CITY OF STURGIS, MICHIGAN

FINANCIAL REPORT

WITH SUPPLEMENTAL INFORMATION

SEPTEMBER 30, 2005

Michigan Deptartment of Treasury
496 (2-04)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type	Local Government Name	County
☑ City ☐ Township ☐ Village ☐ Other	City of Sturgis	St. Joseph

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
9/30/05	3/24/06	3/30/06

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
DEPT. OF TREASURY
APR 0 3 2006
LOCAL AUDIT & FINANCE DIV.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ Yes ☑ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ Yes ☑ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ Yes ☑ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ Yes ☑ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ Yes ☑ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ Yes ☑ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ Yes ☑ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ Yes ☑ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ Yes ☑ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✔
Reports on individual federal financial assistance programs (program audits).			✔
Single Audit Reports (ASLGU).			✔

Certified Public Accountant (Firm Name)			
Norman & Paulsen, PC			
Street Address	City	State	ZIP
127 W Chicago Road	Sturgis	MI	49091
Accountant Signature		Date	
CPA Michael R. Wilson		3/30/06	

CITY OF STURGIS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sturgis, Michigan, as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sturgis management. We did not audit the financial statements of the Sturgis Hospital Enterprise Fund, which is both a major fund and 30 percent, 29 percent, and 68 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Sturgis Hospital, is based on the report of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sturgis, Michigan, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and retirement system schedules of funding progress, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sturgis basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2006, on our consideration of the City of Sturgis internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

March 24, 2006

Norman & Paulson, P.C.

CITY OF STURGIS

MANAGEMENT' S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Sturgis financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

The City's overall financial position increased by $3,527,340 during the fiscal year ended September 30, 2005, which represents a 5.3 percent increase in net assets from $66,017,721 at the beginning of the year to $69,545,061 at the end of the year. Included in the City's total net assets are the Hospital Fund and the Electric Utility Fund. The Hospital's net assets increased by $2,011,489 to $16,984,543. The Electric Utility's net assets increased by $1,244,904 to $28,158,029.

The City's Governmental Funds reflected a total fund balance at September 30, 2005 of $3,689,861, which was an increase of $39,019 from the prior year end.

The City's property tax rate has remained at $10.82 per $1,000 of taxable valuation.

State revenue sharing continues to be cut by the State of Michigan. The decrease in State revenue sharing in the General Fund was $12,073 or 1 percent compared to the prior year.

The total Governmental Fund expenditures for the year ended September 30, 2005, amounted to $8,805,032, of which $3,559,380 (40 percent) was for public safety, $1,915,734 (22 percent) was for recreation and cultural, and $1,562,404 (18 percent) was for public works.

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 assets 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 assets 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	
	2005	2004	2005	2004
Assets	$ 7,719	$ 7,188	$ 87,215	$ 72,632
Liabilities	4,029	3,537	33,282	22,048
Fund Equity				
Invested in capital assets, net of related debt	-	-	24,180	29,610
Retained Earnings				
Restricted	-	-	6,398	1,915
Unreserved	-	-	23,355	19,059
Fund Balances				
Reserved	867	851	-	-
Unreserved	2,823	2,800	-	-
Total Fund Equity	$ 3,690	$ 3,651	$ 53,933	$ 50,584

CITY OF STURGIS

MANAGEMENT' S DISCUSSION AND ANALYSIS

The City' s governmental fund equity increased by 1.1 percent or $39,019 from a year ago. In contrast the prior years governmental fund equity decreased by 13.7 percent or $578,407.

The City' s enterprise fund equity increased by 6.6 percent or $3,348,957 from a year ago. In contrast the prior years enterprise fund equity increased by 9.2 percent or $4,269,684.

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

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2005	2004	2005	2004
Current and other assets	$ 8,640	$ 7,881	$ 38,103	$ 26,870
Capital assets	10,928	11,305	48,198	44,157
Total assets	19,568	19,186	86,301	71,027
Long-term debt outstanding	1,563	1,679	23,986	14,336
Other liabilities	3,382	3,024	7,392	5,157
Total liabilities	4,945	4,703	31,378	19,493
Net assets				
Invested in capital assets, net of related debt	10,107	10,415	25,305	30,850
Restricted	867	851	6,398	1,914
Unrestricted	3,649	3,217	23,220	18,770
Total net assets	$ 14,623	$ 14,483	$ 54,923	$ 51,534

CITY OF STURGIS

MANAGEMENT' S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets 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	
	2005	2004	2005	2004
Revenue				
Property taxes	$ 2,900	$ 2,803	$ -	$ -
In lieu of taxes	1,234	1,214	-	-
Special assessments	26	122	-	-
Licenses and permits	132	100	-	-
Grants	93	251	252	88
State shared revenues	1,932	1,932	-	-
Charges for services	1,085	972	59,651	57,587
Fines and forfeits	131	134	-	-
Interest income	392	257	332	188
Administrative reim.	833	791	-	-
Other	236	320	2,628	3,285
Loan proceeds	-	-	-	-
Total revenue	8,994	8,896	62,863	61,148
Program expenses				
General government	1,505	1,508	-	-
Public safety	3,559	3,483	-	-
Public works	1,562	2,020	-	-
Recreation and culture	1,916	2,157	-	-
Other	209	149	-	-
Capital outlay	154	111	-	-
Debt service	50	46	-	-
Hospital activity	-	-	37,389	36,533
Electric system	-	-	13,735	12,505
Sewer system	-	-	1,155	1,078
Water system	-	-	710	661
EMS/Ambulance activity	-	-	561	361
Economic Enhancement	-	-	433	105
Other	-	-	26	39
Loan loss provision	-	-	-	200
In lieu of taxes	-	-	1,234	1,205
Depreciation and amortization	-	-	3,628	3,561
Interest expense	-	-	643	630
Total expenses	8,955	9,474	59,514	56,878
Excess (Deficiency)	$ 39	$ (578)	$ 3,349	$ 4,270

CITY OF STURGIS

MANAGEMENT' S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net assets 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	
	2005	2004	2005	2004
Revenues				
Program revenues				
Charges for services	$ 1,977	$ 1,801	$ 60,224	$ 58,113
Operating grants and contributions	1,007	1,097	252	127
Capital grants and contributions	-	279	869	2,500
General revenues				
Property taxes	3,199	2,904	-	-
State shared revenues	1,111	1,123	-	-
Unrestricted investment earnings	394	259	334	193
Miscellaneous	110	100	1,034	198
Payments in lieu of taxes	1,234	1,214	-	-
Transfers	(150)	(55)	150	55
Total revenues	8,882	8,722	62,863	61,186
Expenses				
General government	1,110	1,556	-	-
Public safety	3,813	3,732	-	-
Public works	1,872	1,984	-	-
Recreation and cultural	1,853	2,085	-	-
Unallocated	59	94	-	-
Interest on long-term debt	36	41	-	-
Hospital services	-	-	38,422	37,502
Electric system	-	-	16,867	15,727
Sewer system	-	-	2,000	1,951
Water system	-	-	1,110	1,079
Other	-	-	1,076	741
Total expenses	8,743	9,492	59,475	57,000
Change in net assets	$ 139	$ (770)	$ 3,388	$ 4,186

Governmental Activities

For the year ended September 30, 2005, the net assets of governmental activities increased by $139,064 or 1 percent of beginning net assets. The net increase was primarily the result of a cost savings plan implemented during the year.

Business-Type Activities

For the year ended September 30, 2005, the net assets of business-type activities increased by $3,388,276 or 6.6 percent of beginning net assets. This decrease was comprised of the following by specific activity:

	Increase (Decrease)
Hospital services	$ 2,011,489
Electric system	1,244,904
Sewer system	86,200
Water system	141,492
Other	(95,809)
Total	$ 3,388,276

The Hospital's increase in net assets resulted from an operating income of approximately $760,000 and contributions for the construction project of $870,000.

The Electric system's increase in net assets of $1,244,904 is comparable to the prior year increase of $1,128,416.

The Sewer system's increase in net assets of $86,200 is comprised of a loss before capital contributions of $293,000 which is comparable to the prior year loss before capital contributions of $392,000.

The water system's increase in net assets of $141,492 is comprised of a profit before capital contributions of $53,000 compared to a prior year loss before capital contributions of $61,000.

Component Units

The City includes two other entities in its report - the Sturgis Downtown Development Authority and the Sturgis Housing Development Corporation. Although legally separate, these "component units" are important because the City is financially accountable for them.

The City' s Funds

Our analysis of the City's major funds begins on page 15, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended September 30, 2005 include the General Fund, Major Street Fund, and Local Street 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 primary services provided are the construction and maintenance of major and local streets.

General Fund Budgetary Highlights

As shown in the required supplemental information, the City budgeted an increase of $558 in the original budget and a deficit of $109,252 in the amended budget. Actual operating results ended up as a increase in fund balance of $69,271.

The original budget was amended for:

Decrease in legislative expenditures	$ 30,000
Increase in general governmental expenditures	65,545
Increase in public safety expenditures	128,000
Decrease in public works expenditures	17,800
Increase in capital outlay expenditures	50,000

The significant budget-to-actual differences are as follows:

General governmental expenditures were under the budgeted amount due to a cost savings plan implemented during the year.

The public safety expenditures were over the budgeted amount due to overtime wages in the fire department being higher than anticipated.

Capital Assets and Debt Administration

During the year ended September 30, 2005, the total capital assets of the City increased by $8,405,000. Additional detail relating to the asset additions follows:

The Hospital capital assets increased by $6,697,000 of which $6,690,000 was financed with additional debt.

The Electric Utility System capital assets increased by $1,213,000, which was all financed internally.

The Sewer Utility System capital assets increased by $154,000, which was all financed internally.

The Water Utility System capital assets increased by $32,000, which was all financed internally.

The Motor Vehicle and Equipment Fund capital assets increased by $155,000 which was financed with built up reserves.

Governmental Fund capital assets increased by $154,000 which was financed internally.

During the year ended September 30, 2005, the total debt obligations of the City increased by additional borrowings of $11,070,000 and decreased by principal payments of $1,554,000. Total debt obligations at September 30, 2005, amounted to $23,713,000. Included in the additional debt borrowings was $10,995,000 for the Hospital expansion project.

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 $22,883,000 which is significantly in excess of the City's outstanding general obligation debt.

Economic Factors and Next Year's Budgets and Rates

The City Commission has adopted a conservative budget for 2005-2006 wishing to retain current fund balance in all governmental funds.

Beginning with the fiscal year ending September 30, 2006, the City Commission has dedicated 1 mill of the 10.82 operating mills for street programs.

The City Commission have reviewed the results and recommendations of a Water and Sewer Utility System rate structure survey and have approved an annual increase in water and sewer rates of 8 percent for each of the next three years in addition to an annual inflation increase.

The City Commission has approved an Electric Utility System rate increase of 7 percent to offset the increase in electric power supply costs.

The economic position of the Hospital is closely tied to that of the local economy. Because of limited economic growth and increased demand for resources where reimbursement is limited by federal and state mandates, the Hospital continues to look at cost containment measures. However, the Board of Trustees approved an average increase of 3 percent in the charge structure for the upcoming fiscal year.

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 Controller' s office.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF STURGIS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

	Primary Government			
	Governmental Activities	Business Type Activities	Total	Component Units
ASSETS				
Cash and investments	$ 7,225,963	$ 16,854,672	$24,080,635	$ 196,672
Receivables, net	638,882	8,112,042	8,750,924	-
Receivables, long-term portion	688,696	1,523,912	2,212,608	-
Internal balances	(8,975)	8,975	-	-
Due from component units	31,454	-	31,454	-
Inventories, prepaid items and other assets	64,931	3,163,515	3,228,446	1,000
Restricted assets	-	8,440,199	8,440,199	-
Capital assets - net	10,927,541	48,197,503	59,125,044	258,336
Total assets	19,568,492	86,300,818	105,869,310	456,008
LIABILITIES				
Accounts payable	283,751	4,614,693	4,898,444	1,912
Accrued and other liabilities	223,823	2,777,188	3,001,011	3,260
Due to primary government	-	-	-	31,454
Deferred revenue	2,874,893	-	2,874,893	-
Debt obligations:				
Due within one year	70,382	1,185,658	1,256,040	-
Due in more than one year	749,889	21,707,160	22,457,049	-
Compensated absences	743,208	1,093,604	1,836,812	-
Total liabilities	4,945,946	31,378,303	36,324,249	36,626
NET ASSETS				
Invested in capital assets, net of related debt	10,107,270	25,304,685	35,411,955	258,336
Restricted:				
Debt service	-	1,533,137	1,533,137	-
Endowments	866,739	-	866,739	-
Other purposes	-	4,865,290	4,865,290	-
Unrestricted	3,648,537	23,219,403	26,867,940	161,046
Total net assets	$ 14,622,546	$ 54,922,515	$69,545,061	$ 419,382

See accompanying notes to the financial statements

CITY OF STURGIS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 1,109,685	$ 817,560	$ -	$ -
Public safety	3,813,350	149,001	23,660	-
Public works	1,872,264	-	889,817	-
Recreation and cultural	1,852,740	926,487	93,067	-
Unallocated	58,562	84,139	-	-
Interest on long-term debt	36,497	-	-	-
Total governmental activities	8,743,098	1,977,187	1,006,544	-
Business-type activities:				
Hospital	38,422,263	39,067,843	-	281,128
Electric	16,867,219	17,803,268	-	-
Sanitary sewer	1,999,586	1,616,569	-	466,697
Water	1,109,782	1,117,163	-	120,876
Other	1,076,427	619,527	252,272	-
Total business-type activities	59,475,277	60,224,370	252,272	868,701
Total primary government	$68,218,375	$62,201,557	$ 1,258,816	$ 868,701
Component units				
Downtown Development Authority	$ 87,871	$ 16,136	$ 660	$ -
Housing Development Corporation	117,328	53,546	55,296	-
Total component units	$ 205,199	$ 69,682	$ 55,956	$ -

General revenues:
- Property taxes
- State shared revenues
- Unrestricted investment earnings
- Miscellaneous

Payments in lieu of taxes
Transfers

Total general revenues and transfers

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Units
$ (292,125)	$ -	$ (292,125)	$ -
(3,640,689)	-	(3,640,689)	-
(982,447)	-	(982,447)	-
(833,186)	-	(833,186)	-
25,577	-	25,577	-
(36,497)	-	(36,497)	-
(5,759,367)	-	(5,759,367)	-
-	926,708	926,708	-
-	936,049	936,049	-
-	83,680	83,680	-
-	128,257	128,257	-
-	(204,628)	(204,628)	-
-	1,870,066	1,870,066	-
(5,759,367)	1,870,066	(3,889,301)	$ -
			$ (71,075)
			(8,486)
			(79,561)
3,199,916	-	3,199,916	120,897
1,111,211	-	1,111,211	-
393,843	334,272	728,115	-
109,013	1,034,438	1,143,451	-
1,233,948	-	1,233,948	-
(149,500)	149,500	-	-
5,898,431	1,518,210	7,416,641	120,897
139,064	3,388,276	3,527,340	41,336
14,483,482	51,534,239	66,017,721	378,046
$ 14,622,546	$ 54,922,515	$69,545,061	$ 419,382

FUND FINANCIAL STATEMENTS

CITY OF STURGIS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2005

	General Fund	Major Street Fund	Local Street Fund
ASSETS			
Cash and cash equivalents	$ 4,185,816	$ 159,606	$ 653,476
Investments	-	-	4,892
Receivables			
Accounts	13,317	-	-
Property taxes	391,470	-	-
Special assessments	42,223	22,912	623,561
Interest	-	-	-
Due from other funds	-	-	-
Due from component unit	-	-	-
Due from other governmental units	28,697	114,889	32,738
Prepaid expenses	-	-	-
Inventory	-	-	-
Total assets	$ 4,661,523	$ 297,407	$ 1,314,667
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	$ 183,443	$ 5,422	$ 1,661
Due to other funds	-	-	-
Accrued expenses	157,550	7,426	5,085
Deferred revenue	2,789,167	22,912	623,561
Total liabilities	3,130,160	35,760	630,307
FUND BALANCE			
Reserved for endowments	-	-	-
Unreserved, undesignated	1,531,363	261,647	684,360
Total fund balance	1,531,363	261,647	684,360
Total liabilities and fund balance	$ 4,661,523	$ 297,407	$ 1,314,667

See accompanying notes to the financial statements

Other Governmental Funds	Total Governmental Funds
$ 708,910	$ 5,707,808
587,139	592,031
17,842	31,159
-	391,470
-	688,696
7,963	7,963
-	-
31,454	31,454
31,966	208,290
48,077	48,077
11,607	11,607
$ 1,444,958	$ 7,718,555
$ 52,601	$ 243,127
-	-
51,917	221,978
127,949	3,563,589
232,467	4,028,694
866,739	866,739
345,752	2,823,122
1,212,491	3,689,861
$ 1,444,958	$ 7,718,555

CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2005

Total governmental fund balances		$ 3,689,861
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	$ 12,840,301	
Less accumulated depreciation	(2,885,802)	9,954,499
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay current expenditures. Those assets are offset by deferred revenues in the governmental funds and, therefore, not included in fund balance.		
Deferred special assessments		688,696
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Notes payable		(292,806)
Compensated absences		(743,208)
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 assets of the internal service funds		1,325,504
Net assets of governmental activities		$ 14,622,546

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, 2005

	General Fund	Major Street Fund	Local Street Fund
REVENUE			
Taxes	$ 3,891,113	$ -	$ 242,532
Special assessments	12,003	-	14,330
Licenses and permits	50,459	-	-
Federal grants	-	67,791	-
State grants	23,660	1,528	-
State shared revenue	1,095,584	616,182	204,316
Charges for services	46,580	-	-
Fines and forfeits	48,073	-	-
Interest income	360,104	-	2,203
Administrative reimbursement	833,460	-	-
Other	68,441	10	587
Total revenue	6,429,477	685,511	463,968
EXPENDITURES			
Legislative	31,782	-	-
General government	1,186,255	-	-
Public safety	3,409,581	-	-
Public works	420,437	660,786	481,181
Health and welfare	58,562	-	-
Recreation and cultural	-	-	-
Capital outlay	140,175	-	-
Debt services			
Principal	35,590	-	-
Interest	14,324	-	-
Total expenditures	5,296,706	660,786	481,181
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	1,132,771	24,725	(17,213)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	(1,063,500)	-	-
Total other financing sources (uses)	(1,063,500)	-	-
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	69,271	24,725	(17,213)
FUND BALANCE - BEGINNING OF YEAR	1,462,092	236,922	701,573
FUND BALANCE - END OF YEAR	$ 1,531,363	$ 261,647	$ 684,360

See accompanying notes to the financial statements

Other Governmental Funds	Total Governmental Funds
$ -	$ 4,133,645
-	26,333
81,214	131,673
-	67,791
-	25,188
15,627	1,931,709
1,038,448	1,085,028
82,747	130,820
29,340	391,647
-	833,460
167,219	236,257
1,414,595	8,993,551
-	31,782
287,458	1,473,713
149,799	3,559,380
-	1,562,404
-	58,562
1,915,734	1,915,734
13,368	153,543
-	35,590
-	14,324
2,366,359	8,805,032
(951,764)	188,519
945,415	945,415
(31,415)	(1,094,915)
914,000	(149,500)
(37,764)	39,019
1,250,255	3,650,842
$ 1,212,491	$ 3,689,861

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, 2005

Net change in fund balances - total governmental funds	$ 39,019
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	153,544
Depreciation expense	(440,285)
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 special assessments	273,886
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 principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of assets.	
Proceeds from installment loan	-
Principal payments on debt obligations	35,590
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 the accrual for compensated absences	45,302
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	32,008
Change in net assets of governmental activities	$ 139,064

See accompanying notes to the financial statements

CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

ASSETS	Hospital Fund	Electric Fund
CURRENT ASSETS		
Cash and equivalents	$ 2,996,040	$ 165,228
Investments	6,187,807	5,445,832
Receivables		
Notes - Current portion	-	-
Accounts	5,184,033	1,952,068
Interest	-	145,665
Grants	-	-
Contribution	-	-
Inventory	-	414,740
Due from other funds	-	1,216,428
Advances due from other funds	-	103,627
Other current assets	1,232,955	7,331
Total current assets	15,600,835	9,450,919
NONCURRENT ASSETS		
Unamortized bond costs	542,781	140,473
Restricted assets	6,907,062	1,533,137
Notes receivable	-	-
Special assessments	-	648,350
Advances due from other funds	-	605,813
Other assets	101,305	386,019
Capital assets, net of depreciation	13,498,215	22,624,462
Total noncurrent assets	21,049,363	25,938,254
Total assets	36,650,198	35,389,173

Continued on next page

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
$ -	$ 248,880	$ 1,140,365	$ 4,550,513	$ 1,579,968
-	-	-	11,633,639	16,676
-	-	8,273	8,273	-
220,775	190,143	355,022	7,902,041	-
-	-	-	145,665	-
-	-	56,063	56,063	-
-	-	-	-	-
95,326	40,335	-	550,401	7,495
-	-	-	1,216,428	215,133
-	-	30,000	133,627	-
-	-	-	1,240,286	-
316,101	479,358	1,589,723	27,436,936	1,819,272
-	-	-	683,254	-
-	-	-	8,440,199	-
-	-	165,560	165,560	-
375,911	334,091	-	1,358,352	-
-	-	57,200	663,013	-
-	-	200,000	687,324	-
7,977,367	3,523,795	156,646	47,780,485	1,390,060
8,353,278	3,857,886	579,406	59,778,187	1,390,060
8,669,379	4,337,244	2,169,129	87,215,123	3,209,332

CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS - Continued
SEPTEMBER 30, 2005

	Hospital Fund	Electric Fund
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 168,281	$ 430,000
Accounts payable	3,355,077	1,098,848
Accrued expenses	2,402,029	304,356
Customer deposits	-	112,940
Due to other funds	-	-
Advances due to other funds	133,627	-
Cost report settlements	1,000,000	-
Total current liabilities	7,059,014	1,946,144
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	11,943,628	5,285,000
Advances due to other funds	663,013	-
Total noncurrent liabilities	12,606,641	5,285,000
Total liabilities	19,665,655	7,231,144
NET ASSETS		
Invested in capital asets, net of related debt	589,666	16,909,462
Restricted	4,865,290	1,533,137
Unrestricted	11,529,587	9,715,430
Total net assets	$ 16,984,543	$ 28,158,029

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
$ 275,000	$ 180,000	$ 101,234	$ 1,154,515	$ 91,500
33,895	34,693	7,298	4,529,811	125,505
24,614	9,546	16,216	2,756,761	2,635
-	300	-	113,240	-
933,190	-	348,371	1,281,561	150,000
-	-	-	133,627	-
-	-	-	1,000,000	-
1,266,699	224,539	473,119	10,969,515	369,640
3,475,000	600,000	345,795	21,649,423	524,845
-	-	-	663,013	-
3,475,000	600,000	345,795	22,312,436	524,845
4,741,699	824,539	818,914	33,281,951	894,485
4,227,367	2,743,795	(290,383)	24,179,907	773,715
-	-	-	6,398,427	-
(299,687)	768,910	1,640,598	23,354,838	1,541,132
$ 3,927,680	$ 3,512,705	$ 1,350,215	$ 53,933,172	$ 2,314,847

CITY OF STURGIS
RECONCILIATION OF NET ASSETS ON THE STATEMENT OF NET ASSETS FOR ENTERPRISE FUNDS TO NET ASSETS OF BUSINESS-TYPE ACTIVITIES ON THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

Net assets - total enterprise funds	$ 53,933,172
Amounts reported for business-type activities in the statement of net assets are different because:	
Internal service funds are used by management to charge the costs 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.	
Add - cumulative portion of internal service funds net operating profit attributed to business-type funds	989,343
Net assets of business-type activities	$ 54,922,515

See accompanying notes to the financial statements

CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2005

	Hospital Fund	Electric Fund
OPERATING REVENUE		
Charges for services	$ 38,714,842	$ 17,601,978
Federal grants	-	-
State grants	-	-
Interest revenue	-	-
Other	353,001	201,290
Total operating revenue	39,067,843	17,803,268
OPERATING EXPENSES		
Purchased power	-	9,852,867
Material, maintenance and other	23,653,686	2,119,957
General and administrative	13,735,268	1,761,863
Payments in lieu of taxes	-	1,042,080
Depreciation and amortization	922,048	1,744,874
Provision for loan losses	-	-
Total operating expenses	38,311,002	16,521,641
OPERATING INCOME (LOSS)	756,841	1,281,627
NONOPERATING REVENUE (EXPENSES)		
Investment income	168,578	162,578
Interest expense	(111,241)	(382,657)
Gain on sale of assets	320,903	-
Other	595,280	103,356
Total non-operating revenue (expenses)	973,520	(116,723)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,730,361	1,164,904
CAPITAL CONTRIBUTIONS	281,128	-
TRANSFERS IN	-	80,000
CHANGE IN NET ASSETS	2,011,489	1,244,904
NET ASSETS - BEGINNING OF YEAR	14,973,054	26,913,125
NET ASSETS - ENDING OF YEAR	$ 16,984,543	$ 28,158,029

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
$ 1,615,375	$ 1,103,484	$ 615,236	$ 59,650,915	$ 2,472,999
-	-	24,078	24,078	-
-	-	228,194	228,194	-
-	-	4,291	4,291	-
1,194	13,679	-	569,164	188,620
1,616,569	1,117,163	871,799	60,476,642	2,661,619
-	-	-	9,852,867	-
831,666	394,896	876,818	27,877,023	1,817,643
322,869	314,881	142,481	16,277,362	460,542
106,284	85,584	-	1,233,948	-
648,317	268,306	44,756	3,628,301	284,887
-	-	-	-	-
1,909,136	1,063,667	1,064,055	58,869,501	2,563,072
(292,567)	53,496	(192,256)	1,607,141	98,547
356	500	-	332,012	4,455
(90,450)	(46,115)	(12,372)	(642,835)	(31,675)
-	-	-	320,903	-
2,164	12,735	-	713,535	-
(87,930)	(32,880)	(12,372)	723,615	(27,220)
(380,497)	20,616	(204,628)	2,330,756	71,327
466,697	120,876	-	868,701	-
-	-	69,500	149,500	-
86,200	141,492	(135,128)	3,348,957	71,327
3,841,480	3,371,213	1,485,343	50,584,215	2,243,520
$ 3,927,680	$ 3,512,705	$ 1,350,215	$ 53,933,172	$ 2,314,847

CITY OF STURGIS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS OF ENTERPRISE FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2005

Changes in net assets - total enterprise funds	$ 3,348,957
Amounts reported for business-type activities in the statement of activities are different because:	
Internal service funds are used by management to charge the costs 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.	
Add - net change from internal service funds related to enterprise funds	39,319
Change in net assets of business-type activities	$ 3,388,276

See accompanying notes to the financial statements

CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2005

	Hospital Fund	Electric Fund
Cash flows from operating activities		
Receipts from customers and users	$ 37,985,073	$ 17,626,315
Receipts from operating grants	-	-
Net loans (made) collected	-	-
Receipts for internal services	-	-
Interest received on loans	-	-
Other operating revenue	353,001	201,290
Payments to employees and suppliers	(37,211,433)	(16,540,628)
Net cash provided by (used for) operating activities	1,126,641	1,286,977
Cash flows from non-capital financing activities		
Contributions and other receipts	2,781,128	151,534
Transfers in	-	80,000
Net cash provided by non-capital financing activities	2,781,128	231,534
Cash flows from capital and related financing activities		
Principal paid on debt	(178,576)	(6,455,000)
Interest paid on debt	(111,241)	(343,754)
Receipts from interfund advances	-	98,873
Payments against interfund advances	(128,873)	-
Customer deposits	-	15,350
Acquisition of capital assets	(4,627,033)	(1,212,923)
Proceeds from sale of capital assets	330,155	-
Receipts from capital grants/contributions	595,280	-
Proceeds from issuance of debt	10,519,725	5,839,227
Net cash provided by (used for) capital and related financing activities	6,399,437	(2,058,227)
Cash flows from investing activities		
Interest received on investments	168,578	61,653
Purchase of investments	(7,971,248)	(34,883)
Proceeds from maturity of investments-	-	-
Other	-	-
Net cash provided by (used for) investing activities	(7,802,670)	26,770
Net increase (decrease) in cash	2,504,536	(512,946)
Cash - beginning of year	2,561,687	678,174
Cash - ending of year	$ 5,066,223	$ 165,228

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
$ 1,602,215	$ 1,047,561	$ 591,105	$58,852,269	$ 188,620
-	-	221,209	221,209	-
-	-	336,167	336,167	-
-	-	-	-	2,777,731
-	-	6,509	6,509	-
1,194	13,679	-	569,164	-
(1,475,527)	(750,196)	(997,183)	(56,974,967)	(2,246,603)
127,882	311,044	157,807	3,010,351	719,748
2,164	12,735	-	2,947,561	-
-	-	69,500	149,500	-
2,164	12,735	69,500	3,097,061	-
(270,000)	(170,000)	(82,233)	(7,155,809)	(87,507)
(90,450)	(46,115)	(12,372)	(603,932)	(31,675)
-	-	30,000	128,873	-
-	-	-	(128,873)	-
-	-	-	15,350	-
(154,127)	(31,825)	-	(6,025,908)	(154,621)
-	-	-	330,155	-
384,175	1,293	-	980,748	-
-	-	-	16,358,952	-
(130,402)	(246,647)	(64,605)	3,899,556	(273,803)
356	500	-	231,087	7,553
-	-	-	(8,006,131)	-
-	-	-	-	128,294
-	-	-	-	-
356	500	-	(7,775,044)	135,847
-	77,632	162,702	2,231,924	581,792
-	171,248	977,663	4,388,772	998,176
$ -	$ 248,880	$ 1,140,365	$ 6,620,696	$ 1,579,968

CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2005

	Hospital Fund	Electric Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	$ 756,841	$ 1,281,627
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	922,048	1,744,874
Provision for bad debts	2,010,886	-
Provision for loan losses	-	-
Loss on disposal of assets	-	-
(Increase) decrease in:		
Accounts receivable	(2,740,655)	24,337
Loans receivable	-	-
Interest receivable	-	-
Grants receivable	-	-
Inventory	-	114,364
Due from other funds	-	(1,216,428)
Cost report settlements	-	-
Other current assets	(59,350)	(7,331)
Increase (decrease) in:		
Accounts payable	(270,287)	(27,926)
Accrued expenses	407,158	(221,542)
Due to other funds	-	(404,998)
Cost report settlements	100,000	-
Net cash provided by (used for) operating activities	$ 1,126,641	$ 1,286,977

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
$ (292,567)	$ 53,496	$ (192,256)	$ 1,607,141	$ 98,547
648,317	268,306	44,756	3,628,301	284,887
-	-	-	2,010,886	-
-	-	-	-	-
-	-	-	-	-
(13,160)	(25,291)	(24,131)	(2,778,900)	-
-	-	336,167	336,167	-
-	-	2,218	2,218	-
-	-	(31,063)	(31,063)	-
(10,424)	7,200	-	111,140	(2,681)
-	-	-	(1,216,428)	154,732
-	-	-	-	-
-	-	-	(66,681)	-
(11,840)	17,896	(6,709)	(298,866)	33,431
13,088	4,437	4,744	207,885	832
(205,532)	(15,000)	24,081	(601,449)	150,000
-	-	-	100,000	-
$ 127,882	$ 311,044	$ 157,807	$ 3,010,351	$ 719,748

CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2005

	Pension Trust Fund	Agency Fund	Combining Totals
ASSETS			
Cash and cash equivalents	$ 4,579,405	$ 645,638	$ 5,225,043
Investments	45,962,407	-	45,962,407
Accounts receivable	94,126	-	94,126
Dividends and interest receivable	114,677	-	114,677
Total assets	50,750,615	645,638	51,396,253
LIABILITIES			
Accounts payable	42,667	-	42,667
Due to other governmental units	-	619,070	619,070
Other liabilities	-	26,568	26,568
Total liabilities	42,667	645,638	688,305
NET ASSETS			
Held in trust for pension benefits	$ 50,707,948	$ -	$ 50,707,948

See accompanying notes to the financial statements

CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED SEPTEMBER 30, 2005

ADDITIONS	
Contributions:	
Employer	$ 1,958,797
Investment income:	
Net appreciation (depreciation) in fair value of investments	4,025,655
Interest and dividends	1,141,524
Total investment income	5,167,179
Total additions	7,125,976
DEDUCTIONS	
Benefits	1,860,814
Administrative expense	356,175
Total deductions	2,216,989
Net increase	4,908,987
Net assets held in trust for pension benefits	
Beginning of year	45,798,961
End of year	$ 50,707,948

See accompanying notes to the financial statements

COMPONENT UNITS FINANCIAL STATEMENTS

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

	Downtown Development Authority	Sturgis Housing Development Corporation	Combined Totals
ASSETS			
Cash and cash equivalents	$ 166,218	$ 30,454	$ 196,672
Other asset	-	1,000	1,000
Capital assets			
Other capital assets, net of depreciation	258,336	-	258,336
Total assets	424,554	31,454	456,008
LIABILITIES			
Accounts payable	1,912	-	1,912
Accrued expenses	1,750	-	1,750
Other liabilities	1,510	-	1,510
Due to primary government	-	31,454	31,454
Total liabilities	5,172	31,454	36,626
NET ASSETS			
Invested in capital assets	258,336	-	258,336
Unrestricted	161,046	-	161,046
Total net assets	$ 419,382	$ -	$ 419,382

See accompanying notes to the financial statements

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2005

		Program Revenues		Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Downtown Development Authority	Sturgis Housing Development Corporation	Combining Totals
Downtown Development Authority-economic development	$ 87,871	$ 16,136	$ 660	$ (71,075)	$ -	$ (71,075)
Housing Development Corporation	117,328	53,546	55,296	-	(8,486)	(8,486)
Total discretely presented component units	$ 205,199	$ 69,682	$ 55,956	(71,075)	(8,486)	(79,561)
		General revenues				
		Property taxes		120,897	-	120,897
		Change in net assets		49,822	(8,486)	41,336
		Net assets - beginning of year		369,560	8,486	378,046
		Net assets - end of year		$ 419,382	$ -	$ 419,382

See accompanying notes to the financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Sturgis conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to cities. GAAP includes all relevant Governmental Accounting Standards Board(GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the City are discussed below.

Reporting Entity

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.

As required by generally accepted accounting principles, GASB 14, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Sturgis Hospital is a short-term acute care facility providing in-patient, out-patient, and home health care services to the Sturgis, Michigan area. The Hospital is a component unit of the City of Sturgis. The Hospital's governing body is selected by the Mayor with City Commission approval. In addition, the Hospital's budget, rates, and charges are subject to approval by the City Commission. The Hospital Fund is included as a part of the primary government because it is not legally separate from the City.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Discretely Presented Component Units - The component units' columns in the government-wide financial statements include the financial data of the City's other component units. These units are reported in a separate column to emphasize that they are legally separate from the City.

a. The Downtown Development Authority was created 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.

b. The Sturgis Housing Development Corporation was created for the purpose of the development of residential, commercial, and industrial real estate, including development in accordance with guidelines and financial assistance provided by the Michigan State Housing Development Authority. The City of Sturgis is the sole owner of the Corporation, with ultimate control and supervision.

Basis of Accounting - Government-Wide Financial Statements - The statement of net assets 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

* Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

* 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.

Enterprise Funds

Hospital Fund - To account for user charges and for operating expenses and debt service of the City's patient care facility.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 May 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 May 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

* 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 2005, the general fund and special revenue fund budgets were amended to reflect actual expenditures that were higher than originally budgeted.

* All budget appropriations lapse at the end of the year.

* Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

Deposits and Investments - 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.

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

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

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on July 1 of the following year and are payable from the date of levy through August 15. Taxes levied on July 1 are recorded as receivables and deferred 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 $11.909 per $1,000 of state equalized valuation for general governmental purposes. The tax rate to finance City services for the year ended September 30, 2005, was $10.82 per $1,000 of taxable valuation. The 2004 taxable value of the City was $228,832,002.

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:

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

GASB 34 requires major networks and major subsystems of infrastructure acquired, donated, constructed or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The City has capitalized the current year's infrastructure as required by GASB 34, and has reported the infrastructure in the statement of net assets. The City will retroactively capitalize the major infrastructure assets on or before September 30, 2007, as permitted by GASB 34.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences - City employees are granted vacation and sick leave in varying amounts based on length of serice and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The City follows the accounting and reporting principles outlined in GASB 16, with regard to employee vacation and sick leave. 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, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

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.

Cash Overdrafts - To facilitate cash management and to maximize interest income, the primary government and component units have pooled certain cash and investment accounts. Cash overdrafts represent a deficit position in the pooled account and have been classified as amounts due to other funds.

Fund Equity - In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Reserves exist for prepaid expenditures and inventories as those items will be expended in subsequent years. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

NOTE 2 - DEPOSITS AND INVESTMENTS

The City's deposits and investments are included on the balance sheet under the following classifications:

	Primary Government	Component Units	Total
Statement of Net Assets:			
Cash and investments	$ 24,080,635	$ 196,672	$ 24,277,307
Restricted assets	8,440,199	-	8,440,199
Statement of Fiduciary Net Assets:			
Cash and equivalents	5,225,043	-	5,225,043
Investments	45,962,407	-	45,962,407
Total	$ 83,708,284	$ 196,672	$ 83,904,956

Deposits and Investments:	
Bank deposits (checking accounts, savings accounts, and CDs)	$ 7,578,987
Investments in securities, mutual funds, annuity contract, and similar vehicles	76,311,974
Cash on hand	13,995
Total	$ 83,904,956

Deposits - The deposits of the City were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately $10,160,600. Of that amount, approximately $996,295 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The federal depository insurance coverage pertains to all deposits of the City; hence, the specific coverage pertaining to component unit deposits, if any, is not determinable.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution it deposits City Funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

Investments - Investments of the primary government and component units are categorized below to give an indication of the level of risk assumed by the entity at year-end:

* Category 1 includes investments that are insured or registered, or for which the securities are held by the entity or its agent in the entity's name.

* Category 2 includes uninsured and unregistered investments, for which the securities are held by the counterparty's trust department or agent in the entity's name.

* Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the entity's name.

	Category 1	Category 2	Category 3	Carrying Amount
Corporate bonds	$ -	$ 6,719,804	$ -	$ 6,719,804
Common stock	-	27,195,340	-	27,195,340
US gov. securities	-	27,330,851	-	27,330,851
Annuity contract	-	2,107,889	-	2,107,889
	$ -	$63,353,884	$ -	63,353,884
Mutual and cash management funds (uncategorized as to risk)				12,958,090
Total investments				$76,311,974

The composition of pension trust fund investments at fair value at September 30, 2005 follows:

Corporate bonds	$ 6,713,534
Common stocks	27,195,340
US gov. securities	12,053,533
Total investments	$45,962,407

Investments of the City, including the pension investment portfolio, utilizes no derivative instruments.

NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 35 percent special assessments, 20.1 percent property tax, 29.8 percent due from other governments, 14.8 percent accounts receivable, and 0.2 percent accrued interest. Business-type activities receivables are 65.3 percent due from customers, 18.3 percent contribution receivable, 4.7 percent loans, 0.2 percent grants receivable, 11 percent special assessments, and 0.4 percent accrued interest.

Accounts receivable of the Hospital Fund are reported net of an allowance for uncollectible accounts of $1,203,000 and net of an allowance for contractual adjustments and interim payment advances of $3,210,000. The Hospital provides services without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows: Medicare - 26%, Medicaid - 10%, Blue Cross - 12%, Other commercial payors - 25%, Patients - self pay - 27%.

Accounts receivable of the Electric Fund are reported net of an allowance for uncollectible accounts of $100,000.

Accounts receivable of the EMS/Ambulance Fund are reported net of an allowance for uncollectible accounts of $165,050.

Loans receivable of the Economic Development Fund are reported net of an allowance for uncollectible loans of $650,000. During the fiscal year ended September 30, 2005, the provision for loan losses amounted to $-0-.

Governmental funds report deferred 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 deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Property taxes levied and collected for next fiscal years operation (general fund)	$ -	$2,744,465	$2,744,465
Special assessments not yet due (General, major and local street funds)	688,696	-	688,696
Customer deposits for future services/events (general and special revenue funds)	-	130,428	130,428
	$ 688,696	$2,874,893	$3,563,589

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at September 30, 2005:

Fund/ Component Unit	Receivable	Fund/ Component Unit	Payable
Due from/to other funds			
Electric	$1,216,428	Sewer	$ 868,057
		EMS/Ambulance	348,371
	1,216,428		1,216,428
Workers' Compensation Self-Insurance	215,133	Employee Benefit	150,000
		Sewer	65,133
	215,133		215,133
Totals	$1,431,561		$1,431,561
Advances from/to other funds			
Electric	$ 709,440	Hospital	$ 709,440
Grobhiser Building	87,200	Hospital	87,200
Totals	$ 796,640		$ 796,640
Total Primary Government	$2,228,201		$2,228,201
Due from/to Component Units			
Primary government - Housing Department	31,454	Component Unit - Housing Development Corporation	31,454
Total Reporting Entity	$2,259,655		$2,259,655

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

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

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

Transfers consisted of the following for the year ended September 30, 2005:

Fund	Transfers Out	Fund	Transfers In
General	$ 1,063,500	Building Department	$ 30,000
		Housing Department	10,000
		Cemetery	100,000
		Parks and Recreation	334,000
		Civic Auditorium	220,000
		Library	220,000
		Electric	80,000
		Economic Enhancement	69,500
	1,063,500		1,063,500
Cemetery Trust	31,415	Cemetery	31,415
Total Primary Government	$ 1,094,915		$ 1,094,915

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

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2005, was as follows:

	Balance October 1, 2004	Additions	Disposals	Balance September 30, 2005
Primary Government				
Governmental activities				
Capital assets, not being depreciated:				
Land	$ 566,260	$ -	$ -	$ 566,260
Capital assets, being depreciated:				
Infrastructure	364,761	-	-	364,761
Land improvements	3,682,338	-	-	3,682,338
Buildings and improvements	6,908,797	-	-	6,908,797
Machinery and equipment	1,307,767	185,934	-	1,493,701
Vehicles	2,344,631	75,845	-	2,420,476
Office furniture and equipment	467,580	-	-	467,580
Subtotal	15,075,874	261,779	-	15,337,653
Accumulated depreciation				
Infrastructure	12,160	24,320	-	36,480
Land improvements	493,393	57,870	-	551,263
Buildings and improvements	965,444	172,720	-	1,138,164
Machinery and equipment	1,050,311	155,460	-	1,205,771
Vehicles	1,435,575	200,071	-	1,635,646
Office furniture and equipment	379,783	29,265	-	409,048
Subtotal	4,336,666	639,706	-	4,976,372
Net capital assets being depreciated	10,739,208			10,361,281
Net capital assets	$11,305,468			$10,927,541

NOTE 5 - CAPITAL ASSETS - Continued

	Balance October 1, 2004	Additions	Disposals/ Transfers	Balance Sept. 30, 2005
Business-Type activities				
Capital assets, not being depreciated:				
Land	$ 457,970	$ -	$ -	$ 457,970
Construction in progress	418,762	5,667,565	(108,102)	5,978,225
Subtotal	876,732	5,667,565	(108,102)	6,436,195
Capital assets, being depreciated:				
Land improvements	837,621	-	-	837,621
Buildings, improvements and system	86,383,542	1,058,682	-	87,442,224
Machinery and equipment	1,744,387	43,882	-	1,788,269
Vehicles	1,201,825	32,505	-	1,234,330
Office furniture and equipment	13,939,495	1,061,923	(59,000)	14,942,418
Subtotal	104,106,870	2,196,992	(59,000)	106,244,862
Accumulated depreciation				
Land improvements	449,602	13,178	-	462,780
Buildings, improvements and system	46,808,175	2,882,211	-	49,690,386
Machinery and equipment	1,038,283	167,215	-	1,205,498
Vehicles	634,945	100,406	-	735,351
Office furniture and equipment	11,895,902	543,385	(49,748)	12,389,539
Subtotal	60,826,907	3,706,395	(49,748)	64,483,554
Net capital assets being depreciated	43,279,963			41,761,308
Net capital assets	$44,156,695			$48,197,503

NOTE 5 - CAPITAL ASSETS - Continued

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

Governmental activities:		Business-type activities:	
General government	$ 102,630	Hospital	$ 914,676
Public safety	249,386	Electric	1,800,906
Public works	115,170	Sanitary Sewer	669,135
Recreation and cultural	172,520	Water	276,922
		EMS/Ambulance	44,756
Total	$ 639,706	Total	$ 3,706,395

Discretely Presented Component Units

	Balance October 1, 2004	Additions	Disposals	Balance September 30, 2005
Capital assets, being depreciated				
Buildings and improvements	$ 302,700	$ -	$ -	$ 302,700
Accumulated depreciation				
Buildings and improvements	29,229	15,135	-	44,364
Net capital assets being depreciated	$ 273,471	$ 15,135	$ -	$ 258,336

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

Downtown Development Authority	$ 15,135

NOTE 6 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended September 30, 2005:

	Balance October 1, 2004	Additions	Reductions	Balance September 30, 2005	Current Portion
Governmental Activities					
Loans payable	$ 890,192	$ -	$ 69,921	$ 820,271	$ 70,382
Compensated absences	788,510	-	45,302	743,208	-
	1,678,702	-	115,223	1,563,479	70,382
Business-Type Activities					
Revenue bonds	11,545,000	16,720,000	6,925,000	21,340,000	915,000
Loans payable	1,580,959	-	186,161	1,394,798	186,552
Capital leases	180,967	74,877	97,824	158,020	84,106
Compensated absences	1,028,584	65,020	-	1,096,604	-
	14,335,510	16,859,897	7,208,985	23,986,422	1,185,658
Total Primary Government Long-Term Debt	$16,014,212	$16,859,897	$ 7,324,208	$25,549,901	$ 1,256,040

Long-term debt payables at September 30, 2005, consisted of the following individual issues:

Governmental Activities

Note payable to Century Bank and Trust in the amount of $648,000, monthly payment of $5,089 including interest at 4.895%, final payment due February, 2017, secured by Fire Truck with a net book value of $486,000	$ 527,465
Note payable to Century Bank and Trust in the amount of $375,000, monthly payment of $3,840 including interest at 4.24%, final payment due March 15, 2013, secured by certain building	292,806
Long-term compensated absences	743,208
Total Governmental Activities Long-Term Liabilities	$ 1,563,479

NOTE 6 - LONG-TERM DEBT - Continued

Business-Type Activities

$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	$ 5,715,000
$2,290,000 1994 Water Supply and Distribution system revenue bonds, payable in semi-annual installments ranging from $140,000 to $210,000, plus interest at 3.3% to 5.5%, final payment due April, 2009	780,000
$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	3,750,000
$360,000 1993 Grobhiser Building revenue sharing bonds, payable in semi-annual installments ranging from$25,000 to $35,000, plus interest at 2.9% to 5.9%, final payment due May, 2008	100,000
Sturgis Building Authority MI Building Authority Bonds, Series 2004 Bonds, payable annually beginning October 1, 2006 and ending October 1, 2034, ranging from $125,000 to $725,000, including interest paid semiannually with rates ranging from 3.75% to 4.75%, are collateralized by Hospital assets	10,000,000
Sturgis Building Authority MI Building Authority Bonds, Series 2005 Bonds, payable annually beginning October 1, 2006 and ending October 1, 2034, ranging from $15,000 to $60,000, including interest paid semiannually with rates ranging from 4.25% to 4.80%, are collateralized by Hospital assets	995,000
Note payable to Citizens bank in the amount of $261,745, monthly payment of $4,843 including interest at 4.19%, final payment due May, 2007, secured by two utility vehicles with a net book value of $160,230	88,880

NOTE 6 - LONG-TERM DEBT - Continued

Note payable to Citizens Bank in the amount of $49,661, monthly payment of $885 including interest at 2.68%, final payment due March 12, 2009, secured by ambulance with a net book value of $34,763	34,648
Note payable to Citizens Bank in the amount of $147,322, monthly payment of $2,626 including interest at 2.68%, final payment due March 11, 2009, secured by (2) ambulances with a net book value of $103,126	102,785
Note payble to Citizens Bank in the amount of $26,797, monthly payment of $775 including interest at 2.67%, final payment due March 11, 2007, secured by (2) defibrillators with a net book value of $18,758	15,152
Note payble to Michigan Economic Development Corporation, non-interest bearing, no specific repayment terms	194,444
Memorial Health System note bears interest at prime rate as of January 1 of the Hospital's fiscal year or 4.50%, payable in monthly installments of $4,333 plus interest. The note is secured by certain buildings and is due in full in January, 2009.	429,000
Century Bank and Trust building loan bears interest at 5.15%, payable in monthly installments of $1,843, including interest, secured by certain buildings and due in full in August, 2018.	208,370
Century Bank and Trust equipment loan bears interest at 4.5%, payable in monthly installments of $177, including interest, secured by certain equipment and due in full in June, 2013.	13,727
Century Bank and Trust R & F loan bears interest at 4.2%, payable in monthly installments of $2,459, including interest, secured by certain equipment and due in full in June 2019	307,792

NOTE 6 - LONG-TERM DEBT - Continued

Various capital lease obligations on Sturgis Hospital's books with monthly payments totaling $10,252 plus imputed interest of 4% to 7.62% for the year ended September 30, 2005, collateralized by Hospital equipment	158,020
Long-Term Compensated Absences	1,093,604
Total Business-Type Activities Long-Term Liabilities	23,986,422
Total Primary Government Long-Term Debt	$ 25,549,901

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2005 (excluding compensated absences), including both principal and interest, are as follows:

	Governmental Activities		
	Principal	Interest	Total
2006	$ 70,382	$ 36,766	$ 107,148
2007	73,383	33,765	107,148
2008	76,812	30,336	107,148
2009	80,404	26,744	107,148
2010	84,185	22,963	107,148
2011-2015	358,174	62,366	420,540
2016-2020	76,931	9,582	86,513
Total	$ 820,271	$ 222,522	$ 1,042,793

	Business-Type Activities		
	Principal	Interest	Total
2006	$ 1,185,658	$ 884,677	$ 2,070,335
2007	1,253,100	922,500	2,175,600
2008	1,234,178	867,545	2,101,723
2009	1,186,849	816,204	2,003,053
2010	956,825	765,505	1,722,330
2011-2015	5,803,965	2,968,671	8,772,636
2016-2020	3,036,891	2,126,681	5,163,572
2021-2025	1,970,908	1,698,890	3,669,798
2026-2030	2,575,000	1,205,829	3,780,829
2031-2034	3,495,000	512,122	4,007,122
Unscheduled	194,444	-	194,444
Total	$ 22,892,818	$ 12,768,624	$ 35,661,442

NOTE 7 - ADVANCES DUE TO OTHER FUNDS

At September 30, 2005, the Sturgis Hospital Fund reflected advances due to the following funds:

Electric Fund

Payable in monthly installments of $2,247, plus interest at 6%, due in full September 30, 2023.	$ 485,448
Payable in monthly installments of $7,333, including interest at 6%, due in full June, 2008.	223,992
Total Electric Fund	709,440

Grobhiser Building Fund

Payable in monthly installments of $6,402, including interest at rates of 5.5% to 5.9%, due in full April, 2008.	87,200
Total Advances Due to Other Funds	$ 796,640

NOTE 8 - NOTES RECEIVABLE

At September 30, 2005, the Economic Development Fund reflected the following notes receivable:

Note receivable from Grav-I-Flo Company collectible in monthly installments of $1,833 plus interest at 6.5%, final collection due August, 2009.	$ 100,833
Note receivable from Sturgis Machining, Inc. currently in default	650,000
Note receivable from Miksani Polymer Tech. LLC, collectible in monthly installments of $1,100 including interest at the Wall Street Journal prime rate plus 0.75%, final collection due September, 2012	73,000
Subtotal	823,833
Less: Allowance for uncollectible note from Sturgis Machining, Inc.	650,000
Total notes receivable	$ 173,833

NOTE 9 - 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. The City management believes it is more economical to manage its risk of loss for claims arising from workers' compensation for all employees internally and, accordingly, has set aside assets for claim settlements in an internal service fund. The Hospital has purchased commercial insurance for malpractice and general liability claims, and participates with the City for claims relating to workers' compensation. The Hospital is self-insured for employee medical benefit claims.

During the year ended September 30, 2005, a total of $92,930 was incurred in workers' compensation claims and related administrative costs. An excess coverage insurance policy covers individual claims in excess of $250,000 and aggregate claims exceeding $500,000 to a limit of $5,000,000.

Changes in the Workers' Compensation Self-Insurance Fund claims liability for the year ended September 30, 2005, was as follows:

Claims liability October 1	$ 20,000
Current year claims and changes in estimates	92,930
Claim payments	92,930
Claims liability September 30	$ 20,000

For all eligible City employees, the City purchases commercial health care insurance. Maximum insurance coverage is $5,000,000 annually for specific claims. Health care insurance premiums are accounted for in the Employee Benefit Fund. The City is self-insured for some minor employee medical benefits which totaled $159,779 in 2005 and are reported in the Employee Benefit Fund.

NOTE 9 - RISK MANAGEMENT - Continued

Changes in the Employee Benefit Fund self-insured claims liability for the year ended September 30, 2005, was as follows:

Claims liability October 1	$ 50,000
Current year claims and changes in estimates	159,779
Claim payments	159,779
Claims liability September 30	$ 50,000

The Hospital is self-insured for employee medical benefit claims. Changes in the estimated liability, which was included in the Hospital Fund accrued expenses, for the year ended September 30, 2005, was as follows:

Claims liability October 1	$ 400,000
Current year claims and changes in estimates	3,586,886
Claim payments	(3,586,886)
Claims liability September 30	$ 400,000

The Hospital is insured against potential professional liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital must pay a deductible towards the costs of litigation or settling any asserted claims. In addition, the Hospital (the City of Sturgis) bears the risk of the ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

NOTE 10 - 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 employees of the City of Sturgis, including Hospital employees, who normally work 1000 hours or more a year. The system provides retirement, disability and death benefits to plan members and their beneficiaries. At December 31, 2004, the date of the most recent actuarial valuation, membership consisted of 173 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 473 current active employees. The plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings. There are no employee contributions.

Annual Pension Cost

For the year ended September 30, 2005, the City's annual pension cost of $1,958,797 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7% investment rate of return, (b) projected salary increases of 4.5 to 17.5 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a five year period. The assets as of the valuation date exceed the accrued liabilities for all divisions. Due to this excess, a credit has been taken against the normal cost. The credit amortizes the over funding using a rolling 11-year period. The changes in liability due to recent and future benefit and assumption changes are funded over a 22-year amortization period.

NOTE 10 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS
(DECEMBER 31, 2004)

Eligibility	Amount
REGULAR RETIREMENT (no reduction factor for age)	
General and Electrical Union: Any age with 25 years of service	Total service multiplied by:
General, Electrical and Hospital: Age 60 with 10 year of service or 65 with 5 years of service.	General, - the sum of (a) 1.2% of the first $4,200 of final average compensation (FAC) and (b) 1.7% of FAC in excess of $4,200. Electrical - 1.8% of FAC Hospital - 1.8% of FAC
Police, Fire and Dispatchers: Any age with 25 years of service, or age 55 with 10 years of service, or at age 60 with 5 years.	Dispatchers - 2.5% of FAC until age 62, then same as General. Police and Fire 2.5% of FAC.
Type of final average compensation - Fire: Highest 3 consecutive years out of last five. Others: Highest 5 consecutive years out of last 10	
DEFERRED RETIREMENT	
Electrical, Non-Union and Hospital: 5 years of service. Other: 10 years of service. Benefit begins at normal retirement age.	Computed as a regular retirement But based upon service and final average compensation at termination date.
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.

NOTE 10 - DEFINED BENEFIT PENSION PLAN - Continued

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.
NON-DUTY DISABILITY RETIREMENT	
10 years of service.	Computed as a regular retirement. Maximum Amount - Final average compensation less Social Security amount, if any.
DUTY DISABILITY RETIREMENT	
No age or service requirements.	Computed as regular retirement. Upon attaining age 65 and termination of 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.
MEMBER CONTRIBUTIONS	
Electrical, Police, Fire, Dispatchers	½ of the cost associated with certain benefit changes. (¼ for police and dispatchers)
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. This benefit is subject to earlier termination in the event the regular pension benefits terminate before the expiration of the 15 year period.

NOTE 10 - DEFINED BENEFIT PENSION PLAN - Continued

The following is three-year trend information for the City of Sturgis Employees' Retirement System:

	Actuarial Valuation December 31, 2004	2003	2002
Annual Pension Cost (APC)	$ 1,437,413	$ 1,101,164	$ 720,630
Percentage of APC contributed	94%	94%	88%
Actuarial value of assets	45,968,634	45,375,025	45,002,373
Actuarial accrued liability (entry age)	47,243,463	45,635,562	41,198,313
(Under) Overfunded actuarial accrued liability	(1,274,829)	(260,537)	3,804,060
Funded ratio	97%	99%	109%
Covered payroll	19,515,461	19,158,737	17,553,599
(Under) Overfunded actuarial accrued liability as a percentage of covered payroll	(6%)	(1%)	22%

GASB 25 required supplementary information is present after the Notes to the Financial Statements. The following information relates to the GASB 25 disclosure:

Actuarial cost method - individual entry age normal cost
Amortization method - level percent of payroll, open and closed periods
Remaining amortization period as of December 31, 2004:
- Liabilities created by plan, assumption, or method changes-19 years closed

- All other liabilities - 11 years open
Asset valuation method - market value with 5 year smoothing
Principal actuarial assumptions (last revised for the 12/31/97 valuation):
- Net investment return* - 7.0%
- Projected salary increases* - 4.5% to 17.5%
- Cost of living adjustments - none

* includes pay inflation at 4.5%

NOTE 11 - POST-EMPLOYMENT HEALTH CARE BENEFITS

The City provides certain health care benefits for retirees, as per the union contracts and the requirements of a local ordinance. Substantially all of the City's full-time employees may become eligible for those 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, 66 retirees are eligible for and receive benefits. The cost of retiree health insurance coverage is recognized as an expense of the Employee Benefits Fund. For the fiscal year ended September 30, 2005, those costs totaled approximately $380,000.

The Hospital provides certain health care benefits for retirees. Substantially all of the Hospital's employees may become eligible for those benefits if they reach normal retirement age while working for the Hospital. Currently, 71 retirees meet those eligibility requirements. The Hospital is self-insured for retirees' medical benefit claims. The hospital's net cost for providing retirees' health care benefits was $431,564 (after retirees' contributions of $83,837) for the year ended September 30, 2005.

NOTE 12 - 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, 2005, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

NONE

NOTE 13 - 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 Hospital has agreements with Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs to provide reimbursement to the Hospital at amounts different from its established rates. Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect of the accompanying financial statements.

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

The Hospital (The City of Sturgis) has been named a defendant in several malpractice suits. At this time, it is premature to evaluate the likely outcomes, amount of settlements, if any, or whether they could exceed the insurance coverage. Management intends to vigorously defend these suits and does not expect any unfavorable impacts. Accordingly, an accrual has been made in the amount of $37,174 in these financial statements for the deductible potentially payable by the Hospital on these malpractice suits.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	$ 3,870,372	$3,870,372	$3,891,113	$ 20,741
Special assessments	-	-	12,003	12,003
Licenses and permits	55,500	55,500	50,459	(5,041)
State grants	3,600	3,600	23,660	20,060
State shared revenue	998,181	1,095,584	1,095,584	-
Charges for services	41,750	41,750	46,580	4,830
Fines and forfeits	37,500	37,500	48,073	10,573
Interest income	348,500	348,500	360,104	11,604
Administrative reimbursement	766,128	807,460	833,460	26,000
Other	76,837	76,837	68,441	(8,396)
Total revenue	6,198,368	6,337,103	6,429,477	92,374
EXPENDITURES				
Legislative	75,000	45,000	31,782	13,218
General government	1,241,966	1,307,511	1,186,255	121,256
Public safety	3,236,647	3,364,647	3,409,581	(44,934)
Public works	429,012	411,212	420,437	(9,225)
Health and welfare	46,500	46,500	58,562	(12,062)
Capital outlay	93,085	143,085	140,175	2,910
Debt services				
Principal	35,590	35,590	35,590	-
Interest	10,510	14,310	14,324	(14)
Total expenditures	5,168,310	5,367,855	5,296,706	71,149
EXCESS OF REVENUE OVER EXPENDITURES	1,030,058	969,248	1,132,771	163,523
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(1,029,500)	(1,078,500)	(1,063,500)	15,000
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	558	(109,252)	69,271	178,523
FUND BALANCE - BEGINNING OF YEAR	1,462,092	1,462,092	1,462,092	-
FUND BALANCE - END OF YEAR	$ 1,462,650	$1,352,840	$1,531,363	$ 178,523

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
State grants	$ -	$ -	$ 1,528	$ 1,528
Federal grants	70,000	70,000	67,791	(2,209)
State shared revenue	644,023	644,023	616,182	(27,841)
Other	4,000	4,000	10	(3,990)
Total revenue	718,023	718,023	685,511	(32,512)
EXPENDITURES				
Public works	897,617	667,617	660,786	6,831
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(179,594)	50,406	24,725	(25,681)
OTHER FINANCING (USES)				
Operating transfers out	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES AND OTHER USES	(179,594)	50,406	24,725	(25,681)
FUND BALANCE - BEGINNING OF YEAR	236,922	236,922	236,922	-
FUND BALANCE - END OF YEAR	$ 57,328	$ 287,328	$ 261,647	$ (25,681)

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	$ 235,000	$ 235,000	$ 242,532	$ 7,532
Special assessments	15,000	15,000	14,330	(670)
State shared revenue	207,463	207,463	204,316	(3,147)
Interest income	8,000	8,000	2,203	(5,797)
Other	-	-	587	587
Total revenue	465,463	465,463	463,968	(1,495)
EXPENDITURES				
Public works	926,878	528,552	481,181	47,371
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(461,415)	(63,089)	(17,213)	45,876
OTHER FINANCING SOURCES				
Operating transfers in	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	(461,415)	(63,089)	(17,213)	45,876
FUND BALANCE - BEGINNING OF YEAR	701,573	701,573	701,573	-
FUND BALANCE - END OF YEAR	$ 240,158	$ 638,484	$ 684,360	$ 45,876

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
EMPLOYEE RETIREMENT SYSTEM

Schedule of Funding Progress
(Dollars represented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
12/31/95*	$29,121	$ 26,133	$ (2,988)	111.4%	$11,237	-26.6%
12/31/96*	32,663	28,121	(4,542)	116.2%	13,114	-34.6%
12/31/97#	35,079	29,451	(5,627)	119.1%	13,686	-41.1%
12/31/98	37,873	30,846	(7,026)	122.8%	15,422	-45.6%
12/31/99	40,865	33,326	(7,539)	122.6%	16,648	-45.3%
12/31/00	43,131	34,925	(8,207)	123.5%	16,590	-49.5%
12/31/01	44,778	38,728	(6,051)	115.6%	17,471	-34.6%
12/31/02	45,002	41,198	(3,804)	109.2%	17,554	-21.7%
12/31/03#	45,375	45,636	261	99.4%	19,158	1.4%
12/31/04#	45,969	47,243	1,275	97.3%	19,515	6.5%

* plan amended # certain assumptions revised

Schedule of Employer Contributions

Year ended December 31	Annual Required Contribution	Percentage Contributed
1995	1,100,376	103.6%
1996	1,206,595	88.6%
1997	1,099,179	103.6%
1998	1,037,458	96.6%
1999	770,526	97.8%
2000	713,005	107.6%
2001	733,760	94.1%
2002	720,630	88.1%
2003	1,101,164	93.9%
2004	1,437,413	94.8%

For information regarding contribution percentage rates, assumptions, amortization method, etc., see Note 10 on pages 56, 57, 58, and 59.

OTHER SUPPLEMENTAL INFORMATION

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2005

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	$ 412,848	$ 296,062	$ 708,910
Investments	-	587,139	587,139
Receivables			
Accounts	16,562	1,280	17,842
Special assessments	-	-	-
Interest	350	7,613	7,963
Due from other funds	-	-	-
Due from component unit	31,454	-	31,454
Due from other governmental units	31,966	-	31,966
Prepaid expenses	48,077	-	48,077
Inventory	11,607	-	11,607
Total assets	$ 552,864	$ 892,094	$ 1,444,958
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	$ 52,601	$ -	$ 52,601
Due to other funds	-	-	-
Accrued expenses	51,917	-	51,917
Deferred revenue	127,949	-	127,949
Total liabilities	232,467	-	232,467
Fund Balance			
Reserved for endowments	-	866,739	866,739
Unreserved, undesignated	320,397	25,355	345,752
Total fund balance	320,397	892,094	1,212,491
Total liabilities and fund balance	$ 552,864	$ 892,094	$ 1,444,958

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2005

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
Revenue			
License and permits	$ 81,214	$ -	$ 81,214
State shared revenue	15,627	-	15,627
State grants	-	-	-
Charges for services	1,020,158	18,290	1,038,448
Fines and forfeits	82,747	-	82,747
Interest income	946	28,394	29,340
Other	167,219	-	167,219
Total revenue	1,367,911	46,684	1,414,595
Expenditures			
General government	287,458	-	287,458
Public safety	149,799	-	149,799
Recreation and cultural	1,915,734	-	1,915,734
Capital outlay	13,368	-	13,368
Total expenditures	2,366,359	-	2,366,359
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(998,448)	46,684	(951,764)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	945,415	-	945,415
Operating transfers out	-	(31,415)	(31,415)
Total other financing sources (uses)	945,415	(31,415)	914,000
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(53,033)	15,269	(37,764)
FUND BALANCE - BEGINNING OF YEAR	373,430	876,825	1,250,255
FUND BALANCE - END OF YEAR	$ 320,397	$ 892,094	$ 1,212,491

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2005

	Building Department Fund	Housing Department Fund	Cemetery Fund	Drug Enforcement Fund
ASSETS				
Cash and cash equivalents	$ 25,926	$ 45,705	$ 76,426	$ 29,283
Receivables				
Accounts	45	-	3,715	-
Interest	-	-	-	-
Due from other funds	-	-	-	-
Due from component unit	-	31,454	-	-
Due from other governmental units	-	-	-	-
Prepaid expenses	-	-	-	-
Inventory	-	-	-	-
Total assets	$ 25,971	$ 77,159	$ 80,141	$ 29,283
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	$ 164	$ 2,011	$ 1,355	$ 3,739
Due to other funds	-	-	-	-
Accrued expenses	3,382	815	7,481	169
Deferred revenue	-	-	-	-
Total liabilities	3,546	2,826	8,836	3,908
Fund Balance				
Unreserved, undesignated	22,425	74,333	71,305	25,375
Total liabilities and fund balance	$ 25,971	$ 77,159	$ 80,141	$ 29,283

Parks and Recreation Fund	Civic Auditorium Fund	Sturgis Arts Council Fund	Library Fund	Doyle Community Center Fund	Combined Totals
$ 4,370	$ 59,249	$ 62,183	$ 58,761	$ 50,945	$ 412,848
-	12,802	-	-	-	16,562
-	-	-	350	-	350
-	-	-	-	-	-
-	-	-	-	-	31,454
24,157	-	-	7,809	-	31,966
-	-	48,077	-	-	48,077
-	11,133	-	-	474	11,607
$ 28,527	$ 83,184	$ 110,260	$ 66,920	$ 51,419	$ 552,864
$ 5,098	$ 18,109	$ 219	$ 15,084	$ 6,822	$ 52,601
-	-	-	-	-	-
9,982	12,573	1,219	6,933	9,363	51,917
-	32,570	66,316	-	29,063	127,949
15,080	63,252	67,754	22,017	45,248	232,467
13,447	19,932	42,506	44,903	6,171	320,397
$ 28,527	$ 83,184	$ 110,260	$ 66,920	$ 51,419	$ 552,864

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2005

	Building Department Fund	Housing Department Fund	Cemetery Fund	Drug Enforcement Fund
Revenue				
License and permits	$ 81,214	$ -	$ -	$ -
State shared revenue	-	-	-	-
State grants	-	-	-	-
Charges for services	-	-	93,671	-
Fines and forfeits	-	-	-	8,236
Interest income	-	-	-	-
Other	-	-	7,711	13,222
Total revenue	81,214	-	101,382	21,458
Expenditures				
General government	-	45,436	242,022	-
Public safety	112,651	-	-	37,148
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	112,651	45,436	242,022	37,148
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	(31,437)	(45,436)	(140,640)	(15,690)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	30,000	10,000	131,415	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	30,000	10,000	131,415	-
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(1,437)	(35,436)	(9,225)	(15,690)
FUND BALANCE - BEGINNING OF YEAR	23,862	109,769	80,530	41,065
FUND BALANCE - END OF YEAR	$ 22,425	$ 74,333	$ 71,305	$ 25,375

Parks and Recreation Fund	Civic Auditorium Fund	Sturgis Arts Council Fund	Library Fund	Doyle Community Center Fund	Combined Totals
$ -	$ -	$ -	$ -	$ -	$ 81,214
-	-	-	15,627	-	15,627
-	-	-	-	-	-
85,522	424,323	74,690	10,388	331,564	1,020,158
-	-	-	74,511	-	82,747
-	-	-	946	-	946
22,871	16,059	56,700	14,289	36,367	167,219
108,393	440,382	131,390	115,761	367,931	1,367,911
-	-	-	-	-	287,458
-	-	-	-	-	149,799
430,084	642,801	143,974	307,523	391,352	1,915,734
-	4,015	-	9,353	-	13,368
430,084	646,816	143,974	316,876	391,352	2,366,359
(321,691)	(206,434)	(12,584)	(201,115)	(23,421)	(998,448)
334,000	220,000	-	220,000	-	945,415
-	-	-	-	-	-
334,000	220,000	-	220,000	-	945,415
12,309	13,566	(12,584)	18,885	(23,421)	(53,033)
1,138	6,366	55,090	26,018	29,592	373,430
$ 13,447	$ 19,932	$ 42,506	$ 44,903	$ 6,171	$ 320,397

CITY OF STURGIS
NON-MAJOR PERMANENT FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2005

	Cemetery Trust Fund	Hospital Trust Fund	Combined Totals
ASSETS			
Cash and cash equivalents	$ 244,707	$ 51,355	$ 296,062
Investments	587,139	-	587,139
Receivables			
Accounts	1,280	-	1,280
Interest	7,613	-	7,613
Due from other funds	-	-	-
Total assets	$ 840,739	$ 51,355	$ 892,094
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	$ -	$ -	$ -
Due to other funds	-	-	-
Due to other governmental units	-	-	-
Due to others	-	-	-
Total liabilities	-	-	-
Fund Balance			
Reserved for endowments	840,739	26,000	866,739
Unreserved, undesignated	-	25,355	25,355
Total fund balance	840,739	51,355	892,094
Total liabilities and fund balance	$ 840,739	$ 51,355	$ 892,094

CITY OF STURGIS
NON-MAJOR PERMANENT FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2005

	Cemetery Trust Fund	Hospital Trust Fund	Combined Totals
Revenue			
Charges for services	$ 18,290	$ -	$ 18,290
Investment income	28,466	(72)	28,394
Total revenue	46,756	(72)	46,684
Expenditures			
General government	-	-	-
EXCESS OF REVENUE OVER EXPENDITURES	46,756	(72)	46,684
OTHER FINANCING SOURCES (USES)			
Operating transfers out	(31,415)	-	(31,415)
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	15,341	(72)	15,269
FUND BALANCE - BEGINNING OF YEAR	825,398	51,427	876,825
FUND BALANCE - END OF YEAR	$ 840,739	$ 51,355	$ 892,094

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

	Economic Development Fund	Economic Enhancement Fund
ASSETS		
CURRENT ASSETS		
Cash and equivalents	$ 973,338	$ 76,955
Receivables		
Notes - current portion	8,273	-
Accounts	-	-
Interest	-	-
Grants	-	56,063
Advances due from other funds	-	-
Total current assets	981,611	133,018
NONCURRENT ASSETS		
Notes receivable	165,560	-
Advances due from other funds	-	-
Other assets	-	200,000
Capital assets, net of depreciation	-	-
Total noncurrent assets	165,560	200,000
Total assets	1,147,171	333,018
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	-	22,224
Accounts payable	750	173
Accrued expenses	-	1,766
Due to other funds	-	-
Total current liabilities	750	24,163
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	-	172,220
Total liabilities	750	196,383
NET ASSETS		
Invested in capital assets, net of related debt	-	(194,444)
Unrestricted	1,146,421	331,079
Total net assets	$ 1,146,421	$ 136,635

Grobhiser Building Fund	Area Network Fund	EMS/ Ambulance Fund	Combined Totals
$ 19,146	$ 51,958	$ 18,968	$ 1,140,365
-	-	-	8,273
-	3,507	351,515	355,022
-	-	-	-
-	-	-	56,063
30,000	-	-	30,000
49,146	55,465	370,483	1,589,723
-	-	-	165,560
57,200	-	-	57,200
-	-	-	200,000
-	-	156,646	156,646
57,200	-	156,646	579,406
106,346	55,465	527,129	2,169,129
30,000	-	49,010	101,234
-	2,504	3,871	7,298
-	-	14,450	16,216
-	-	348,371	348,371
30,000	2,504	415,702	473,119
70,000	-	103,575	345,795
100,000	2,504	519,277	818,914
(100,000)	-	4,061	(290,383)
106,346	52,961	3,791	1,640,598
$ 6,346	$ 52,961	$ 7,852	$ 1,350,215

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2005

	Economic Development Fund	Economic Enhancement Fund
OPERATING REVENUE		
Charges for services	$ -	$ -
Federal grants	-	-
State grants	-	228,194
Interest revenue	4,291	-
Total operating revenue	4,291	228,194
OPERATING EXPENSES		
Material, maintenance and other	-	346,268
General and administrative	1,908	86,947
Depreciation and amortization	-	-
Provision for loan losses	-	-
Total operating expenses	1,908	433,215
OPERATING INCOME (LOSS)	2,383	(205,021)
NONOPERATING REVENUE (EXPENSES)		
Investment income	-	-
Interest expense	-	-
Total nonoperating revenue (expense)	-	-
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES	2,383	(205,021)
OTHER FINANCING SOURCES		
Transfers in	-	69,500
CHANGE IN NET ASSETS	2,383	(135,521)
NET ASSETS - BEGINNING OF YEAR	1,144,038	272,156
NET ASSETS - ENDING OF YEAR	$ 1,146,421	$ 136,635

Grobhiser Building Fund	Area Network Fund	EMS/ Ambulance Fund	Combined Totals
$ 6,879	$ 26,640	$ 581,717	$ 615,236
-	-	24,078	24,078
-	-	-	228,194
-	-	-	4,291
6,879	26,640	605,795	871,799
-	-	530,550	876,818
-	22,656	30,970	142,481
-	-	44,756	44,756
-	-	-	-
-	22,656	606,276	1,064,055
6,879	3,984	(481)	(192,256)
-	-	-	-
(7,670)	-	(4,702)	(12,372)
(7,670)	-	(4,702)	(12,372)
(791)	3,984	(5,183)	(204,628)
-	-	-	69,500
(791)	3,984	(5,183)	(135,128)
7,137	48,977	13,035	1,485,343
$ 6,346	$ 52,961	$ 7,852	$ 1,350,215

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2005

	Economic Development Fund	Economic Enhancement Fund
Cash flows from operating activities		
Receipts from customers and users	$ -	$ -
Receipts from operating grants	-	172,131
Net loans (made) collected	336,167	-
Interest received on loans	6,509	-
Payments to employees and suppliers	(1,226)	(435,586)
Net cash provided by (used for) operating activities	341,450	(263,455)
Cash flows from non-capital financing activities		
Transfers in	-	69,500
Cash flows from capital and related financing activities		
Principal paid on debt	-	(5,556)
Interest paid on debt	-	-
Customer deposits	-	-
Acquisition of capital assets	-	-
Proceeds from issuance of debt	-	-
Receipts from interfund advances	-	-
Net cash provided by (used for) capital and related financing activities	-	(5,556)
Cash flows from investing activities		
Interest received on investments	-	-
Net increase (decrease) in cash	341,450	(199,511)
Cash - Beginning of Year	631,888	276,466
Cash - End of Year	$ 973,338	$ 76,955

Continued on next page

Grobhiser Building Fund	Area Network Fund	EMS/ Ambulance Fund	Combined Totals
$ 6,879	$ 28,474	$ 555,752	$ 591,105
-	-	49,078	221,209
-	-	-	336,167
-	-	-	6,509
-	(22,002)	(538,369)	(997,183)
6,879	6,472	66,461	157,807
-	-	-	69,500
(30,000)	-	(46,677)	(82,233)
(7,670)	-	(4,702)	(12,372)
-	-	-	-
-	-	-	-
-	-	-	-
30,000	-	-	30,000
(7,670)	-	(51,379)	(64,605)
-	-	-	-
(791)	6,472	15,082	162,702
19,937	45,486	3,886	977,663
$ 19,146	$ 51,958	$ 18,968	$ 1,140,365

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2005

	Economic Development Fund	Economic Enhancement Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	$ 2,383	$ (205,021)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	-	-
Provision for loan losses	-	-
(Increase) decrease in		
Accounts receivable	-	-
Loans receivable	336,167	-
Interest receivable	2,218	-
Grants receivable	-	(56,063)
Increase (decrease) in		
Accounts payable	682	(3,013)
Accrued expenses	-	642
Due to other funds	-	-
Net cash provided by (used for) operating activities	$ 341,450	$ (263,455)

Grobhiser Building Fund	Area Network Fund	EMS/ Ambulance Fund	Combined Totals
$ 6,879	$ 3,984	$ (481)	$ (192,256)
-	-	44,756	44,756
-	-	-	-
-	1,834	(25,965)	(24,131)
-	-	-	336,167
-	-	-	2,218
-	-	25,000	(31,063)
-	654	(5,032)	(6,709)
-	-	4,102	4,744
-	-	24,081	24,081
$ 6,879	$ 6,472	$ 66,461	$ 157,807

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

	Motor Vehicle and Equipment Fund	Workers' Compensation Self-Insurance Fund	Employee Benefit Fund	Combined Totals
ASSETS				
CURRENT ASSETS				
Cash and equivalents	$ 882,612	$ 256,934	$ 440,422	$ 1,579,968
Investments	-	16,676	-	16,676
Receivables - interest	-		-	-
Due from other funds	-	215,133	-	215,133
Inventory	7,495	-	-	7,495
Total current assets	890,107	488,743	440,422	1,819,272
NONCURRENT ASSETS				
Capital assets, net of depreciation	1,390,060	-	-	1,390,060
Total assets	2,280,167	488,743	440,422	3,209,332
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	91,500	-	-	91,500
Accounts payable	8,033	67,472	50,000	125,505
Accrued expenses	2,635	-	-	2,635
Due to other funds	-	-	150,000	150,000
Total current liabilities	102,168	67,472	200,000	369,640
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	524,845	-	-	524,845
Total liabilities	627,013	67,472	200,000	894,485
NET ASSETS				
Invested in capital assets, net of related debt	773,715	-	-	773,715
Unrestricted	879,439	421,271	240,422	1,541,132
Total net assets	$ 1,653,154	$ 421,271	$ 240,422	$ 2,314,847

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2005

	Motor Vehicle and Equipment Fund	Workers' Compensation Self-Insurance Fund	Employee Benefit Fund	Combined Totals
OPERATING REVENUE				
Charges to other funds	$ 752,709	$ 117,214	$1,603,076	$ 2,472,999
Other revenues	3,142	-	185,478	188,620
Total operating revenue	755,851	117,214	1,788,554	2,661,619
OPERATING EXPENSES				
Operating and administrative	444,238	-	16,304	460,542
Insurance premiums and claims	-	92,930	1,724,713	1,817,643
Depreciation	284,887	-	-	284,887
Total operating expenses	729,125	92,930	1,741,017	2,563,072
OPERATING INCOME (LOSS)	26,726	24,284	47,537	98,547
NONOPERATING REVENUE (EXPENSE)				
Interest revenue	-	1,318	3,137	4,455
Gain (loss) on sale of fixed assets	-	-	-	-
Interest expense	(31,675)	-	-	(31,675)
Total nonoperating revenue (expense)	(31,675)	1,318	3,137	(27,220)
CHANGE IN NET ASSETS	(4,949)	25,602	50,674	71,327
NET ASSETS - BEGINNING OF YEAR	1,658,103	395,669	189,748	2,243,520
NET ASSETS - END OF YEAR	$ 1,653,154	$ 421,271	$ 240,422	$ 2,314,847

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2005

	Motor Vehicle and Equipment Fund	Workers' Compensation Self-Insurance Fund	Employee Benefit Fund	Combined Totals
Cash flows from operating activities				
Receipts from customers	$ 3,142	$ -	$ 185,478	$ 188,620
Receipts for internal services provided	752,709	271,946	1,753,076	2,777,731
Payments to suppliers	(404,526)	(45,458)	(1,741,017)	(2,191,001)
Payments to employees	(55,602)	-	-	(55,602)
Net cash provided by (used for) operating activities	295,723	226,488	197,537	719,748
Cash flows from capital and related financing activities				
Acquisition of capital assets	(154,621)	-	-	(154,621)
Proceeds from sale of capital assets	-	-	-	-
Principal paid on debt	(87,507)	-	-	(87,507)
Interest paid on debt	(31,675)	-	-	(31,675)
Net cash provided by (used for) capital and related financing activities	(273,803)	-	-	(273,803)
Cash flows from investing activities				
Purchase of investments	-	-	-	-
Proceeds from maturity of investments	-	5,229	123,065	128,294
Interest on investments	-	1,355	6,198	7,553
Net cash provided by (used for) investing activities	-	6,584	129,263	135,847
Net increase (decrease) in cash	21,920	233,072	326,800	581,792
Cash - Beginning of Year	860,692	23,862	113,622	998,176
Cash - End of Year	$ 882,612	$ 256,934	$ 440,422	$ 1,579,968

Continued on next page

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2005

	Motor Vehicle and Equipment Fund	Workers' Compensation Self-Insurance Fund	Employee Benefit Fund	Combined Totals
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	$ 26,726	$ 24,284	$ 47,537	$ 98,547
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	284,887	-	-	284,887
(Increase) decrease in				
Receivables	-	-	-	-
Due from other funds	-	154,732	-	154,732
Inventory	(2,681)	-	-	(2,681)
Increase (decrease) in				
Accounts payable	(14,041)	47,472	-	33,431
Accrued expenses	832	-	-	832
Due to other funds	-	-	150,000	150,000
Net cash provided by (used for) operating activities	$ 295,723	$ 226,488	$ 197,537	$ 719,748

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

To the City Commission
City of Sturgis

We have audited the financial statements of City of Sturgis as of and for the year ended September 30, 2005, and have issued our report thereon dated March 24, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance - As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the City Commission, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

March 24, 2006

Norman & Paulsen, P.C.