CITY OF STURGIS

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2013

Ketel Thorstenson, LLP
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CITY OF STURGIS

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Sturgis
Sturgis, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF STURGIS** (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2013, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, and budgetary comparison information on pages 41 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining nonmajor fund financial statements and schedule of rally activities on pages 46 through 48 are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards on page 54 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The combining nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule of rally activities on page 48 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

August 14, 2014

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013

This section of the City of Sturgis' annual financial report presents management's discussion and analysis of the City's financial performance during the fiscal year ended on December 31, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were $1,132,125 more than the $7,903,276 governmental program expenditures. This does not take into account any transfers in/out. The overall change in net position, transfers included, in governmental activities increased four percent compared to last year. The increase is due to increased sales tax, licensing and permits and, intergovernmental revenues, while the expenditures were down in the governmental funds. Sales tax in the General Fund and capital improvements were up 2.8% and the gross receipts sales tax was up 3.8%. The City has seen an increase in tourism and is hosting more events during the summer months.

- In the City's business-type activities, revenues exceeded expenses by $486,308, which includes transfers and any activity due to the disposal of fixed assets. The increase is due to a 2% increase in fees in the Wastewater Fund and the Sanitation Fund. The City created a new source of revenue by adding an availability fee to both the Water Fund and Wastewater Fund for absentee landowners.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement 34.

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements (including related notes), and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

    - The governmental funds statements tell how general government services like public safety were financed in the short-term, as well as what remains for future spending.

    - Proprietary fund statements offer short-term and long-term financial information about the activities that the City operates like businesses. The City has five proprietary funds – the Liquor Fund, Water Fund, Wastewater Fund, Sanitation Fund and Ambulance Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provide details about our non-major governmental funds, each of which are added together and presented in a single column in the basic financial statements.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds and the fiduciary component units)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer systems
Required Financial Statements	Statement of Net Position and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Government-wide Statements (Continued)

The two government-wide statements report the City's net position and how they have changed. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health or position.

- Increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

- Governmental Activities -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants, and interest earnings finance most of these activities.
- Business-type Activities -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's liquor, water, wastewater, sanitation, and ambulance funds are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

- Governmental Funds – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds' statements, or on the subsequent page, that explains the relationship (or differences) between them.
- Proprietary Funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short-term and long-term financial information. The City's enterprise funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position increased three percent between fiscal year 2012 and 2013. (See Table A-1).

Table A-1 Summarized Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	**2013**	2012	**2013**	2012
Current and Other Assets	**$ 6,639,664**	$ 6,013,358	**$ 3,218,379**	$ 2,110,558	**$ 9,858,043**	$ 8,123,916
Capital Assets	**33,331,579**	33,635,090	**22,424,593**	21,155,702	**55,756,172**	54,790,792
Total Assets	**$ 39,971,243**	$ 39,648,448	**$ 25,642,972**	$ 23,266,260	**$ 65,614,215**	$ 62,914,708
Long-Term Debt	**$ 5,123,122**	$ 5,835,342	**$ 7,944,917**	$ 5,771,873	**$ 13,068,039**	$ 11,607,215
Other Liabilities	**302,214**	334,221	**565,583**	848,223	**867,797**	1,182,444
Total Liabilities	**5,425,336**	6,169,563	**8,510,500**	6,620,096	**13,935,836**	12,789,659
Net Position:						
Net Investment in Capital Assets	**28,755,165**	27,981,596	**14,560,959**	15,462,829	**43,316,124**	43,444,425
Restricted	**3,483,469**	3,479,993	**12,294**	8,196	**3,495,763**	3,488,189
Unrestricted	**2,307,273**	2,017,296	**2,559,219**	1,175,139	**4,866,492**	3,192,435
Total Net Position	**$ 34,545,907**	$ 33,478,885	**$ 17,132,472**	$ 16,646,164	**$ 51,678,379**	$ 50,125,049
Beginning Net Position	**$ 33,478,885**	$ 32,571,512	**$ 16,646,164**	$ 16,186,966	**$ 50,125,049**	$ 48,758,478
Change in Accounting Principle/ Prior Period Adjustment	**(123,103)**	139,128	**-**	-	**(123,103)**	139,128
Increase in Net Position	**$ 1,190,125**	$ 768,245	**$ 486,308**	$ 459,198	**$ 1,676,433**	$ 1,227,443
Percentage of Increase in Net Position	**4%**	2%	**3%**	3%	**3%**	3%

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The difference between the City's assets and liabilities is its net position.

Changes in Net Position

The City's revenues totaled $15,696,356 (See Table A-2). Well over half of the City's revenue comes from charges for services and taxes, with 56 cents of every dollar raised coming from charges for services (primarily liquor and water operations) and 39 cents of every dollar raised coming from some type of tax (See Figure A-2). Of the City's total revenue, 1 percent comes from state and federal grants for capital purposes, and the rest comes from operating grants, contributions, state shared revenue, interest and miscellaneous.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

The total cost of all programs and services was $14,019,924 (See Table A-2). The City's expenses cover a range of services, including road maintenance, parks and recreation services and sewer system services. (See Figure A-3).

Figure A-2: Sources of Revenue for 2013

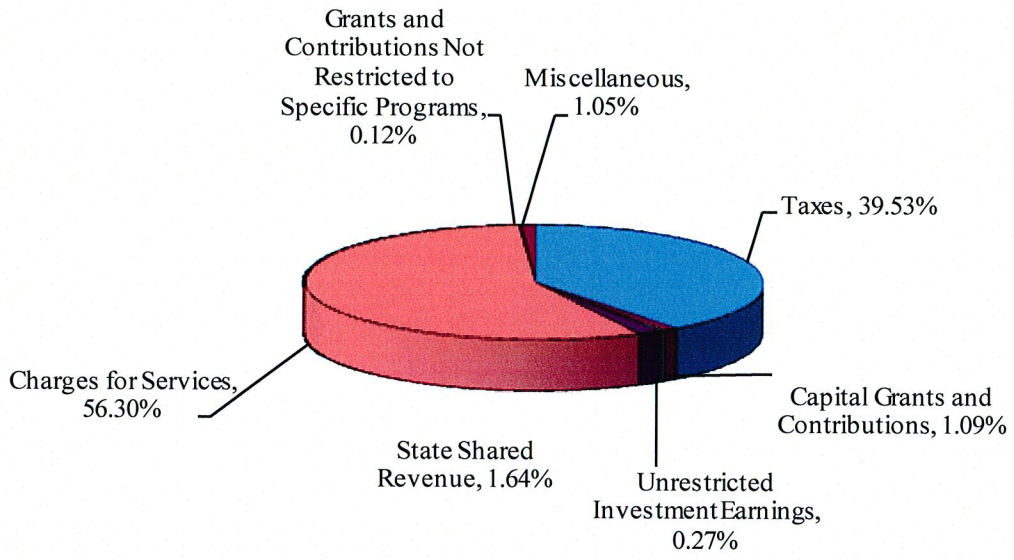
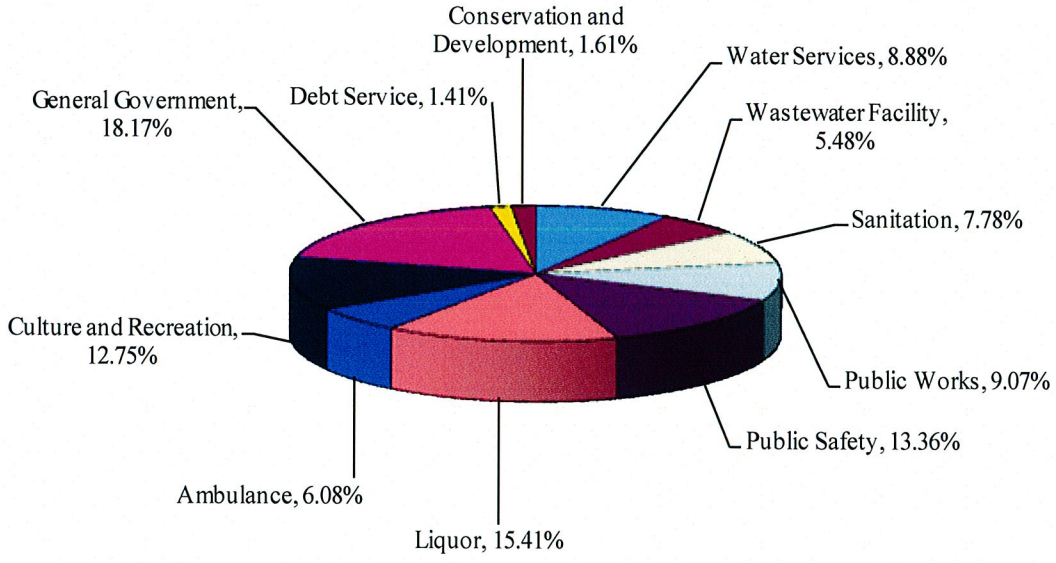


Figure A-3: Functional Expenses for 2013



CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Concluded)

Table A-2 and the narrative that follows consider the operations of the governmental and business - type activities.

Table A-2
Changes in Net Position

	Governmental Activities		Business - Type Activities		Total	
	2013	2012	**2013**	2012	**2013**	2012
Revenues						
Program Revenues						
Charges for Services	**$ 2,043,801**	$ 1,764,818	**$ 6,624,164**	$ 6,569,983	**$ 8,667,965**	$ 8,334,801
Operating Grants and Contributions	**299,541**	25,952	**-**	-	**299,541**	25,952
Capital Grants and Contributions	**167,572**	272,968	**-**	18,243	**167,572**	291,211
General Revenues						
Taxes	**6,085,970**	5,711,811	**-**	-	**6,085,970**	5,711,811
State Shared Revenue	**252,764**	240,932	**-**	-	**252,764**	240,932
Grants and Contributions not Program Specific	**18,627**	36,795	**-**	-	**18,627**	36,795
Unrestricted Investment Earnings	**29,888**	40,140	**11,990**	16,010	**41,878**	56,150
Miscellaneous	**137,237**	123,182	**24,802**	23,517	**162,039**	146,699
Total Revenues	**9,035,400**	8,216,598	**6,660,956**	6,627,753	**15,696,356**	14,844,351
Expenses						
General Government	**2,547,121**	2,499,684	**-**	-	**2,547,121**	2,499,684
Public Safety	**1,873,261**	2,078,228	**-**	-	**1,873,261**	2,078,228
Public Works	**1,271,694**	1,225,870	**-**	-	**1,271,694**	1,225,870
Culture and Recreation	**1,788,152**	1,834,223	**-**	-	**1,788,152**	1,834,223
Conservation and Development	**225,168**	253,323	**-**	-	**225,168**	253,323
Debt Service	**197,879**	232,105	**-**	-	**197,879**	232,105
Liquor	**-**	-	**2,159,753**	2,075,988	**2,159,753**	2,075,988
Water Services	**-**	-	**1,245,434**	1,064,488	**1,245,434**	1,064,488
Wastewater Services	**-**	-	**768,148**	785,027	**768,148**	785,027
Sanitation Services	**-**	-	**1,090,726**	941,334	**1,090,726**	941,334
Ambulance	**-**	-	**852,587**	626,638	**852,587**	626,638
Total Expenses	**7,903,275**	8,123,433	**6,116,648**	5,493,475	**14,019,923**	13,616,908
Excess Before Transfers	**1,132,125**	93,165	**544,308**	1,134,278	**1,676,433**	1,227,443
Transfers	**58,000**	675,080	**(58,000)**	(675,080)	**-**	-
Increase in Net Position	**1,190,125**	768,245	**486,308**	459,198	**1,676,433**	1,227,443
Change in Accounting Principle	**(123,103)**	-	**-**	-	**(123,103)**	-
Prior Period Adjustment	**-**	139,128	**-**	-	**-**	139,128
Ending Net Position	**$ 34,545,907**	$ 33,478,885	**$ 17,132,472**	$ 16,646,164	**$ 51,678,379**	$ 50,125,049

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

Total revenues of the governmental activities for the City increased by 10 percent compared to the prior year, while total expenses decreased by 3 percent. The primary reason was due to an overall increase in several different revenue sources, which included sales tax, licensing and permitting and intergovernmental revenue. Vendor licensing was up 11%, with intergovernmental revenue was up 32%. The City is seeing growth in tourism and in economic development.

Business-Type Activities

Operating revenues of the City's business-type activities increased by approximately 1 percent compared to the prior year, while expenses increased approximately 11 percent. The overall increase in revenues and expenses is due to the additional revenue stream of the availability fee in the Water and Wastewater Funds and the increase of expenses were caused by construction projects in the Water Fund and an increase in ambulance calls, which increase wages and supplies.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains governmental fund types - General, Special Revenue Funds (including the Capital Improvement and Revolving Loan Funds), Debt Service Funds, Capital Projects Funds and Permanent Funds. The City also maintains five business type funds - Liquor, Water, Wastewater, Sanitation and Ambulance Funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget two times. These amendments fall into two categories:

- Move contingency money to funds to prevent budget overruns
- Supplemental appropriations to increase the budget to prevent budget overruns

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013

CAPITAL ASSET ADMINISTRATION

By the end of 2013, the City had invested $55,756,172 in a broad range of capital assets, including, land, buildings, and various machinery and equipment. (See Table A-3). This amount represents a net increase (including additions and deductions) of $965,380, primarily due to the construction of phase I and phase II of the drinking water project, as well as construction on the Lazelle Street water line replacement.

Table A-3
Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities	
	2013	2012	**2013**	2012
Land	**$ 2,184,497**	$ 2,184,497	**$ 738,681**	$ 738,681
Construction Work in Progress	**84,883**	11,250	**-**	4,065,422
Buildings	**8,743,330**	8,873,674	**1,692,929**	1,753,565
Improvements Other Than Buildings	**20,641,480**	20,945,658	**18,661,516**	13,426,629
Machinery and Equipment	**1,677,389**	1,620,011	**1,331,467**	1,171,405
Total Capital Assets	**$ 33,331,579**	$ 33,635,090	**$ 22,424,593**	$ 21,155,702

LONG-TERM DEBT

At year-end the City had $13,068,039 in Sales Tax Revenue Bonds, Contract Payable, General Obligation Bonds and other long-term obligations. This is an increase of $1,460,824 as shown on Table A-4 below.

Table A-4
Outstanding Debt and Obligations

	Governmental Activities		Business-type Activities	
	2013	2012	**2013**	2012
Compensated Absences	**$ 181,848**	$ 181,848	**$ 81,283**	$ 79,000
Tax Increment Financing Obligations	**301,414**	376,204	**-**	-
Marcotte Property	**364,860**	547,290	**-**	-
Sales Tax Revenue Bonds	**4,275,000**	4,730,000	**6,538,634**	4,067,873
General Obligation Bonds	**-**	-	**1,325,000**	1,625,000
Total Outstanding Debt and Obligations	**$ 5,123,122**	$ 5,835,342	**$ 7,944,917**	$ 5,771,873

During the current year, the City had additional draws on its water revenue bonds for the Drinking Water Project. The City made scheduled payments throughout the year on its debt balances.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position has remained strong and is growing. There was a slight increase in total property valuation of $4,434,065 or 0.0126%. The City requested a 3% increase in property tax for 2014. The growth factor of 2012 taxes payable in 2013 was 0.769%. The growth factor for 2013 taxes payable in 2014 was 0.727%.

The second largest portion of revenue within the general fund is retail sales tax. In 2013, the City experienced an increase of 22.8 percent compared to 2012. The increase was due to more tourist traffic before and after the annual motorcycle rally. The City also hosted other events in the downtown area, resulting in more sales revenue.

The adopted 2014 general fund expenditures budget increased by 0.0112%, as the City is continuing to slow spending and grow the general fund reserves and the reserves of all other operating funds.

The City's business-type activities, other than liquor, will have changes in 2014 compared to 2013. The Wastewater Fund and Sanitation Fund increased the use fee 3% and the Water Fund increased the use fee by 3.4%. The Ambulance Fund will be anticipating higher revenue due to the high demand for ambulance service in the area.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Sturgis' Finance Office, 1040 2nd Street, Suite 103, Sturgis, SD 57785.

CITY OF STURGIS

STATEMENT OF NET POSITION
DECEMBER 31, 2013

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets			
Cash and Cash Equivalents (Note 2)	$ 4,448,801	$ 2,183,164	$ 6,631,965
Receivables, Net	777,757	701,011	1,478,768
Notes Receivable (Note 10)	19,757	25,000	44,757
Inventories	1,485	285,188	286,673
Other Assets	22,155	11,722	33,877
Investment Real Estate Held for Sale (Note 5)	608,100	-	608,100
Restricted Assets:			
Cash with Fiscal Agent (Note 5)	625,765	12,294	638,059
Deposits (Notes 2 and 9)	135,844	-	135,844
Capital Assets (Note 4)			
Land and Construction Work in Progress	2,269,380	738,681	3,008,061
Other Capital Assets, Net of Depreciation	31,062,199	21,685,912	52,748,111
Total Assets	**$ 39,971,243**	**$ 25,642,972**	**$ 65,614,215**
Liabilities			
Accounts Payable	$ 160,200	$ 264,370	$ 424,570
Other Current Liabilities	142,014	301,213	443,227
Noncurrent Liabilities (Note 5):			
Due Within One Year	932,681	598,437	1,531,118
Due in More Than One Year	4,190,441	7,346,480	11,536,921
Total Liabilities	5,425,336	8,510,500	13,935,836
Net Position			
Net Investment in Capital Assets	28,755,165	14,560,959	43,316,124
Restricted for:			
Debt Service	674,754	12,294	687,048
SDPAA (Note 9)	135,844	-	135,844
Revolving Loans	1,321,151	-	1,321,151
BID Tax	636,725	-	636,725
Library Purposes	227,074	-	227,074
Permanently Restricted Purposes:			
Expendable	110,386	-	110,386
Nonexpendable	377,535	-	377,535
Unrestricted	2,307,273	2,559,219	4,866,492
Total Net Position	34,545,907	17,132,472	51,678,379
Total Liabilities and Net Position	**$ 39,971,243**	**$ 25,642,972**	**$ 65,614,215**

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Primary Government							
Governmental Activities:							
General Government	$ 2,547,121	$ 1,694,994	$ -	$ -	$ (852,127)	$ -	$ (852,127)
Public Safety	1,873,261	39,334	-	10,797	(1,823,130)	-	(1,823,130)
Public Works	1,271,694	21,599	299,541	156,775	(793,779)	-	(793,779)
Health and Welfare	-	427	-	-	427	-	427
Culture and Recreation	1,788,152	287,447	-	-	(1,500,705)	-	(1,500,705)
Conservation and Development	225,168	-	-	-	(225,168)	-	(225,168)
Interest on Long-Term Debt	197,879	-	-	-	(197,879)	-	(197,879)
Total Governmental Activities	**7,903,275**	**2,043,801**	**299,541**	**167,572**	**(5,392,361)**	**-**	**(5,392,361)**
Business-Type Activities:							
Liquor	2,159,753	2,108,619	-	-	-	(51,134)	(51,134)
Water	1,245,434	1,540,086	-	-	-	294,652	294,652
Wastewater	768,148	1,025,586	-	-	-	257,438	257,438
Sanitation	1,090,726	1,128,004	-	-	-	37,278	37,278
Ambulance	852,587	821,869	-	-	-	(30,718)	(30,718)
Total Business-Type Activities	**6,116,648**	**6,624,164**	**-**	**-**	**-**	**507,516**	**507,516**
Total Primary Government	**$ 14,019,923**	**$ 8,667,965**	**$ 299,541**	**$ 167,572**	**(5,392,361)**	**507,516**	**(4,884,845)**
General Revenues:							
Taxes:							
Property Taxes					2,877,652	-	2,877,652
Sales Taxes					3,208,318	-	3,208,318
State Shared Revenue					252,764	-	252,764
Grants and Contributions Not Restricted to Specific Programs					18,627	-	18,627
Unrestricted Investment Earnings					29,888	11,990	41,878
Miscellaneous Revenue					137,237	24,802	162,039
Transfers					58,000	(58,000)	-
Total General Revenues and Transfers					**6,582,486**	**(21,208)**	**6,561,278**
Change in Net Position					**1,190,125**	**486,308**	**1,676,433**
Net Position, Beginning					33,478,885	16,646,164	50,125,049
Change in Accounting Principle (Note 11)					(123,103)	-	(123,103)
Net Position, Beginning, as Restated					33,355,782	16,646,164	50,001,946
Net Position, Ending					**$ 34,545,907**	**$ 17,132,472**	**$ 51,678,379**

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2013

		General Fund	Capital Improvement Fund	Revolving Loan Fund	Other Governmental Funds	Total Governmental Funds
Assets						
101	Cash (Note 2)	$ 6,835	$ -	$ -	$ -	$ 6,835
104	Interest Bearing Accounts (Note 2)	51,646	70,845	279,923	352,926	755,340
105	Savings Certificates (Note 2)	1,500,000	737,620	1,021,471	427,535	3,686,626
106	Restricted Cash with Fiscal Agent (Note 5)	-	625,765	-	-	625,765
108	Property Taxes Receivable	110,665	-	-	-	110,665
108	Sales Tax Receivable	97,158	71,812	-	12,670	181,640
115	Accounts Receivable	31,304	-	-	-	31,304
116	Estimated Uncollectible Accounts Receivable	(10,000)	-	-	-	(10,000)
121	Special Assessments Receivable	1,791	-	-	-	1,791
128	Notes Receivable (Note 10)	-	19,757	-	-	19,757
132	Due from Federal/State Government (Note 12)	341,067	121,290	-	-	462,357
142	Inventory of Supplies Purchased for for Resale	1,485	-	-	-	1,485
151	Investment Held for Sale (Note 5)	-	-	-	608,100	608,100
154.1	Restricted Deposits (Notes 2 and 9)	135,844	-	-	-	135,844
155	Prepaid Expense	22,155	-	-	-	22,155
Total Assets		**$ 2,289,950**	**$ 1,647,089**	**$ 1,301,394**	**$ 1,401,231**	**$ 6,639,664**
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
202	Accounts Payable	$ 151,160	$ 8,540	$ -	$ 500	$ 160,200
216	Accrued Wages Payable	89,166	-	-	-	89,166
217	Accrued Taxes Payable	1,636	-	-	22	1,658
Total Liabilities		241,962	8,540	-	522	251,024
Deferred Inflows of Resources						
245	Unavailable Revenue - Property Taxes	89,217	-	-	-	89,217
246	Unavailable Revenue - Special Assessments	1,790	-	-	-	1,790
247	Other Deferred Inflows of Resources - Grant Revenue	299,541	7,258	-	-	306,799
Total Deferred Inflows of Resources		390,548	7,258	-	-	397,806
Fund Balances (Note 1j)						
263	Nonspendable	159,484	19,757	-	985,635	1,164,876
264	Restricted	-	625,765	1,301,394	415,074	2,342,233
265	Committed	100,239	985,769	-	-	1,086,008
267	Unassigned	1,397,717	-	-	-	1,397,717
Total Fund Balances		1,657,440	1,631,291	1,301,394	1,400,709	5,990,834
Total Liabilities, Deferred Inflows of Resources and Fund Balances		**$ 2,289,950**	**$ 1,647,089**	**$ 1,301,394**	**$ 1,401,231**	**$ 6,639,664**

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO GOVERNMENT-WIDE STATEMENT OF NET POSITION DECEMBER 31, 2013

Total Fund Balances - Governmental Funds	$ 5,990,834
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	33,331,579
Long-term liabilities, including bonds payable, tax increment financing obligations, and compensated absences are not due and payable in the current period and therefore not reported in the funds.	(5,123,122)
Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported in the funds.	(51,190)
Assets such as delinquent taxes receivable, special assessments, and grants are not available to pay for current period expenditures and therefore are deferred in the funds.	397,806
Total Net Position - Governmental Funds	**$ 34,545,907**

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

		General Fund	Capital Improvement Fund	Revolving Loan Fund	Other Governmental Funds	Total Governmental Funds
Revenue						
	Taxes:					
311	General Property Taxes (Note 3)	$ 2,707,082	$ -	$ -	$ 134,280	$ 2,841,362
313	General Sales and Use Taxes	1,679,887	1,241,655	-	286,776	3,208,318
315	Amusement Taxes	840	-	-	-	840
319	Penalties and Interest on Delinquent Taxes	14,834	-	-	-	14,834
320	Licenses and Permits	466,588	-	-	-	466,588
	Intergovernmental Revenue:					
331	Federal Grants	10,797	108,031	-	-	118,828
334	State Grants	-	15,327	-	-	15,327
335.01	Bank Franchise Tax	6,845	-	-	-	6,845
335.03	Liquor Tax Reversion	45,068	-	-	-	45,068
335.04	Motor Vehicle Licenses	71,144	-	-	-	71,144
335.08	Local Government Highway and Bridge Fund	129,707	-	-	-	129,707
338.02	County Highway and Bridge Reserve Tax	5,855	-	-	-	5,855
338.04	Port of Entry	12,928	-	-	-	12,928
338.99	Other	2,816	-	-	-	2,816
	Charges for Goods and Services:					
341	General Government	1,228,406	-	-	-	1,228,406
342	Public Safety	32,735	-	-	-	32,735
345	Health	427	-	-	-	427
346	Culture and Recreation	287,447	-	-	-	287,447
349	Other	63,730	-	-	-	63,730
	Fines and Forfeits:					
351	Court Fines and Costs	6,599	-	-	-	6,599
	Miscellaneous Revenue:					
361	Investment Earnings	20,093	4,478	-	5,317	29,888
362	Rentals	48,914	-	-	-	48,914
363	Special Assessments	126	12,689	-	-	12,815
367	Contributions and Donations from Private Sources	8,627	10,000	-	-	18,627
369	Other	4,034	-	-	4,035	8,069
Total Revenue		**6,855,529**	**1,392,180**	**-**	**430,408**	**8,678,117**

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

		General Fund	Capital Improvement Fund	Revolving Loan Fund	Other Governmental Funds	Total Governmental Funds
Expenditures						
	General Government:					
411	Legislative	185,716	-	-	-	185,716
414	Financial Administration	990,542	-	-	-	990,542
419	Other	1,138,002	21,574	-	-	1,159,576
	Public Safety:					
421	Police	1,637,564	-	-	-	1,637,564
422	Fire	127,700	20,832	-	-	148,532
	Public Works:					
431	Highway and Streets	644,060	16,717	-	-	660,777
435	Airport	41,940	3,064	-	-	45,004
437	Cemeteries	92,550	-	-	-	92,550
	Culture and Recreation:					
451	Recreation	665,134	18,108	-	-	683,242
452	Parks	511,704	10,595	-	-	522,299
455	Library	328,266	-	-	10,140	338,406
456	Auditorium	21,034	3,000	-	-	24,034
460	Conservation and Development	-	-	3,390	221,778	225,168
470	Debt Service	-	614,413	-	295,136	909,549
485	Capital Outlay	80,108	572,025	11,645	-	663,778
Total Expenditures		6,464,320	1,280,328	15,035	527,054	8,286,737
Excess of Revenue Over (Under) Expenditures		391,209	111,852	(15,035)	(96,646)	391,380
Other Financing Sources (Uses)						
391.01	Transfers In (Note 7)	70,000	-	-	82,800	152,800
391.04	Compensation for Loss or Damage to Capital Assets	16,524	-	-	-	16,524
511	Transfers Out (Note 7)	(12,000)	(82,800)	-	-	(94,800)
Total Other Financing Sources		74,524	(82,800)	-	82,800	74,524
Net Change in Fund Balances		465,733	29,052	(15,035)	(13,846)	465,904
Fund Balance, December 31, 2012		1,191,707	1,602,239	1,316,429	1,414,555	5,524,930
Fund Balance, December 31, 2013		**$ 1,657,440**	**$ 1,631,291**	**$ 1,301,394**	**$ 1,400,709**	**$ 5,990,834**

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2013

Net Change in Fund Balances - Total Government Funds	$ 465,904
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 allocated over their estimated lives and reported as depreciation expense.	(328,208)
Capital assets contributed to the City are included in the Statement of Activities as capital outlay expenditures and capitalized in the Statement of Net Position.	24,697
Governmental funds report property taxes and special assessments as revenue when funds become available, but the Statement of Activities includes the property tax and special assessments as revenue when earned.	9,263
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (i.e. grant receivables).	306,799
Repayment of bond principal, tax increment financing, and long-term debt are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	712,220
Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported in the funds. The amount represents the change in accrued interest during the current period.	(550)
Change in Net Position of Governmental Activities	**$ 1,190,125**

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

Assets	Liquor Fund	Water Fund	Wastewater Fund	Sanitation Fund	Ambulance Fund	Total Proprietary Funds
Current Assets						
101 Cash	$ 10,080	$ 1,495,137	$ 304,263	$ 373,684	$ -	$ 2,183,164
107 Restricted Cash in Bank (Note 5)	12,294	-	-	-	-	12,294
115 Accounts Receivable, Net	22,528	119,617	93,507	83,534	381,825	701,011
128 Notes Receivable (Note 10)	-	-	25,000	-	-	25,000
131 Due from Other Funds (Note 6)	-	405,857	-	-	-	405,857
142 Inventory of Supplies Purchased for Resale	285,188	-	-	-	-	285,188
155 Prepaid Expenses	1,599	3,589	1,050	2,863	2,621	11,722
Total Current Assets	331,689	2,024,200	423,820	460,081	384,446	3,624,236
Capital Assets (Note 4)						
160 Land	6,500	1,800	646,214	84,167	-	738,681
162 Buildings	826,042	181,183	445,257	310,994	359,809	2,123,285
163 Accumulated Depreciation - Buildings	(75,095)	(55,399)	(161,142)	(70,956)	(67,764)	(430,356)
164 Improvements Other Than Buildings	-	15,833,192	10,186,861	22,789	-	26,042,842
165 Accumulated Depreciation - Improvements Other Than Buildings	-	(4,200,290)	(3,164,437)	(16,599)	-	(7,381,326)
166 Machinery and Equipment	46,433	731,302	694,834	2,149,810	874,734	4,497,113
167 Accumulated Depreciation - Machinery and Equipment	(28,258)	(546,086)	(536,957)	(1,727,132)	(327,213)	(3,165,646)
Total Capital Assets	775,622	11,945,702	8,110,630	753,073	839,566	22,424,593
Total Assets	**$ 1,107,311**	**$ 13,969,902**	**$ 8,534,450**	**$ 1,213,154**	**$ 1,224,012**	**$ 26,048,829**

Liabilities and Net Position	Liquor Fund	Water Fund	Wastewater Fund	Sanitation Fund	Ambulance Fund	Total Proprietary Funds
Current Liabilities						
202 Accounts Payable	$ 149,017	$ 58,183	$ 8,399	$ 41,497	$ 7,274	$ 264,370
208 Due to Water Fund (Note 6)	350,939	-	-	-	54,918	405,857
215 Accrued Interest Payable	15,413	73,575	3,287	-	-	92,275
216 Accrued Wages Payable	4,706	11,779	6,332	9,849	19,052	51,718
217 Accrued Taxes Payable	12,162	43	-	4,055	-	16,260
220 Customer Deposits	300	140,660	-	-	-	140,960
226 Bonds Payable - Current (Note 5)	9,616	143,058	364,480	-	-	517,154
233 Accrued Leave Payable (Note 5)	1,339	42,787	16,438	15,751	4,968	81,283
Total Current Liabilities	543,492	470,085	398,936	71,152	86,212	1,569,877
Long-Term Liabilities (Note 5)						
231 Bonds Payable	761,034	5,506,302	1,079,144	-	-	7,346,480
Total Liabilities	1,304,526	5,976,387	1,478,080	71,152	86,212	8,916,357
Net Position						
253.10 Net Investment in Capital Assets	4,972	6,296,342	6,667,006	753,073	839,566	14,560,959
253.21 Restricted for Revenue Bond Debt Service (Note 5)	12,294	-	-	-	-	12,294
253.9 Unrestricted (Deficit)	(214,481)	1,697,173	389,364	388,929	298,234	2,559,219
Total Net Position	(197,215)	7,993,515	7,056,370	1,142,002	1,137,800	17,132,472
Total Liabilities and Net Position	**$ 1,107,311**	**$ 13,969,902**	**$ 8,534,450**	**$ 1,213,154**	**$ 1,224,012**	**$ 26,048,829**

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Liquor Fund	Water Fund	Wastewater Fund	Sanitation Fund	Ambulance Fund	Total Proprietary Funds
Total Operating Revenue						
380 Charges for Goods and Services	$ 2,108,619	$ 1,540,086	$ 1,025,586	$ 1,128,004	$ 821,869	$ 6,624,164
Operating Expenses						
410 Personal Services	166,075	475,656	243,848	376,167	583,422	1,845,168
420 Other Current Expense	255,159	366,196	234,887	581,193	212,843	1,650,278
426.2 Materials (Cost of Goods Sold)	1,678,831	-	-	-	-	1,678,831
457 Depreciation	28,667	283,152	246,107	133,366	56,322	747,614
Total Operating Expenses	2,128,732	1,125,004	724,842	1,090,726	852,587	5,921,891
Operating Income (Loss)	(20,113)	415,082	300,744	37,278	(30,718)	702,273
Nonoperating Revenue (Expense)						
361 Investment Earnings	11,990	-	-	-	-	11,990
369 Other	-	195	-	23,047	140	23,382
391.40 Compensation for Loss or Damage to Capital Assets	-	730	-	690	-	1,420
442 Interest Expense	(31,021)	(120,430)	(43,306)	-	-	(194,757)
Total Nonoperating Revenue (Expense)	(19,031)	(119,505)	(43,306)	23,737	140	(157,965)
Income (Loss) before Transfers	(39,144)	295,577	257,438	61,015	(30,578)	544,308
391.1 Transfers In (Note 7)	-	-	-	12,000	-	12,000
511 Transfers Out (Note 7)	-	-	(70,000)	-	-	(70,000)
Total Transfers	-	-	(70,000)	12,000	-	(58,000)
Change in Net Position	(39,144)	295,577	187,438	73,015	(30,578)	486,308
Net Position (Deficit), December 31, 2012	(158,071)	7,697,938	6,868,932	1,068,987	1,168,378	16,646,164
Net Position (Deficit), December 31, 2013	**$ (197,215)**	**$ 7,993,515**	**$ 7,056,370**	**$ 1,142,002**	**$ 1,137,800**	**$ 17,132,472**

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Liquor Fund	Water Fund	Wastewater Fund
Cash Flows from Operating Activities			
Receipts from Customers	$ 2,107,576	$ 1,527,440	$ 1,017,837
Payments to Suppliers	(1,960,234)	(781,115)	(230,361)
Payments to Employees	(165,743)	(471,387)	(246,935)
Net Cash Flows Provided by (Used in) Operating Activities	(18,401)	274,938	540,541
Cash Flows from Noncapital Financing Activities			
Transfers In	-	-	-
Transfers Out	-	-	(70,000)
Internal Activity - Receipts from (Payments to) Other Funds	57,668	(112,586)	-
Cash Receipts from Notes Receivable	-	-	12,500
Net Cash Flows Provided By (Used in) Noncapital Financing Activities	57,668	(112,586)	(57,500)
Cash Flows from Capital and Related Financing Activities			
Purchases of Capital Assets	-	(1,628,033)	-
Compensation for Loss or Damage to Capital Assets	-	730	-
Principal Paid on Debt	(9,763)	(84,373)	(278,757)
Borrowings on Long-Term Debt	-	2,543,654	-
Interest Paid	(31,216)	(60,915)	(44,155)
Other Receipts	-	195	-
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(40,979)	771,258	(322,912)
Cash Flows Provided by Investing Activities			
Cash Received from Investment Earnings	11,990	-	-
Increase (Decrease) in Cash and Cash Equivalents	10,278	933,610	160,129
Cash and Cash Equivalents, January 1, 2013	12,096	561,527	144,134
Cash and Cash Equivalents, December 31, 2013	**$ 22,374**	**$ 1,495,137**	**$ 304,263**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	$ (20,113)	$ 415,082	$ 300,744
Adjustments to Reconcile Operating Income to Net Cash Flows Provided by Operating Activities:			
Depreciation Expense	28,667	283,152	246,107
Change in Assets and Liabilities:			
Accounts Receivable	(1,043)	(17,316)	(7,749)
Inventory of Supplies Purchased for Resale	(63,328)	-	-
Prepaid Expenses	(29)	(251)	664
Accounts Payable	37,424	(414,664)	3,862
Accrued Wages Payable	594	197	(1,560)
Accrued Taxes Payable	(311)	(4)	-
Customer Deposits	-	4,670	-
Accrued Leave Payable	(262)	4,072	(1,527)
Net Cash Flows Provided by (Used in) Operating Activities	**$ (18,401)**	**$ 274,938**	**$ 540,541**

The accompanying notes are an integral part of the financial statements.

Sanitation Fund	Ambulance Fund	Total Proprietary Funds
$ 1,104,801	$ 588,020	$ 6,345,674
(558,803)	(215,697)	(3,746,210)
(374,858)	(576,218)	(1,835,141)
171,140	(203,895)	764,323
12,000	-	12,000
-	-	(70,000)
10,000	54,918	10,000
-	-	12,500
22,000	54,918	(35,500)
-	(388,472)	(2,016,505)
690	-	1,420
-	-	(372,893)
-	-	2,543,654
-	-	(136,286)
23,047	140	23,382
23,737	(388,332)	42,772
-	-	11,990
216,877	(537,309)	783,585
156,807	537,309	1,411,873
$ 373,684	**$ -**	**$ 2,195,458**
$ 37,278	$ (30,718)	$ 702,273
133,366	56,322	747,614
	-	
(23,203)	(233,849)	(283,160)
-	-	(63,328)
209	(841)	(248)
21,416	(2,013)	(353,975)
1,309	7,204	7,744
765	-	450
-	-	4,670
-	-	2,283
$ 171,140	**$ (203,895)**	**$ 764,323**

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The reporting entity of the City of Sturgis (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility; those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete).

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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 expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities and deferred inflows and outflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities and deferred inflows and outflows of resources, 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, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

The major funds of the City financial reporting entity are described below:

Governmental Funds:

General Fund - the general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund is always considered to be a major fund.

Special Revenue Funds - special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Improvement Fund – Ordinance 2012-01 allows at least 40 percent of the tax levied under Title 20 Tax, Chapter 20.01 Municipal Sales and Service Tax, and Use Tax shall be used only for capital improvements, land acquisition, debt reduction, and the purchase of machinery and equipment. This is a major fund.

Revolving Loan Fund - to account for federal grants and other municipal monies used for financing improvements. The fund may be used both to pay the portion of the cost of an improvement and to advance the portion of such costs to businesses which are to be repaid over a period of years. This is a major fund.

Debt Service Funds - debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. There are no major debt service funds.

Capital Projects Funds - capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments). There are no major capital projects funds.

Permanent Funds - permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs - that is for the benefit of the City and its citizenry. There are no major permanent funds.

Proprietary Funds:

Enterprise Funds - enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Proprietary Funds (Continued):

Proprietary Funds include:

Liquor Fund - financed primarily by the sale of liquor; this fund accounts for construction and operation of the City liquor store. This is a major fund.

Water Fund - financed primarily by user charges; this fund accounts for the construction and operation of the City waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Wastewater Fund - financed primarily by user charges; this fund accounts for the construction and operation of the City sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

Sanitation Fund - financed primarily by user charges; this fund accounts for the construction and operation of the City rubble site and collection and disposal of solid waste and includes activity from the Special Sanitation Fund. This is a major fund.

Ambulance Fund - financed primarily by user charges; this fund accounts for construction and operation of the City ambulance service. This is a major fund.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized in the year in which all eligibility requirements have been satisfied.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting:

Government-wide Financial Statements:

In the Government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the City does not exceed one bill-paying cycle, and for the City, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2013 are sales tax revenues and intergovernmental revenue.

Under the modified accrual basis of accounting, receivables may be measurable, but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

> In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(1) Summary of Significant Accounting Policies (Continued)

d. Interfund Eliminations and Reclassifications (Continued)

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in Advance to asset accounts) are equally offset by a nonspendable fund balance account which indicates that they do not constitute available spendable resources since they are not a component of net current assets. Current portions of interfund receivables (reported in Due from asset accounts) are considered available spendable resources.

e. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with USGAAP; while for capital assets used in business-type activities; construction-period interest is capitalized in accordance with USGAAP.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as "Improvements Other than Buildings."

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Government-wide Statement of Activities. Accumulated depreciation is reported on the Government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	$ -0-	-----N/A------	----N/A------
Buildings	$ 15,000	Straight-line	10-50 years
Improvements Other Than Buildings	$ 15,000	Straight-line	10-50 years
Machinery and Equipment	$ 10,000	Straight-line	5-40 years

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of general obligation bonds, revenue bonds, tax increment financing, contract payable, and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Program Revenues

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications

In the proprietary funds' Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(1) Summary of Significant Accounting Policies (Continued)

j. Equity Classifications

Government-wide Financial Statements:

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – All other net position that do not meet the definition of restricted or net investment in capital assets.

Fund Financial Statements:

The City classifies governmental fund balance as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The City has two Committed Fund Balances for the year ended December 31, 2013. The Brick Fund and Capital Improvements funds were created through ordinances passed by the City Council, the highest decision making authority. The City Council would have to pass ordinances to remove the commitments.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Council, Mayor, or Finance Officer.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(1) Summary of Significant Accounting Policies (Concluded)

j. Equity Classifications (Continued)

With regard to the City's governmental funds, the City uses restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar-for-dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The City set a minimum fund balance policy within the general fund to keep on hand at least two months of regular fund operating revenues or regular general fund operating expenditures.

Proprietary fund equity is classified the same as in the government-wide financial statements. The City does not have a formal minimum fund balance policy. With regard to the City's proprietary funds, it is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

As of December 31, 2013, the City had the following governmental fund classifications:

	General Fund	Capital Improvement Fund	Revolving Loan Fund	Other Governmental Funds	Total Governmental Funds
263 **Nonspendable:**					
263.01 Nonspendable - Inventory	$ 1,485	$ -	$ -	$ -	**$ 1,485**
263.02 Nonspendable - Prepaid Expenses	22,155	-	-	-	**22,155**
263.05 Nonspendable - Notes Receivable	-	19,757	-	-	**19,757**
263.49 Nonspendable - Investment Held for Sale	-	-	-	608,100	**608,100**
263.49 Nonspendable - SDPAA Reserve (Note 9)	135,844	-	-	-	**135,844**
263.51 Nonspendable - Perpetual Care Cemetery	-	-	-	50,000	**50,000**
263.99 Nonspendable - Library Trust	-	-	-	327,535	**327,535**
	159,484	19,757	-	985,635	**1,164,876**
264 **Restricted:**					
264.01 Restricted - Debt Service	-	625,765	-	48,989	**674,754**
264.03 Restricted - Perpetual Care Cemetery	-	-	-	110,386	**110,386**
264.04 Restricted - BID Tax	-	-	-	28,625	**28,625**
264.05 Restricted - Library Purposes	-	-	-	227,074	**227,074**
264.97 Restricted - Revolving Loan	-	-	1,301,394	-	**1,301,394**
	-	625,765	1,301,394	415,074	**2,342,233**
265 **Committed**					
265.97 Committed - Brick Fund	100,239	-	-	-	**100,239**
265.97 Committed - Capital Improvements	-	985,769	-	-	**985,769**
	100,239	985,769	-	-	**1,086,008**
267 **Unassigned**	1,397,717	-	-	-	**1,397,717**
Total Fund Balances	$ 1,657,440	$ 1,631,291	$ 1,301,394	$ 1,400,709	**$ 5,990,834**

k. Inventory of Supplies Purchased for Resale

Inventory consists of inventory held for resale, which is recorded at the lower of cost or market, using the first-in, first-out method.

Inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

l. Compensated Absences

Full time employees earn up to two weeks of paid vacation, three weeks after the employee has been employed for five years, and four weeks after the employee has been employed for ten years. Maximum annual accrued carryover is forty hours. Upon termination, an employee is entitled to receive compensation for their accrued annual leave balance at their normal wage rate.

Sick leave is earned by full-time employees at the rate of eight hours per month to a maximum of 1,000 hours. Upon termination, employees are not entitled to receive compensation for their accrued sick leave balance unless they have been employed for ten years, at which time they receive half of their accumulated sick leave at three-quarters of their normal wage rate.

m. Deferred Inflows

Government Accounting Standards Board (GASB) No. 65, *Items Previously Reported as Assets and Liabilities,* which was implemented in the current year, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that apply to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows of resources consist primarily of property taxes, special assessments and federal grants.

n. Emerging Accounting Standards

In June 2012, GASB issued Statement Nos. 67 and 68. Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Reporting for Pensions*, replace the requirements of Statement No. 50, *Pension Disclosures* and will require additional note disclosures for the City's cost-sharing multiple employer, defined benefit pension plan. These statements relate to accounting and financial reporting issues and how pension costs and obligations are measured and reported in audited financial statements. The standards describe the change from the funding-based approach to an accounting-based approach in order to improve pension information and increase the transparency, consistency, and comparability of pension information across governments.

The City will recognize its share of a collective net pension liability, as well as pension expense and deferred outflows or inflows of resources for its proportionate share. Within the governmental fund financial statements, pension expenditures should be recognized equal to the total of (1) amounts paid by the City to a pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Note disclosures will include descriptive information about the plan and its terms, contribution rates and how they are determined, and amounts attributed to employee service and forfeitures in the current period.

The guidance related to the new standards is effective for the City's year ending December 31, 2014 for GASB 67 and December 31, 2015 for GASB 68.

(2) Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(2) Deposits and Investments (Continued)

Deposits - The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating, which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2013, the City's cash and investments consisted of checking, savings, money market accounts, and certificates of deposit. All of these accounts are insured or collateralized in the City's name.

State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The City's policy is to credit all income from deposits and investments to the General Fund, as required by SDCL 9-32-18.

Interest Rate Risk:
The City limits interest rate risk by structuring the portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate securities at a loss prior to maturity.

Credit Risk:
State law limits eligible investments for the City as discussed above. The City will further reduce credit risk by limiting the portfolio to interest bearing checking accounts, savings accounts, US Treasury bills, bonds, notes, US Government Agencies, certificates of deposit, certificates of deposit purchased through CDARS, money market mutual funds, repurchase agreements fully collateralized by allowable securities, and local government investment pool (SD FIT).

Custodial Credit Risk:
Custodial credit risk is the risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City will minimize custodial credit risk for deposits by requiring the financial institution to submit a copy of their collateralization report to the finance officer to determine whether the financial institution is in compliance with SDCL 4-6A and 51A-10-9. As of December 31, 2013, none of the City's deposits were exposed to custodial credit risk.

Concentration Risk:
The City will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. More than five percent of the City's certificates of deposit are in: American Express (21.4 percent), First Premier Bank (18 percent), GE Capital (18.3 percent), and Goldman Sachs (42.3 percent).

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(3) Property Taxes

Property taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. They attach as an enforceable lien on property as of January 1 of each year. The county bills and collects the taxes and remits them to the City.

The City is permitted by several state statutes to levy the following amounts of taxes per $1,000 of taxable valuation on taxable real property in the City:

General Fund	$27
Bond Redemption Funds	Amounts Required by Bond Agreements
Judgment Fund (Upon Judgment Being Made)	$10

State statute allows the tax rates to be raised by special election of the voters.

(4) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31 is as follows:

	Balance 12/31/2012	Additions	Transfers/ Deletions	**Balance 12/31/2013**
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	$ 2,184,497	$ -	$ -	**$ 2,184,497**
Construction Work in Progress	11,250	214,569	140,936	**84,883**
Total Capital Assets, not being Depreciated	2,195,747	214,569	140,936	**2,269,380**
Capital Assets, being Depreciated:				
Buildings	12,444,713	140,936	-	**12,585,649**
Improvements Other Than Buildings	27,291,837	282,284	-	**27,574,121**
Machinery and Equipment	3,775,245	191,622	-	**3,966,867**
Total Capital Assets, being Depreciated	43,511,795	614,842	-	**44,126,637**
Less Accumulated Depreciation for:				
Buildings	3,571,039	271,280	-	**3,842,319**
Improvements Other Than Buildings	6,346,179	586,462	-	**6,932,641**
Machinery and Equipment	2,155,234	134,244	-	**2,289,478**
Total Accumulated Depreciation	12,072,452	991,986	-	**13,064,438**
Total Governmental Activities Capital Assets, being Depreciated, Net	31,439,343	(377,144)	-	**31,062,199**
Total Governmental Capital Assets, Net	$ 33,635,090	$ (162,575)	$ 140,936	**$ 33,331,579**

Depreciation expense was charged to functions as follows:

Public Works	$ 473,363
Culture and Recreation	220,171
General Government	211,287
Public Safety	87,165
Total Depreciation Expense - Governmental	**$ 991,986**

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(4) Changes in Capital Assets (Continued)

Construction Commitments

As of December 31, 2013, there is approximately $322,000 of a commitment associated with a construction project in progress, which will be funded through a South Dakota economic development grant and fund balance. Completion of the project is expected in 2014.

	Balance 12/31/2012	Additions	Deletions	**Balance 12/31/2013**
Business-Type Activities:				
Capital Assets, not being Depreciated:				
Land	$ 738,681	$ -	$ -	**$ 738,681**
Construction Work in Progress	4,065,422	1,548,752	5,614,174	**-**
Total Capital Assets, not being Depreciated	4,804,103	1,548,752	5,614,174	**738,681**
Capital Assets, being Depreciated:				
Buildings	2,123,285	-	-	**2,123,285**
Improvements Other Than Buildings	20,349,387	5,693,455	-	**26,042,842**
Machinery and Equipment	4,108,641	388,472	-	**4,497,113**
Total Capital Assets, being Depreciated	26,581,313	6,081,927	-	**32,663,240**
Less Accumulated Depreciation for:				
Buildings	369,720	60,636	-	**430,356**
Improvements Other Than Buildings	6,922,758	458,568	-	**7,381,326**
Machinery and Equipment	2,937,236	228,410	-	**3,165,646**
Total Accumulated Depreciation	10,229,714	747,614	-	**10,977,328**
Total Business-Type Activities Capital Assets, being Depreciated, Net	16,351,599	5,334,313	-	**21,685,912**
Total Business-Type Capital Assets, Net	$ 21,155,702	$ 6,883,065	$ 5,614,174	**$ 22,424,593**

Depreciation expense was charged to functions as follows:

Ambulance	$ 56,322
Wastewater	246,107
Water	283,152
Sanitary	133,366
Liquor	28,667
Total Depreciation Expense - Business-Type	**$ 747,614**

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(5) Long-Term Debt

The following is a summary of the long-term debt transactions for the year ending December 31:

	Balance 12/31/2012	Additions	Deletions	**Balance 12/31/2013**	Due Within One Year
Primary Government:					
Governmental Activities:					
2008 Revenue Bonds	$ 4,730,000	$ -	$ 455,000	**$ 4,275,000**	$ 470,000
Tax Increment Financing Obligations	376,204	-	74,790	**301,414**	98,403
Marcotte Property	547,290	-	182,430	**364,860**	182,430
Compensated Absences	181,848	176,830	176,830	**181,848**	181,848
Total Governmental Activities	5,835,342	176,830	889,050	**5,123,122**	932,681
Business-Type Activities:					
2010 GO Crossover Refunding Bonds	1,625,000	-	300,000	**1,325,000**	310,000
2010 Sales Tax Revenue Bond	780,413	-	9,763	**770,650**	9,616
2009 Drinking Water Revenue Bond	460,398	-	51,373	**409,025**	52,540
2009 Clean Water Revenue Bond	276,131	-	11,757	**264,374**	12,114
2011 Drinking Water Revenue Bond	1,660,103	1,398,589	-	**3,058,692**	76,467
2012 Drinking Water Revenue Bond	890,828	1,145,065	-	**2,035,893**	56,417
Compensated Absences	79,000	75,388	73,105	**81,283**	81,283
Total Business-Type Activities	5,771,873	2,619,042	445,998	**7,944,917**	598,437
Total Primary Government	$ 11,607,215	$ 2,795,872	$ 1,335,048	**$ 13,068,039**	$1,531,118

The City has reserves of $625,765 and $12,294 at December 31, 2013, in accordance with debt covenants.

The City has pledged future revenues of the Water and Wastewater Funds for the retirement of debt issues associated with those funds through the maturity dates listed below. All debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison by fund of principal and interest payments and total pledged revenue for the current year.

	Water Fund	Wastewater Fund
Current Year Principal and Interest	$ 204,803	$ 322,063
Pledged Revenue	1,540,086	1,025,586

The Marcotte Property, included in the long-term debt balances above, is held by the City as Investment Real Estate Held for Sale on the Statement of Net Position, as the City has not decided if it will utilize the land in future years as a capital asset.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(5) Long-Term Debt (Continued)

Debt payable at December 31, 2013, is comprised of the following:

General Obligation	
General Obligation Crossover Refunding Bonds, Series 2010A for $2,210,000, matures in June 2021, interest at 2.00 to 3.65 percent, due in semi-annual installments of $30,000 to $155,000. Financed through Water and Wastewater Funds.	$ 1,325,000
Revenue Bonds	
Sales Tax Refunding Bonds, 2008 Series for $6,470,000, mature in March 2020, interest at a fixed 2.50 to 3.80 percent, due in variable annual installments. Financed through the Capital Improvement Fund.	4,275,000
Sales Tax Revenue Bonds, Series 2010 (Build America Bonds - Direct Pay), for $811,000, mature in July 2050, interest at a fixed 4.00 percent, due in annual installments of $40,980. Sales tax revenues pledged and financed through the Liquor Fund. The City will receive a credit from the Federal government for 35 percent of the interest paid on the bonds.	770,650
Drinking Water Revenue Borrower Bond, 2009 Series for $547,576, mature in January 2021, interest at a fixed 2.25 percent, due in quarterly installments of $15,325. Water revenues pledged and financed through the Water Fund.	409,025
Clean Water Revenue Borrower Bond, 2009 Series for $298,617, mature in October 2030, interest at a fixed 3.00 percent, due in quarterly installments of $4,977. Wastewater revenues pledged and financed through the Wastewater Fund.	264,374
Drinking Water Revenue Borrower Bond, 2011 Series, with a maximum borrowing of $3,460,000. As of December 31, 2013, advances totaled $3,058,692. Interest-only payments at 2.00 percent totaling $69,200 will be made through October 2014. The interim financing through the State Revolving Fund will then be repaid by USDA Rural Development, and the City will make scheduled debt payments to them at that time. Water revenues pledged and financed through the Water Fund.	3,058,692
Drinking Water Revenue Borrower Bond, Series 2012, with a maximum borrowing of $2,200,000. As of December 31, 2013, advances totaled $2,035,893. Quarterly payments begin in October 2014 through July 2034, with interest at a fixed 3.00 percent. Water revenues pledged and financed through the Water Fund.	2,035,893
Contract Payable	
Note payable to Game Fish and Parks for purchase of real property totaling $608,100, matures July 2015, non-interest bearing, due in annual installments of $182,430 through 2015. Financed through the Special Sales Tax Fund.	364,860
Tax Increment Financing Obligations	
TIF #9 for $406,001, including interest not to exceed 10 percent per annum, due in varying installments within 30 days of property tax collections from the County. Financed through TIF Debt Service Funds.	301,414
Total Bonds, Contract Payable, and TIF Obligations	**12,804,908**

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(5) Long-Term Debt (Continued)

Compensated Absences:	
General Fund	181,848
Liquor Fund	1,339
Water Fund	42,787
Wastewater Fund	16,438
Sanitation Fund	15,751
Ambulance Fund	4,968
Total Compensated Absences	**263,131**
Total Long-Term Debt	**$ 13,068,039**

The annual requirements to amortize long-term debt outstanding as of December 31, 2013, except for compensated absences are as follows:

	General Obligation		Revenue Bonds		TIF Obligations	
	Interest	Principal	Interest	Principal	Interest	Principal
2014	$ 34,352	$ 310,000	$ 369,612	$ 677,154	$ 23,052	$ 98,403
2015	28,184	240,000	233,459	714,906	15,446	104,396
2016	22,991	175,000	212,608	734,254	7,180	98,615
2017	18,337	165,000	147,650	758,730	268	-
2018	13,574	130,000	133,944	783,335	-	-
2019-2023	14,379	305,000	541,187	2,877,219	-	-
2024-2028	-	-	281,748	1,083,731	-	-
2029-2033	-	-	166,569	1,139,181	-	-
2034-2038	-	-	89,222	531,952	-	-
2039-2043	-	-	63,350	523,887	-	-
2044-2048	-	-	32,068	555,169	-	-
2049-2051	-	-	2,567	434,116	-	-
Total	$ 131,817	$ 1,325,000	$ 2,273,984	$ 10,813,634	$ 45,946	$ 301,414

Contract Payable	**Total**	
Principal	**Interest**	**Principal**
$ 182,430	**$ 427,016**	**$ 1,267,987**
182,430	**277,089**	**1,241,732**
-	**242,779**	**1,007,869**
-	**166,255**	**923,730**
-	**147,518**	**913,335**
-	**555,566**	**3,182,219**
-	**281,748**	**1,083,731**
-	**166,569**	**1,139,181**
-	**89,222**	**531,952**
-	**63,350**	**523,887**
-	**32,068**	**555,169**
-	**2,567**	**434,116**
$ 364,860	**$ 2,451,747**	**$ 12,804,908**

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(5) Long-Term Debt (Concluded)

Tax Increment Financing Obligations

Tax increment financing is a method of financing improvements and development in an area which has been determined to be blighted according to the criteria set forth in SDCL 11-9. In some instances, the City pledges future tax revenues generated by the tax increment district to acquire public improvements within the established Tax Increment District which were constructed by a private developer.

It is a specific condition of the developer's agreement and a condition of the City's obligation that all sums payable shall be limited to the proceeds of the positive tax increment. It is also specifically agreed that the City has made no representation that the proceeds from such funds shall be sufficient to retire the indebtedness incurred by the developer to construct the public improvements.

During the year ended December 31, 2013, property tax revenues were $134,280 for TIF #9. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled $30,190 for the year ended December 31, 2013.

(6) Individual Fund Interfund Receivable and Payable Balances

Interfund receivable and payable balances at December 31, 2013, are as follows:

Fund	Interfund Receivables	Interfund Payables
Major Funds:		
Ambulance Fund	$ -	$ 54,918
Liquor Fund	-	350,939
Water Fund	405,857	-
Total Interfund Receivable and Payable Balances	**$ 405,857**	**$ 405,857**

The Water Fund loaned monies to the Liquor Fund and Ambulance Fund for operations. The balances will be repaid within the next year.

(7) Interfund Transfers

	Transfers In	Transfers Out
Major Funds:		
General Fund	$ 70,000	$ 12,000
Special Sales Tax Fund	82,800	-
Wastewater Fund	-	70,000
Sanitation Fund	12,000	-
Capital Improvements	-	82,800
Total Transfers	**$ 164,800**	**$ 164,800**

Transfers between the funds were made to cover general operational costs of the City.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(8) Retirement Plan -- South Dakota Retirement System

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute eight and nine percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2013, 2012, and 2011, were **$243,369**, $244,509, and $242,673, respectively, equal to the required contributions each year.

(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. During the year ended December 31, 2013, the City managed its risks as follows:

Employee Health Insurance:
The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past four years.

Liability Insurance:
The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium to the pool to provide coverage for general liability, vehicle coverage, wrongful acts, and errors and omissions of public officials.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverage will be provided to a $2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of $250,000 for property coverage and $500,000 for liability coverage to the upper limit. The City carries a $1,000 deductible for the wrongful acts coverage and auto coverage.

As of December 31, 2013, the City has a fully vested balance in the cumulative reserve fund of $135,844. Access to this balance is restricted by SDPAA.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from the risks have not exceeded the liability coverage during the past four years.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(9) Risk Management (Continued)

Property and Building Insurance:
The City purchases property and building insurance from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past four years.

Worker's Compensation:
The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to provide worker's compensation coverage for its employees under a retrospectively rated policy, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first $650,000 of any claim per individual. The pool has reinsurance which covers up to $2,000,000 per individual per incident. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage over the past four years.

Unemployment Benefits:
The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

(10) Notes Receivable

Notes receivable are revolving loans the City makes to promote urban development. The following is a summary of the notes receivable at December 31, 2013:

Governmental

Loan	Collateral	Rate	Maturity	Balance
Jenter	None	0%	May 2018	$ 19,757

Business -Type:

Loan	Collateral	Rate	Maturity	Balance
Mount Rodney RV Park, LLC	None	3%	September 2015	$ 25,000

(11) Change in Accounting Principle

In 2013, the City implemented a new accounting standard issued by the Governmental Accounting Standards Board, GASB 65, which required bond issue costs to be recognized as an expense in the period incurred. The implementation of this standard resulted in a prior period adjustment to write-off bond issuance costs previously capitalized as deferred charges totaling $137,205 with accumulated amortization of $14,102 at December 31, 2012. The result was a net decrease to net position of $123,103 at December 31, 2012.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2013

(12) Due from Other Governments

The following represent receivables due from other governments at December 31, 2013:

Due from State Government:		
Local Government Highway and Bridge	$	28,236
Alcohol Reversion		13,290
Disaster Recovery Match for FEMA		32,719
Airport Improvement Project - Fencing		222
Airport Improvement Project - Easement		6,002
Total Due from State Government		80,469
Due from Federal Government:		
Disaster Recovery Match for FEMA		266,822
Airport Improvement Project - Fencing		7,035
Airport Improvement Project - Easement		108,031
Total Due from Federal Government		381,888
Total Due from Other Governments	**$**	**462,357**

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STURGIS

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

		Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue					
	Taxes:				
311	General Property Taxes	$ 2,814,560	$ 2,814,560	$ 2,707,082	$ (107,478)
313	General Sales and Use Taxes	1,633,810	1,633,810	1,679,887	46,077
315	Amusement Taxes	-	-	840	840
319	Penalties and Interest on Delinquent Taxes	-	-	14,834	14,834
320	Licenses and Permits	417,850	417,850	466,588	48,738
	Intergovernmental Revenue:				
331	Federal Grants	-	-	10,797	10,797
335	Bank Franchise Tax	2,200	2,200	6,845	4,645
335	Liquor Tax Reversion	29,000	29,000	45,068	16,068
335	Motor Vehicle Licenses	55,000	55,000	71,144	16,144
335.1	Local Government Highway and Bridge Fund	100,000	100,000	129,707	29,707
336	State Payment in Lieu of Taxes	6,500	6,500	-	(6,500)
338	County Highway and Bridge Reserve Tax (25%)	5,855	5,855	5,855	-
338	Port of Entry	14,000	14,000	12,928	(1,072)
339	County Payments in Lieu of Taxes	2,700	2,700	2,816	116
	Charges for Goods and Services:				
341	General Government	1,438,775	1,438,775	1,228,406	(210,369)
342	Public Safety	38,696	38,696	32,735	(5,961)
343	Highways and Streets	700	700	-	(700)
345	Health	600	600	427	(173)
346	Culture and Recreation	290,987	290,987	287,447	(3,540)
349	Other	-	-	63,730	63,730
	Fines and Forfeits:				
351	Court Fines and Costs	3,800	3,800	6,599	2,799
	Miscellaneous Revenue:				
361	Earnings on Deposits and Investments	19,950	19,950	20,093	143
362	Rentals	3,700	3,700	48,914	45,214
362	Airport Hangar Lease	4,500	4,500	-	(4,500)
363	Special Assessments	2,250	2,250	126	(2,124)
367	Contributions and Donations - Private Sources	9,200	9,200	8,627	(573)
369	Other	1,000	1,000	4,034	3,034
Total Revenue		6,895,633	6,895,633	6,855,529	(40,104)

CITY OF STURGIS

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures				
General Government:				
411 Legislative	$ 275,349	$ 232,105	$ 185,716	$ 46,389
414 Financial Administration	1,045,449	1,045,449	990,542	54,907
419 Other	1,090,512	1,248,513	1,170,952	77,561
Public Safety:				
421 Police	1,786,752	1,786,752	1,666,160	120,592
422 Fire	143,002	143,002	127,700	15,302
Public Works:				
431 Highway and Streets	725,847	725,847	644,060	81,787
435 Airport	43,291	43,291	41,940	1,351
437 Cemeteries	115,846	115,846	92,550	23,296
Culture and Recreation:				
451 Recreation	749,502	749,502	665,134	84,368
452 Parks	608,892	608,892	530,266	78,626
455 Library	349,747	349,747	328,266	21,481
456 Auditorium	31,444	31,444	21,034	10,410
Total Expenditures	6,965,633	7,080,390	6,464,320	616,070
Excess of Revenue Over (Under) Expenditures	**(70,000)**	**(184,757)**	**391,209**	**575,966**
Other Financing Sources (Uses)				
391.01 Transfers In	70,000	70,000	70,000	-
391.04 Compensation for Loss or Damage to Capital Assets	-	-	16,524	16,524
511 Transfers Out	(12,000)	(12,000)	(12,000)	-
Total Other Financing Sources	**58,000**	**58,000**	**74,524**	**16,524**
Net Change in Fund Balance	(12,000)	(126,757)	465,733	592,490
Fund Balance, December 31, 2012	1,191,707	1,191,707	1,191,707	-
Fund Balance, December 31, 2013	**1,179,707**	**1,064,950**	**1,657,440**	**592,490**

The accompanying supplementary notes are an integral part of the required supplementary information.

CITY OF STURGIS

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL IMPROVEMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
Taxes:				
313 General Sales and Use Taxes	$ 1,207,598	$ 1,207,598	$ 1,241,655	$ 34,057
Intergovernmental Revenue:				
331 Federal Grants	-	-	108,031	108,031
334 State Grants	-	-	15,327	15,327
Miscellaneous Revenue:				
361 Earnings on Deposits	-	-	4,478	4,478
363 Special Assessments	15,000	15,000	12,689	(2,311)
367 Contributions and Donations	-	-	10,000	10,000
Total Revenue	1,222,598	1,222,598	1,392,180	169,582
Expenditures				
General Government:				
419 Other	320,400	269,300	84,812	184,488
Public Safety				
422 Fire	10,500	20,832	20,832	-
Public Works:				
431 Highway and Streets	150,000	285,000	241,354	43,646
435 Airport	-	3,064	3,064	-
Culture and Recreation:				
451 Recreation	37,286	162,886	162,572	314
452 Parks	90,000	151,000	150,281	719
456 Auditorium	-	3,000	3,000	-
470 Debt Service	614,412	614,413	614,413	-
Total Expenditures	1,222,598	1,509,495	1,280,328	229,167
Excess of Revenue Over (Under) Expenditures	-	(286,897)	111,852	398,749
Other Financing Uses				
391.1 Transfers Out	-	(82,800)	(82,800)	-
Net Change in Fund Balance	-	(369,697)	29,052	398,749
Fund Balance, December 31, 2012	1,602,239	1,602,239	1,602,239	-
Fund Balance, December 31, 2013	**$ 1,602,239**	**$ 1,232,542**	**$ 1,631,291**	**$ 398,749**

The accompanying supplementary notes are an integral part of the required supplementary information.

CITY OF STURGIS

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
REVOLVING LOAN FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
Miscellaneous Revenue:				
361 Earnings on Deposits	$ 20,000	$ 20,000	$ -	$ (20,000)
Total Revenue	20,000	20,000	-	(20,000)
Expenditures				
460 Conservation and Development	20,000	20,000	15,035	4,965
Net Change in Fund Balance	-	-	(15,035)	(15,035)
Fund Balance, December 31, 2012	1,316,429	1,316,429	1,316,429	-
Fund Balance, December 31, 2013	**$ 1,316,429**	**$ 1,316,429**	**$ 1,301,394**	**$ (15,035)**

The accompanying supplementary notes are an integral part of the required supplementary information.

CITY OF STURGIS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2013

(1) Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.

2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number 4.

3. A line item for contingencies may be included in the annual budget. Such line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.

4. If it is determined during the year that sufficient amounts have not been budgeted, State statute allows the adoption of supplemental budgets.

5. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board.

6. The City did not encumber any amounts at December 31, 2013.

7. Formal budgetary integration is employed as a management control device during the year for the general fund and major special revenue funds.

8. Budgets for the general fund and major special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States (USGAAP).

(2) GAAP Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP applied within the context of the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

OTHER SUPPLEMENTARY INFORMATION

CITY OF STURGIS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013

		Special Sales Tax Fund	Library Fund	TIF Funds	Alice W. Dunn Fund	Perpetual Maintenance Fund	Total Nonmajor Governmental Funds
Assets							
104	Interest Bearing Accounts	$ 16,455	$ 63,053	$ 48,989	$ 64,021	$ 160,408	$ 352,926
105	Savings Certificates	-	-	-	427,535	-	427,535
108	Sales Tax Receivable	12,670	-	-	-	-	12,670
151	Investment Held for Sale	608,100	-	-	-	-	608,100
Total Assets		**$ 637,225**	**$ 63,053**	**$ 48,989**	**$ 491,556**	**$ 160,408**	**$ 1,401,231**
Liabilities and Fund Balances							
Liabilities							
216	Accounts Payable	500	-	-	-	-	500
217	Accrued Taxes Payable	-	-	-	-	22	22
Total Liabilities		500	-	-	-	22	522
Fund Balances							
263.49	Nonspendable - Investment Held for Sale	608,100	-	-	-	-	608,100
263.51	Nonspendable - Perpetual Care Cemetery	-	-	-	-	50,000	50,000
263.99	Nonspendable - Library Trust	-	-	-	327,535	-	327,535
264.01	Restricted - Debt Service	-	-	48,989	-	-	48,989
264.03	Restricted - Perpetual Care Cemetery	-	-	-	-	110,386	110,386
264.04	Restricted - BID Tax	28,625	-	-	-	-	28,625
264.05	Restricted - Library Purposes	-	63,053	-	164,021	-	227,074
Total Fund Balances		636,725	63,053	48,989	491,556	160,386	1,400,709
Total Liabilities and Fund Balances		**$ 637,225**	**$ 63,053**	**$ 48,989**	**$ 491,556**	**$ 160,408**	**$ 1,401,231**

CITY OF STURGIS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Special Sales Tax Fund	Library Fund	TIF Funds	Alice W. Dunn Fund	Perpetual Maintenance Fund	Total Nonmajor Governmental Funds
Revenue:						
311 General Property Taxes	$ -	$ -	$ 134,280	$ -	$ -	$ 134,280
313 General Sales and Use Taxes	286,776	-	-	-	-	286,776
361 Investment Earnings	-	191	-	5,126	-	5,317
369 Other	-	-	-	-	4,035	4,035
Total Revenue	286,776	191	134,280	5,126	4,035	430,408
Expenditures:						
455 Library	-	10,140	-	-	-	10,140
460 Conservation and Development	221,778	-	-	-	-	221,778
470 Debt Service	182,430	-	112,706	-	-	295,136
Total Expenditures	404,208	10,140	112,706	-	-	527,054
Excess of Revenue Over (Under) Expenditures	(117,432)	(9,949)	21,574	5,126	4,035	(96,646)
Other Financing Sources						
391 Transfers In	82,800	-	-	-	-	82,800
Net Change in Fund Balances	(34,632)	(9,949)	21,574	5,126	4,035	(13,846)
Fund Balance, December 31, 2012	671,357	73,002	27,415	486,430	156,351	1,414,555
Fund Balance, December 31, 2013	**$ 636,725**	**$ 63,053**	**$ 48,989**	**$ 491,556**	**$ 160,386**	**$ 1,400,709**

CITY OF STURGIS

SCHEDULE OF RALLY ACTIVITIES (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2013

Revenue		
Taxes:		
320	Licenses and Permits	$ 322,828
Charges for Goods and Services:		
341	General Government	928,370
346	Culture & Recreation	24,909
344	Special Sanitation Fee	178,722
Total Revenue		**1,454,829**
Expenditures		
General Government:		
419	Other	795,430
Public Works:		
429	Sanitation	73,772
Total Expenditures		**869,202**
Excess of Revenue over Expenditures		**$ 585,627**

SINGLE AUDIT SECTION

CITY OF STURGIS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

Status of Prior Audit Findings and Recommendations:

The City does not consider the additional costs of preparing its financial statements to be necessary, so Finding #12-1 will be repeated as Finding #2013-001 for the year ended December 31, 2013.

The City continues to improve on recording year-end adjustments; however as significant audit adjustments were necessary, Finding #12-2 will be repeated as Finding #2013-002 for the year ended December 31, 2013.

Administration completed budget supplements to prevent overages. Thus, Finding #12-3 will not be repeated for the year ended December 31, 2013.

There were fewer issues noted during the inventory count in the current year, but segregation of duties issues still exist. Thus, Finding #12-4 will be repeated as Finding #2013-003 for the year ended December 31, 2013.

CITY OF STURGIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Sturgis (the City).

2. Material weaknesses were disclosed during the audit of the financial statements and are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.

4. A significant deficiency and a material weakness were disclosed during the audit of the major federal award program as reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by OMB Circular A-133.

5. The auditor's report on compliance for the major federal award program for the City expresses an unmodified opinion.

6. Audit findings relative to the major federal award program for the City are reported in Part C of this schedule.

7. The programs tested as major were as follows:
   a. Water and Waste Disposal Systems for Rural Communities (#10.760).
   b. Capitalization Grants for Drinking Water State Revolving Funds (#66.468).

8. The threshold for distinguishing type A and B programs was $300,000.

9. The City was not considered a low-risk auditee under the criteria established in OMB Circular A-133.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2013-001 FINDING: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation

Condition and Cause: As in prior years, we were requested to draft the audited financial statements, related footnote disclosures, and SEFA as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do with municipalities of your size.

Criteria and Effect: This deficiency could result in a material misstatement to the financial statements and SEFA that could have been prevented or detected by the City's management.

Questioned Costs: None

Major Federal Program: #10.760

CITY OF STURGIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2013-001 FINDING: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation (Continued)

Recommendation: As in prior years, we have instructed management to review a draft of the auditor prepared financials and SEFA in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the City's statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response and Corrective Action Plan: At this time, the City will accept the degree of risk that is associated with this condition. For future audits, the City will continue to monitor the financial statement and SEFA preparation and determine if any modification can be done to the procedure. The Finance Officer is responsible for the corrective action plan for this finding.

2013-002 FINDING: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed material audit adjustments. Adjustments included adjusting construction in process, health insurance receivable, transfers, grant receivables and deferrals, and long-term debt. Additionally, we posted several reclassification entries with no effect on net income. Furthermore, entries were proposed as a part of the audit, but were not recorded due to the overall insignificance on the financial statements.

Criteria and Effect: These adjustments would not have been identified as a result of the City's existing internal controls, and therefore, could have resulted in a material misstatement of the City's financial statements.

Recommendation: We recommend that management consider the following:

a. All construction in process costs should be recorded in the general capital assets fund, as well as within the applicable governmental fund.
b. Any monies that will be received in the future as a result of overpayment of health insurance should be recorded as accounts receivable as of year-end.
c. Activity within agency funds cannot be recorded as transfers since an agency fund is a specific fund of the City's. Rather, any monies needing moved from one of the City's funds to an agency fund should be accounted for as an expenditure, rather than a transfer.
d. Grant receivables and deferrals need recorded for expenditures pertaining to reimbursement monies the City has earned, but not received during the 60-day availability period.
e. Long-term debt general ledger balances should be adjusted to match bank balances, amortization schedules, etc. on at least an annual basis.

Response and Corrective Action Plan: The City will make every effort to make accurate accounting adjustments throughout the year. When recording a journal entry that is unfamiliar, the Finance Officer will inquire on how to make the correct entry.

2013-003 FINDING: Liquor Store Segregation of Duties

Condition and Cause: There is an overall lack of segregation of duties involving the Liquor Store Manager's ability to order inventory, receive inventory, adjust inventory costs, and perform inventory counts. Additionally, the gross margins calculated per the general ledger did not agree to those generated on the inventory listing. Management is aware the gross margin does not meet expectations, but has not identified the problem.

CITY OF STURGIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2013

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONCLUDED)

MATERIAL WEAKNESSES (CONCLUDED)

2013-003 FINDING: Liquor Store Segregation of Duties (CONTINUED)

Criteria and Effect: A lack of segregation of duties could lead to misstatements to the financial statements and misappropriation of liquor inventory. Additionally, recalculated gross margins should more closely reflect those tracked within the inventory software.

Recommendation: Individuals other than the Liquor Store Manager should be receiving inventory and performing inventory counts. A separate individual should review cost adjustments and gross margins for reasonableness.

Response and Corrective Action Plan: The City Manager and Finance Officer will meet in September 2014 and will put together an analysis of inventory management, margins and segregation of duties of the Liquor Store. After analyzing these issues a discussion will be held with staff and policies will be put in place to correct any problem areas.

C. FINDINGS – COMPLIANCE AUDIT

MATERIAL WEAKNESS

Finding #2013-001 listed in Part B relates to major federal award program #10.760. The finding relates to the reporting compliance requirement.

SIGNIFICANT DEFICIENCY

2013-004 FINDING: Lazelle Water Main Replacement Project Suspension and Debarment

Condition and Cause: The City does not have controls in place to monitor whether vendors, other than contractors, who are utilized for the expenditure of federal funds have been suspended or debarred. This finding pertains to the suspension and debarment compliance requirement.

Criteria and Effect: Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *System for Award Management (sam.gov)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Questioned Costs: None

Applicable Major Program: #66.468

Recommendation: The City currently has a process in place to monitor such for contractors, but should establish internal controls over compliance to verify that any additional vendors, including those utilized for professional services and excluded from State bid laws, are not suspended or debarred.

Response and Corrective Action Plan: The City will make every effort to check on all contractors used during projects, including engineers. The Public Works Director will continue to perform these checks and will include all contractors. The Finance Officer will check to make sure this is being done for every project.

CITY OF STURGIS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	CFDA Number		Amount
U.S. Department of Transportation:			
Pass-Through the S.D. Department of Transportation			
Airport Improvement Program	20.106	$	115,066
Pass-Through the S.D. Department of Highway Safety			
Highway Safety Grant for Cameras and Radar	20.601		3,332
Highway Safety Grant for Intoximeters	20.601		1,380
Total Pass-Through the S.D. Department of Highway Safety			4,712
Total U.S. Department of Transportation			119,778
U.S. Department of Agriculture Direct Program:			
Water and Waste Disposal Systems for Rural Communities	10.760		671,618
U.S. Environment Protection Agency:			
Pass-Through the S.D. Department of Environment and Natural Resources			
Capitalization Grants for Drinking Water State Revolving Funds	66.468		415,407
U.S. Department of Homeland Security:			
Direct Funding			
Grant for Equipment - Cellebrite	97.067		6,085
Pass-Through the S.D. Department of Public Safety			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036		266,822
Total U.S. Department of Homeland Security			272,907
U.S. General Services Administration:			
Pass-Through the S.D. Federal Property Agency			
Donation of Surplus Personal Property	39.003		15,555
Total		**$**	**1,495,265**

OTHER REPORTS

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

City Council
City of Sturgis
Sturgis, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **CITY OF STURGIS** (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 14, 2014.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as #2013-001, #2013-002, and #2013-003 to be material weaknesses.

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

City's Response to Findings
The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

August 14, 2014

Ketel Thorstenson, LLP
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133

City Council
City of Sturgis
Sturgis, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the compliance of **CITY OF STURGIS** (the City) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program
In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2013.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as #2013-001 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as #2013-004 to be a significant deficiency.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

August 14, 2014