY OF STURGIS
 COMPONENT UNIT FUND
 BROWNFIELD REDEVELOPMENT AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2016**

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 929,320
Accounts receivable	44,609
Total assets	\$ 973,929
LIABILITIES	
Accounts payable	\$ 773,065
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	44,609
FUND BALANCE	
Restricted	156,255
Total liabilities, deferred inflows of resources, and fund balance	\$ 973,929

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

Total fund balance - governmental fund	\$ 156,255
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	44,609
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Notes payable	(1,949,546)
Net position of governmental activities (deficit)	\$ (1,748,682)

**CITY OF STURGIS
 COMPONENT UNIT FUND
 BROWNFIELD REDEVELOPMENT AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2016**

	<u>General</u>
REVENUE	
Captured property taxes	\$ -
Other	-
Proceeds from long-term debt	1,700,000
Total revenues	1,700,000
EXPENDITURES	
Community development	1,510,410
Debt service - principal	29,155
Debt service - interest	4,180
Total expenditures	1,543,745
EXCESS OF REVENUES OVER EXPENDITURES	156,255
FUND BALANCE – BEGINNING OF YEAR	-
FUND BALANCE – END OF YEAR	\$ 156,255

**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	\$ 156,255
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	44,609
Proceeds from long-term debt is a revenue in the governmental funds, but is reported as a liability in the statement of net position	(1,700,000)
Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	29,155
Change in net position of governmental activities	\$ (1,469,981)

**CITY OF STURGIS
 COMPONENT UNIT FUND
 LOCAL DEVELOPMENT FINANCE AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2016**

	<u>General</u>
ASSETS	
Cash and cash equivalents	<u>\$ 28,500</u>
 LIABILITIES	
Accounts payable	\$ -
 DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	27,509
 FUND BALANCE	
Restricted	<u>991</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 28,500</u>

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

Total fund balance - governmental fund	\$ 991
Amounts reported for the governmental activities in the statement of net position are different because:	
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Note payable	<u>-</u>
Net position of governmental activities	<u>\$ 991</u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 LOCAL DEVELOPMENT FINANCE AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2016**

	<u>General</u>
REVENUE	
Captured property taxes	\$ 38,415
Interest	<u>9</u>
Total revenues	38,424
EXPENDITURES	
Debt service-principal	<u>37,456</u>
EXCESS OF REVENUE OVER EXPENDITURES	968
FUND BALANCE – BEGINNING OF YEAR	<u>23</u>
FUND BALANCE – END OF YEAR	<u><u>\$ 991</u></u>

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

Net change in fund balance - governmental fund	\$ 968
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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>37,456</u>
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Change in net position of governmental activities	<u><u>\$ 38,424</u></u>
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**CITY OF STURGIS
 COMPONENT UNIT FUND
 BUILDING AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2016**

	<u>General</u>
ASSETS	
Cash and cash equivalents	<u>\$ 1,819</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	\$ -
Fund Balance	
Restricted	<u>1,819</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 1,819</u>

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

Total fund balance - governmental fund	\$ 1,819
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Amounts reported for the governmental activities in the statement of net position are different because:

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

Lease receivable	8,855,000
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Certain assets are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	<u>(8,855,000)</u>
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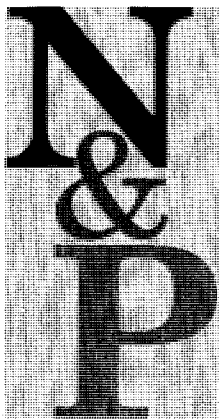
Net position of governmental activities	<u>\$ 1,819</u>
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**CITY OF STURGIS
 COMPONENT UNIT FUND
 BUILDING AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2016**

	<u>General</u>
REVENUE	
Lease income	\$ 628,512
Other	<u>-</u>
Total Revenues	628,512
EXPENDITURES	
Debt service - principal	300,000
Debt service - interest and other	<u>328,262</u>
Total Expenditures	<u>628,262</u>
EXCESS OF REVENUE OVER EXPENDITURES	250
FUND BALANCE – BEGINNING OF YEAR	<u>1,569</u>
FUND BALANCE – END OF YEAR	<u>\$ 1,819</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	\$ 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	(300,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	<u>300,000</u>
Change in net position of governmental activities	<u>\$ 250</u>



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

To the City Commission
City of Sturgis, Michigan

Norman & Paulsen, P.C.
Certified Public Accountants

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

123 N. Main Street
Three Rivers, MI 49093
269.273.8641
Fax 269.278.8252

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Sturgis as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Sturgis' basic financial statements and have issued our report thereon dated March 30, 2017.

Internal Control Over Financial Reporting

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

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

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

Bruce S. A. Gosling, CPA, CVA
Michael R. Wilson, CPA
Ricky L. Strawser, CPA

Compliance and Other Matters

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

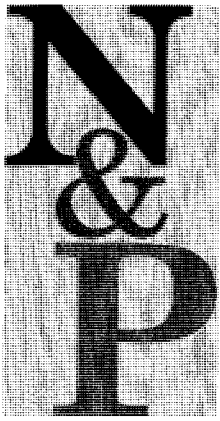
Purpose of the Report

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

March 30, 2017

Norman & Paulson, P.C.





AUDIT-RELATED COMMUNICATIONS

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

Norman & Paulsen, P.C.
Certified Public Accountants

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

We have audited the financial statements of the City of Sturgis, Michigan for the year ended September 30, 2016, and have issued our report thereon dated March 30, 2017. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated September 20, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 20, 2016.

Bruce S. A. Gosling, CPA, CVA
Michael R. Wilson, CPA
Ricky L. Strawser, CPA

Qualitative Aspects of Accounting Practices

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

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

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

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

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

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

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

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

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

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

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

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

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

No Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

No Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 30, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

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

Sincerely,

Norman & Paulsen, P.C.

March 30, 2017