

**CITY OF STURGIS**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2022



**Ketel Thorstenson, LLP**

Certified Public Accountants/Business & Personal Consultants

**[ktllp.com](http://ktllp.com)**

**CITY OF STURGIS**

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# Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street  
P.O. Box 3140, Rapid City, South Dakota 57709  
Telephone (605) 342-5630 • e-mail: [info@ktllp.com](mailto:info@ktllp.com)

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Sturgis  
Sturgis, South Dakota

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

#### ***Opinions***

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, 2022 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2022 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Emphasis of Matter – Effect of Adopting New Accounting Standard***

As discussed in Note 1 to the financial statements, the Governmental Accounting Standards Board issued GASB 87, Leases, which was adopted by the City as of January 1, 2022, and supersedes prior lease guidance. Our opinion is not modified with respect to this matter.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and there is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as a fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain other internal control matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 16, budgetary comparison information on pages 56 through 58, pension information on pages 59 through 60, and notes to required supplementary information on pages 61 through 62 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of rally activities on page 68 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.

**Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2023, 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  
Certified Public Accountants

August 16, 2023

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022**

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, 2022. 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 \$1,613,137 more than the \$12,620,616 governmental program expenditures. This includes any transfers in/out. The increases in general sales tax and gross receipts tax for the year. The Sturgis Motorcycle Rally revenue was also up during the year.
- In the City's business-type activities, expenses exceeded revenues by \$651,790 which includes transfers and any activity due to the disposal of capital assets. The increase is due to receiving state and federal grant money for the City's Wastewater Treatment project and the City's liquor store sales increased during the year.

#### **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 provides 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 (UNAUDITED)  
DECEMBER 31, 2022**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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**

	<b>Government-wide Statements</b>	<b>Fund Statements</b>	
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>
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 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 (UNAUDITED) DECEMBER 31, 2022**

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

##### **Government-wide Statements**

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 (UNAUDITED)  
DECEMBER 31, 2022**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Net Position**

The City's combined net position increased seven percent between fiscal year 2021 and 2022. (See Table A-1).

<b>Table A-1 Summarized Statement of Net Position</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>	<b><u>2021</u></b>
Current and Other Assets	\$ 4,213,054	\$ 4,797,167	\$ 6,120,569	\$ 8,755,375	\$ 10,333,623	\$ 13,552,542
Capital Assets	55,878,877	54,237,029	44,468,393	42,851,548	100,347,270	97,088,577
<b>Total Assets</b>	<b>60,091,931</b>	<b>59,034,196</b>	<b>50,588,962</b>	<b>51,606,923</b>	<b>110,680,893</b>	<b>110,641,119</b>
Pension Related Deferred Outflows	1,264,815	-	913,572	-	2,178,387	-
Long-Term Debt	11,126,928	11,410,656	21,235,106	21,867,955	32,362,034	33,278,611
Other Liabilities	563,657	1,337,154	1,791,299	1,316,853	2,354,956	2,654,007
<b>Total Liabilities</b>	<b>11,690,585</b>	<b>12,747,810</b>	<b>23,026,405</b>	<b>23,184,808</b>	<b>34,716,990</b>	<b>35,932,618</b>
Lease Related Deferred Inflows	1,699,292	-	81,081	-	1,780,373	-
Pension Related Deferred Inflows	810,070	742,724	585,110	441,791	1,395,180	1,184,515
<i>Net Position:</i>						
Net Investment in Capital Assets	45,006,155	43,085,088	23,404,773	21,210,353	68,410,928	64,295,441
Restricted	3,371,672	3,578,658	522,734	425,756	3,894,406	4,004,414
Unrestricted	(1,221,028)	(1,120,084)	3,882,431	6,344,215	2,661,403	5,224,131
<b>Total Net Position</b>	<b>47,156,799</b>	<b>45,543,662</b>	<b>27,809,938</b>	<b>27,980,324</b>	<b>74,966,737</b>	<b>73,523,986</b>
Beginning Net Position	45,543,662	42,755,431	27,980,324	26,176,836	73,523,986	68,932,267
<b>Change in Net Position</b>	<b>\$ 1,613,137</b>	<b>\$ 2,788,231</b>	<b>\$ (170,386)</b>	<b>\$ 1,803,488</b>	<b>\$ 1,442,751</b>	<b>\$ 4,591,719</b>
Percentage of Change in Net Position	4%	7%	-1%	7%	2%	7%

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.

**CITY OF STURGIS**

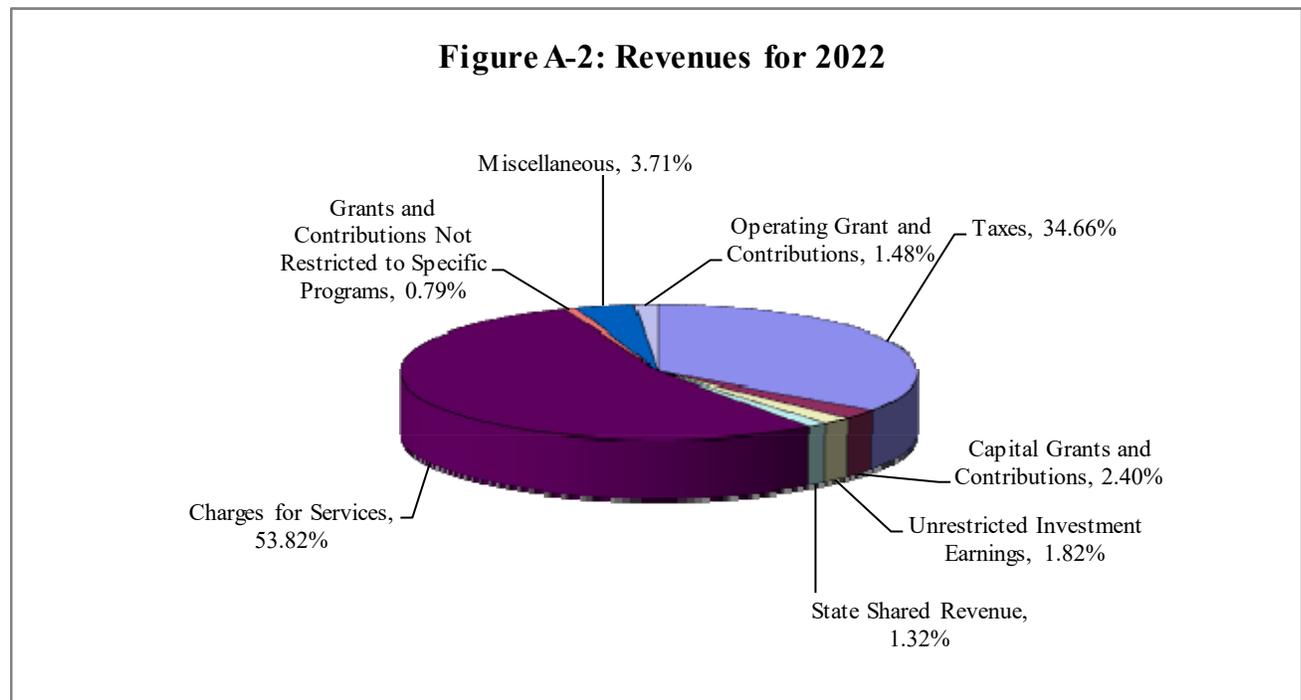
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2022**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Changes in Net Position**

The City's revenues totaled \$24,344,828 (See Table A-2). Nearly all of the City's revenue comes from charges for services and taxes, with 54 cents of every dollar raised coming from charges for services (primarily liquor and water operations) and 34 cents of every dollar raised coming from some type of tax (See Figure A-2). The other 18 percent of the City's total revenue comes from state and federal grants for capital purposes, operating grants, contributions, state shared revenue, interest and miscellaneous.

The total cost of all programs and services was \$23,383,481 (See Table A-2). The City's expenses cover a range of services, including road maintenance, parks and recreation services and utility system services. (See Figure A-3).

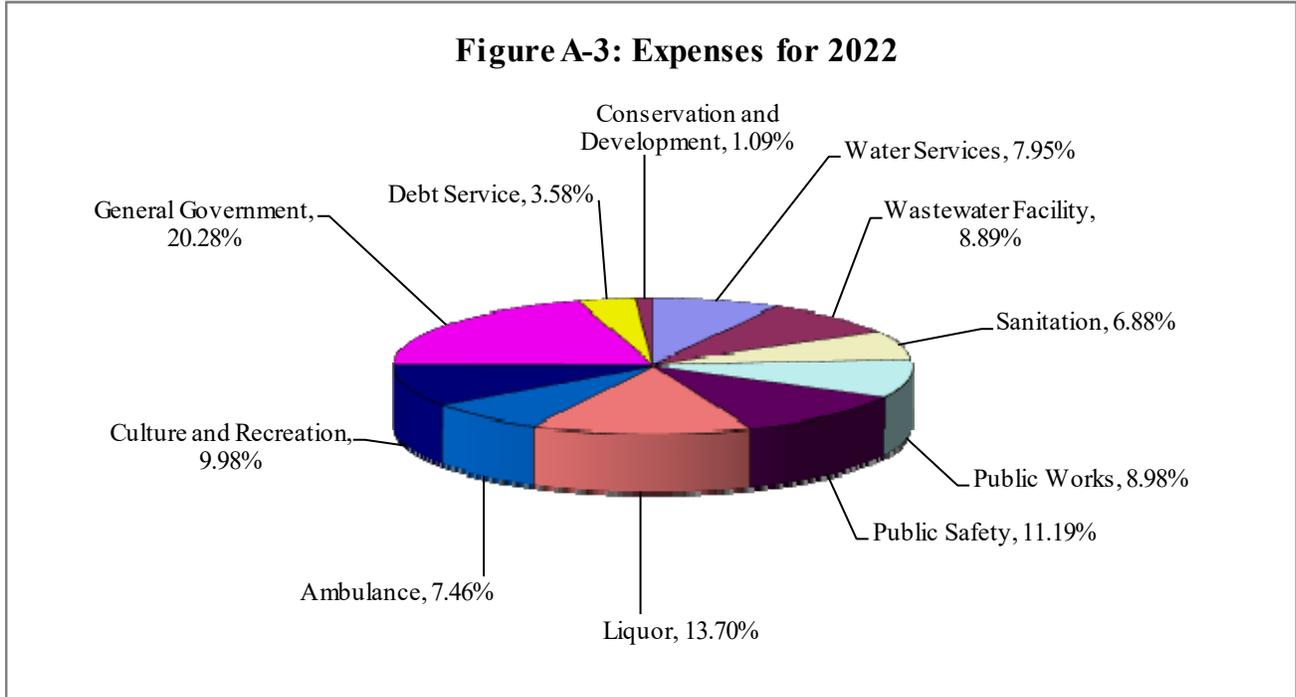


**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2022**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Changes in Net Position**



CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2022

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Changes in Net Position

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

<b>Table A-2</b>						
<b>Changes in Net Position</b>						
	<b>Governmental Activities</b>		<b>Business - Type Activities</b>		<b>Total</b>	
	<b>2022</b>	2021	<b>2022</b>	2021	<b>2022</b>	2021
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 3,250,164	\$ 3,268,292	\$ 9,851,920	\$ 9,845,674	\$ 13,102,084	\$ 13,113,966
Operating Grants and Contributions	149,810	99,227	209,742	1,081,096	359,552	1,180,323
Capital Grants and Contributions	401,778	1,515,053	181,405	985,694	583,183	2,500,747
General Revenues						
Taxes	8,437,220	8,362,255	-	-	8,437,220	8,362,255
State Shared Revenue	322,303	318,624	-	-	322,303	318,624
Grants and Contributions not Program Specific	194,049	56,235	-	-	194,049	56,235
Unrestricted Investment Earnings	434,289	119,709	9,213	9,410	443,502	129,119
Miscellaneous	638,624	332,890	264,311	260,426	902,935	593,316
<b>Total Revenues</b>	<b>13,828,237</b>	<b>14,072,285</b>	<b>10,516,591</b>	<b>12,182,300</b>	<b>24,344,828</b>	<b>26,254,585</b>
<b>Expenses</b>						
General Government	4,645,503	5,081,852	-	-	4,645,503	5,081,852
Public Safety	2,561,833	2,402,854	-	-	2,561,833	2,402,854
Public Works	2,056,557	2,040,943	-	-	2,056,557	2,040,943
Culture and Recreation	2,286,273	2,277,359	-	-	2,286,273	2,277,359
Conservation and Development	250,404	294,740	-	-	250,404	294,740
Debt Service	820,046	526,821	-	-	820,046	526,821
Liquor	-	-	3,138,264	3,041,960	3,138,264	3,041,960
Water Services	-	-	1,820,091	1,778,566	1,820,091	1,778,566
Wastewater Services	-	-	2,039,598	1,555,751	2,039,598	1,555,751
Sanitation Services	-	-	1,575,680	1,420,884	1,575,680	1,420,884
Ambulance	-	-	1,707,828	1,241,136	1,707,828	1,241,136
<b>Total Expenses</b>	<b>12,620,616</b>	<b>12,624,569</b>	<b>10,281,461</b>	<b>9,038,297</b>	<b>22,902,077</b>	<b>21,662,866</b>
Excess Before Transfers	1,207,621	1,447,716	235,130	3,144,003	1,442,751	4,591,719
Transfers	405,516	1,340,515	(405,516)	(1,340,515)	-	-
<b>Change in Net Position</b>	<b>1,613,137</b>	<b>2,788,231</b>	<b>(170,386)</b>	<b>1,803,488</b>	<b>1,442,751</b>	<b>4,591,719</b>
<b>Ending Net Position</b>	<b>\$ 47,156,799</b>	<b>\$ 45,543,662</b>	<b>\$ 27,809,938</b>	<b>\$ 27,980,324</b>	<b>\$ 74,966,737</b>	<b>\$ 73,523,986</b>

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022**

#### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

##### **Governmental Activities**

Total revenues of the governmental activities for the City decreased approximately 1 percent, while expenses remained similar compared to the prior year. The overall revenue of the governmental activities for the City remained similar compared to the prior year, while total expenditures increased 10 percent compared to the prior year. The overall increase in revenues is due to an increase in Sturgis Motorcycle Rally sponsorships, leases, and sales tax. The City had an increase of visitors throughout the summer months and during the Sturgis Motorcycle Rally. Sales tax was up 16 percent from the prior year.

##### **Business-Type Activities**

Operating revenues of the City's business-type activities decreased by 14 percent compared to the prior year, while expenses increased by 19 percent. The overall increase in revenues is due to economic growth and State and Federal grants for the Wastewater Treatment project. Increase in expense is due to overall higher operating expenses.

#### **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, Revolving Loan, and Business Improvement District 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 three times. These amendments fall into two categories:

- Move contingency money, grants, and insurance 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 (UNAUDITED)  
DECEMBER 31, 2022**

**CAPITAL ASSET ADMINISTRATION**

By the end of 2022, the City had invested \$100,347,270 in a broad range of capital assets, including buildings, and construction work in progress. (See Table A-3). This amount represents a net increase (including additions and deductions) of \$3,258,693, primarily due to the Wastewater Treatment Project and Airport T-Hangers project completed.

	Governmental Activities		Business-type Activities	
	2022	2021	2022	2021
Land	\$ 4,324,723	\$ 2,923,815	\$ 738,681	\$ 738,681
Construction Work in Progress	4,330,560	3,924,451	2,053,998	16,757,627
Buildings	15,321,506	15,845,899	1,085,038	1,141,573
Improvements Other Than Buildings	28,889,923	29,246,829	39,459,629	23,336,872
Machinery and Equipment	2,695,597	2,296,035	1,131,047	876,795
Right-To-Use Lease Assets	316,568	-	-	-
<b>Total Capital Assets</b>	<b>\$ 55,878,877</b>	<b>\$ 54,237,029</b>	<b>\$ 44,468,393</b>	<b>\$ 42,851,548</b>

**LONG-TERM DEBT**

At year-end the City had \$32,362,034 in Revenue Bonds, Notes Payable, and other long-term obligations. This is an increase of \$916,577 as shown on Table A-4 below.

	Governmental Activities		Business-type Activities	
	2022	2021	2022	2021
Compensated Absences	\$ 254,206	\$ 258,715	\$ 100,757	\$ 137,320
Tax Increment Financing Obligations	1,419,523	1,690,424	-	-
Notes Payable	4,949,739	5,145,621	2,285,548	2,376,002
Lease Obligations	251,711	-	-	-
Revenue Bonds	4,251,749	4,315,896	18,848,801	19,354,633
<b>Total Outstanding Debt and Obligations</b>	<b>\$ 11,126,928</b>	<b>\$ 11,410,656</b>	<b>\$ 21,235,106</b>	<b>\$ 21,867,955</b>

During the current year, the City obtained additional financing through the State for the wastewater treatment plant. The City made scheduled payments throughout the year on debt balances.

**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2022**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's current economic position has remained strong and is growing. There was an increase in total property valuation of \$97,275,226. The City requested a 0.0428 percent decrease in property tax for the year of 2022 payable in 2023. The growth factor of 2021 taxes payable in 2022 was 2.200 percent. The growth factor for 2022 taxes payable in 2023 was 1.33 percent.

The adopted 2023 general fund expenditures budget increased by 0.0157 percent over 2022 budget.

The City's business-type activities, sanitation and wastewater fees increased by 5 percent for 2023. There was no increase in water fees. The ambulance fund does not anticipate an increase in revenue for 2023.

**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 Harley-Davidson Way, Suite 103, Sturgis, SD 57785.

## CITY OF STURGIS

STATEMENT OF NET POSITION  
DECEMBER 31, 2022

	GOVERNMENTAL		BUSINESS-TYPE	TOTAL
	ACTIVITIES	ACTIVITIES	ACTIVITIES	
<b>Assets</b>				
Cash and Cash Equivalents	\$ 3,434,640	\$ 518,140	\$	3,952,780
Receivables, Net	3,791,751	1,129,549		4,921,300
Internal Balances	(3,879,741)	3,879,741		-
Inventories	48,870	369,976		418,846
Other Assets	88,406	28,891		117,297
Investment Real Estate Held for Sale	608,100	-		608,100
Restricted Assets:				
Cash	107,100	184,212		291,312
Net Pension Asset	13,928	10,060		23,988
Capital Assets				
Land and Construction Work in Progress	8,655,283	2,792,679		11,447,962
Other Capital Assets, Net of Depreciation	47,223,594	41,675,714		88,899,308
<b>Total Assets</b>	<b>60,091,931</b>	<b>50,588,962</b>		<b>110,680,893</b>
<b>Deferred Outflows of Resources</b>				
Pension Related Deferred Outflows of Resources	1,264,815	913,572		2,178,387
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 61,356,746</b>	<b>\$ 51,502,534</b>	<b>\$</b>	<b>112,859,280</b>
<b>Liabilities</b>				
Accounts Payable	\$ 357,803	\$ 1,408,515	\$	1,766,318
Other Current Liabilities	205,854	382,784		588,638
Noncurrent Liabilities:				
Due Within One Year	855,102	358,415		1,213,517
Due in More Than One Year	10,271,826	20,876,691		31,148,517
<b>Total Liabilities</b>	<b>11,690,585</b>	<b>23,026,405</b>		<b>34,716,990</b>
<b>Deferred Inflows of Resources</b>				
Lease Related Deferred Inflows	1,699,292	81,081		1,780,373
Pension Related Deferred Inflows of Resources	810,070	585,110		1,395,180
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>2,509,362</b>	<b>666,191</b>		<b>3,175,553</b>
<b>Net Position</b>				
Net Investment in Capital Assets	45,006,155	23,404,773		68,410,928
Restricted for:				
Debt Service	107,100	184,212		291,312
Revolving Loans	1,111,849	-		1,111,849
BID Tax	71,115	-		71,115
BBB Tax	910,164	-		910,164
Library Purposes	366,242	-		366,242
SDRS Pension	468,673	338,522		807,195
Hotel Occupancy	132,073	-		132,073
Equipment Replacement	-	-		-
Permanently Restricted Purposes:				
Expendable	154,456	-		154,456
Nonexpendable	50,000	-		50,000
Unrestricted	(1,221,028)	3,882,431		2,661,403
<b>Total Net Position</b>	<b>47,156,799</b>	<b>27,809,938</b>		<b>74,966,737</b>
<b>Total Liabilities, Net Position, and Deferred Inflows of Resources</b>	<b>\$ 61,356,746</b>	<b>\$ 51,502,534</b>	<b>\$</b>	<b>112,859,280</b>

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

CITY OF STURGIS

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2022

	----- Program Revenues -----				Net (Expense) Revenue and		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Functions/Programs</b>							
Primary Government							
Governmental Activities:							
General Government	\$ 4,645,503	\$ 2,847,753	\$ 138,051	\$ 87,229	\$ (1,572,470)	\$ -	\$ (1,572,470)
Public Safety	2,561,833	68,596	-	-	(2,493,237)	-	(2,493,237)
Public Works	2,056,557	15,994	11,759	238,216	(1,790,588)	-	(1,790,588)
Health and Welfare	-	13,931	-	-	13,931	-	13,931
Culture and Recreation	2,286,273	303,890	-	-	(1,982,383)	-	(1,982,383)
Conservation and Development	250,404	-	-	76,333	(174,071)	-	(174,071)
Interest on Long-Term Debt	820,046	-	-	-	(820,046)	-	(820,046)
<b>Total Governmental Activities</b>	<b>12,620,616</b>	<b>3,250,164</b>	<b>149,810</b>	<b>401,778</b>	<b>(8,818,864)</b>	<b>-</b>	<b>(8,818,864)</b>
Business-Type Activities:							
Liquor	3,138,264	3,448,336	-	-	-	310,072	310,072
Water	1,820,091	1,852,475	-	90,000	-	122,384	122,384
Wastewater	2,039,598	2,174,678	159,742	90,000	-	384,822	384,822
Sanitation	1,575,680	1,526,324	-	-	-	(49,356)	(49,356)
Ambulance	1,707,828	850,107	50,000	1,405	-	(806,316)	(806,316)
<b>Total Business-Type Activities</b>	<b>10,281,461</b>	<b>9,851,920</b>	<b>209,742</b>	<b>181,405</b>	<b>-</b>	<b>(38,394)</b>	<b>(38,394)</b>
<b>Total Primary Government</b>	<b>\$ 22,902,077</b>	<b>\$ 13,102,084</b>	<b>\$ 359,552</b>	<b>\$ 583,183</b>	<b>(8,818,864)</b>	<b>(38,394)</b>	<b>(8,857,258)</b>
General Revenues:							
Taxes:							
Property Taxes					3,351,035	-	3,351,035
Sales Taxes					5,086,185	-	5,086,185
State Shared Revenue					322,303	-	322,303
Grants and Contributions Not Restricted to Specific Programs					194,049	-	194,049
Unrestricted Investment Earnings					434,289	9,213	443,502
Miscellaneous Revenue					638,624	264,311	902,935
Transfers					405,516	(405,516)	-
<b>Total General Revenues and Transfers</b>					<b>10,432,001</b>	<b>(131,992)</b>	<b>10,300,009</b>
<b>Change in Net Position</b>					<b>1,613,137</b>	<b>(170,386)</b>	<b>1,442,751</b>
Net Position, Beginning					45,543,662	27,980,324	73,523,986
<b>Net Position, Ending</b>					<b>\$ 47,156,799</b>	<b>\$ 27,809,938</b>	<b>\$ 74,966,737</b>

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

CITY OF STURGIS

**BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2022**

	<b>General Fund</b>	<b>Capital Improvement Fund</b>	<b>TIF Funds</b>
<b>Assets</b>			
101 Cash	\$ 580,560	\$ -	\$ 652,222
105 Savings Certificates	-	724,215	-
107 Restricted Cash	-	107,100	-
108 Property Taxes Receivable	74,469	-	1,220
108 Sales Tax Receivable	181,685	163,516	-
115 Accounts Receivable, Net	199,555	-	-
121 Special Assessments Receivable	-	3,995	-
128 Notes Receivable	-	8,118	138,933
130 Lease Receivable	1,702,099	-	-
131 Due from Other Funds	-	909,356	-
132 Due from Federal/State Government	77,467	223,383	-
133 Advance to Other Funds	3,072,215	-	-
135 Interest Receivable	-	-	-
142 Inventory of Stores Purchased for Resale	48,870	-	-
151 Investment Held for Sale	-	-	-
155 Prepaid Expense	88,406	-	-
<b>Total Assets</b>	<b>\$ 6,025,326</b>	<b>\$ 2,139,683</b>	<b>\$ 792,375</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
<i>Liabilities</i>			
202 Accounts Payable	\$ 275,487	\$ 67,613	\$ 583
208 Due to Other Funds	-	-	373,142
216 Accrued Wages Payable	170,830	-	-
217 Accrued Taxes Payable	3,689	-	-
220 Customer Deposits	-	-	-
236 Advance from Other Funds	-	600,000	7,078,170
<b>Total Liabilities</b>	<b>450,006</b>	<b>667,613</b>	<b>7,451,895</b>
<i>Deferred Inflows of Resources</i>			
245 Unavailable Revenue - Property Taxes	32,804	-	-
246 Unavailable Revenue - Special Assessments	-	12,146	-
247 Lease Related Deferred Inflows	1,699,292	-	-
<b>Total Deferred Inflows of Resources</b>	<b>1,732,096</b>	<b>12,146</b>	<b>-</b>
<i>Fund Balances (Deficits)</i>			
263 Nonspendable	3,209,491	-	138,933
264 Restricted	-	107,100	-
265 Committed	185,969	1,352,824	-
266 Assigned	294,048	-	-
267 Unassigned	153,716	-	(6,798,453)
<b>Total Fund Balances (Deficits)</b>	<b>3,843,224</b>	<b>1,459,924</b>	<b>(6,659,520)</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 6,025,326</b>	<b>\$ 2,139,683</b>	<b>\$ 792,375</b>

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

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 1,477,643	\$ 2,710,425
-	724,215
-	107,100
1,976	77,665
43,223	388,424
4,693	204,248
76,296	80,291
889,696	1,036,747
-	1,702,099
-	909,356
-	300,850
190,000	3,262,215
1,427	1,427
	48,870
608,100	608,100
-	88,406
<b>\$ 3,293,054</b>	<b>\$ 12,250,438</b>

\$ 14,120	\$ 357,803
-	373,142
-	170,830
72	3,761
3,100	3,100
-	7,678,170
<b>17,292</b>	<b>8,586,806</b>

-	32,804
76,296	88,442
-	1,699,292
<b>76,296</b>	<b>1,820,538</b>

240,000	3,588,424
2,745,899	2,852,999
213,567	1,752,360
-	294,048
-	(6,644,737)
<b>3,199,466</b>	<b>1,843,094</b>

<b>\$ 3,293,054</b>	<b>\$ 12,250,438</b>
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CITY OF STURGIS

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO GOVERNMENT-WIDE STATEMENT OF NET POSITION  
DECEMBER 31, 2022**

Total Fund Balances - Governmental Funds	\$ 1,843,094
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.	55,878,877
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	13,928
Pension related deferred outflows are components of pension liability and therefore are not reported in the funds.	1,264,815
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds.	(810,070)
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.	(11,126,928)
Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported in the funds.	(28,163)
Assets such as delinquent taxes receivable and special assessments, are not available to pay for current period expenditures and therefore are deferred in the funds.	121,246
<b>Total Net Position - Governmental Activities</b>	<b>\$ 47,156,799</b>

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2022

		<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>TIF Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenue</b>						
<i>Taxes:</i>						
311	General Property Taxes	\$ 2,789,196	\$ -	\$ 504,328	\$ -	\$ 3,293,524
313	General Sales and Use Taxes	2,317,884	2,086,096	-	682,205	5,086,185
315	Amusement Taxes	-	-	-	85,424	85,424
319	Penalties and Interest on Delinquent Taxes	5,589	-	-	1,208	6,797
320	Licenses and Permits	779,108	-	-	-	779,108
<i>Intergovernmental Revenue:</i>						
331	Federal Grants	124,073	13,978	-	-	138,051
334	State Grants	11,759	238,216	-	-	249,975
335	Bank Franchise Tax	21,438	-	-	-	21,438
335	Liquor Tax Reversion	48,793	-	-	-	48,793
335	Motor Vehicle Licenses	104,733	-	-	-	104,733
335.1	Local Government Highway and Bridge Fund	147,339	-	-	-	147,339
338	County Highway and Bridge Reserve Tax	5,855	-	-	-	5,855
338	Port of Entry	10,139	-	-	-	10,139
<i>Charges for Goods and Services:</i>						
341	General Government	1,905,263	100,000	-	63,382	2,068,645
342	Public Safety	61,471	-	-	-	61,471
345	Health	13,931	-	-	-	13,931
346	Culture and Recreation	303,890	-	-	-	303,890
349	Other	237,445	-	-	-	237,445
<i>Fines and Forfeits:</i>						
351	Court Fines and Costs	7,125	-	-	-	7,125
<i>Miscellaneous Revenue:</i>						
361	Investment Earnings	413,007	-	6,616	14,666	434,289
362	Rentals/Airport Hangar Lease	38,466	-	-	-	38,466
363	Special Assessments	-	-	-	77,001	77,001
367	Contributions and Donations from Private Sources	186,549	7,500	-	-	194,049
369	Other	-	-	-	37,971	37,971
<b>Total Revenue</b>		<b>9,533,053</b>	<b>2,445,790</b>	<b>510,944</b>	<b>961,857</b>	<b>13,451,644</b>

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>TIF Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Expenditures</b>					
<i>General Government:</i>					
411 Legislative	291,104	-	-	-	291,104
414 Financial Administration	1,280,966	-	-	-	1,280,966
419 Other	2,326,201	101,545	-	240,576	2,668,322
<i>Public Safety:</i>					
421 Police	2,331,573	-	-	-	2,331,573
422 Fire	147,444	-	-	-	147,444
<i>Public Works:</i>					
431 Highway and Streets	875,834	32,121	-	-	907,955
435 Airport	246,914	-	-	-	246,914
437 Cemeteries	108,641	-	-	-	108,641
<i>Culture and Recreation:</i>					
451 Recreation	770,928	27,658	-	81,773	880,359
452 Parks	686,457	16,313	-	-	702,770
455 Library	302,850	-	-	-	302,850
456 Auditorium	23,946	-	-	-	23,946
460 Conservation and Development	-	-	-	250,404	250,404
470 Debt Service	-	604,741	810,058	-	1,414,799
485 Capital Outlay	1,853,796	625,780	332,931	466,543	3,279,050
<b>Total Expenditures</b>	<b>11,246,654</b>	<b>1,408,158</b>	<b>1,142,989</b>	<b>1,039,296</b>	<b>14,837,097</b>
<b>Excess of Revenue Over (Under)</b>					
<b>Expenditures</b>	<b>(1,713,601)</b>	<b>1,037,632</b>	<b>(632,045)</b>	<b>(77,439)</b>	<b>(1,385,453)</b>
<b>Other Financing Sources (Uses)</b>					
391 Transfers In	531,716	20,800	-	66,289	618,805
391 Lease Proceeds	316,568	-	-	-	316,568
391 Sale of Municipal Property	46,100	-	-	-	46,100
391 Compensation for Loss or Damage to Capital Assets	263,735	14,907	-	-	278,642
511 Transfers Out	(147,000)	-	-	(66,289)	(213,289)
<b>Total Other Financing Sources (Uses)</b>	<b>1,011,119</b>	<b>35,707</b>	<b>-</b>	<b>-</b>	<b>1,046,826</b>
<b>Net Change in Fund Balances (Deficit)</b>					
	<b>(702,482)</b>	<b>1,073,339</b>	<b>(632,045)</b>	<b>(77,439)</b>	<b>(338,627)</b>
Fund Balance (Deficit), December 31, 2021	4,545,706	386,585	(6,027,475)	3,276,905	2,181,721
<b>Fund Balance (Deficit), December 31, 2022</b>	<b>\$ 3,843,224</b>	<b>\$ 1,459,924</b>	<b>\$ (6,659,520)</b>	<b>\$ 3,199,466</b>	<b>\$ 1,843,094</b>

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, 2022**

Net Change in Fund Balances - Total Government Funds \$ (338,627)

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.

Capital Asset Purchases Capitalized	3,279,050
Depreciation Expense	(1,724,431)
	1,554,619

Capital assets contributed to the City are included in the Statement of Activities. 87,229

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. (35,378)

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. 595,787

The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government-wide statements. (316,568)

Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures. 4,509

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. (1,034)

Changes in the pension related deferred outflows, pension asset and related pension expenses are not reported in the governmental fund statements. 62,600

**Change in Net Position of Governmental Activities \$ 1,613,137**

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

CITY OF STURGIS

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2022

Assets and Deferred Outflows of Resources	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Sanitation Fund</u>	<u>Ambulance Fund</u>	<u>Total Proprietary Funds</u>
<b>Current Assets</b>						
101 Cash	\$ 188,637	\$ 14,839	\$ 77,476	\$ 237,188	\$ -	\$ 518,140
107 Restricted Cash	40,980	143,232	-	-	-	184,212
115 Accounts Receivable, Net	1,225	140,382	189,378	97,697	619,388	1,048,070
130 Lease Receivable	-	-	81,479	-	-	81,479
131 Due from Other Funds	-	-	2,457,065	-	-	2,457,065
142 Inventory of Supplies Purchased for Resale	369,976	-	-	-	-	369,976
155 Prepaid Expenses	3,333	4,479	2,985	8,657	9,437	28,891
<b>Total Current Assets</b>	<b>604,151</b>	<b>302,932</b>	<b>2,808,383</b>	<b>343,542</b>	<b>628,825</b>	<b>4,687,833</b>
<b>Noncurrent Assets</b>						
133 Advance to Other Funds	-	4,415,955	-	-	-	4,415,955
189 Net Pension Asset	926	1,750	1,473	1,988	3,923	10,060
<b>Capital Assets</b>						
160 Land	6,500	1,800	646,214	84,167	-	738,681
162 Buildings	826,042	181,183	377,613	243,350	359,809	1,987,997
163 Accumulated Depreciation - Buildings	(300,379)	(104,812)	(246,021)	(119,217)	(132,530)	(902,959)
164 Improvements Other Than Buildings	-	19,044,549	33,772,784	22,789	-	52,840,122
165 Accumulated Depreciation - Improvements Other Than Buildings	-	(7,485,256)	(5,876,141)	(19,096)	-	(13,380,493)
166 Machinery and Equipment	115,292	860,614	758,686	2,869,574	1,156,596	5,760,762
167 Accumulated Depreciation - Machinery and Equipment	(54,330)	(762,103)	(663,158)	(2,299,092)	(851,032)	(4,629,715)
168 Construction in Progress	-	1,409,943	644,055	-	-	2,053,998
<b>Total Noncurrent Assets</b>	<b>594,051</b>	<b>17,563,623</b>	<b>29,415,505</b>	<b>784,463</b>	<b>536,766</b>	<b>48,894,408</b>
<b>Total Assets</b>	<b>1,198,202</b>	<b>17,866,555</b>	<b>32,223,888</b>	<b>1,128,005</b>	<b>1,165,591</b>	<b>53,582,241</b>
<b>Deferred Outflows of Resources</b>						
196 Pension Related Deferred Outflows	84,075	158,960	133,773	180,513	356,251	913,572
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 1,282,277</b>	<b>\$ 18,025,515</b>	<b>\$ 32,357,661</b>	<b>\$ 1,308,518</b>	<b>\$ 1,521,842</b>	<b>\$ 54,495,813</b>

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

<b>Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>Liquor Fund</b>	<b>Water Fund</b>	<b>Wastewater Fund</b>	<b>Sanitation Fund</b>	<b>Ambulance Fund</b>	<b>Total Proprietary Funds</b>
<b>Current Liabilities</b>						
202 Accounts Payable	\$ 166,060	\$ 372,866	\$ 787,630	\$ 56,079	\$ 25,880	\$ 1,408,515
208 Due to Other Funds	-	2,083,923	-	-	909,356	2,993,279
215 Accrued Interest Payable	12,482	13,877	53,805	-	-	80,164
216 Accrued Wages Payable	11,320	18,075	14,529	17,973	42,058	103,955
217 Accrued Taxes Payable	22,840	98	-	38	-	22,976
220 Customer Deposits	-	175,689	-	-	-	175,689
226 Bonds Payable - Current	13,673	149,983	94,002	-	-	257,658
233 Accrued Leave Payable	3,616	19,498	29,498	31,844	16,301	100,757
<b>Total Current Liabilities</b>	<b>229,991</b>	<b>2,834,009</b>	<b>979,464</b>	<b>105,934</b>	<b>993,595</b>	<b>5,142,993</b>
<b>Deferred Inflows of Resources</b>						
247 Lease Related Deferred Inflows	-	-	81,081	-	-	81,081
248 Pension Related Deferred Inflows	53,847	101,808	85,677	115,612	228,166	585,110
	53,847	101,808	166,758	115,612	228,166	666,191
<b>Long-Term Liabilities</b>						
231 Bonds Payable	650,181	3,974,966	16,251,544	-	-	20,876,691
<b>Total Liabilities</b>	<b>880,172</b>	<b>6,808,975</b>	<b>17,231,008</b>	<b>105,934</b>	<b>993,595</b>	<b>26,019,684</b>
<b>Net Position</b>						
253.10 Net Investment in Capital Assets	-	9,020,969	13,068,486	782,475	532,843	23,404,773
253.21 Restricted for Revenue Bond						
Debt Service	40,980	143,232	-	-	-	184,212
253.29 Restricted for SDRS Pension Purposes	31,154	58,902	49,569	66,889	132,008	338,522
253.9 Unrestricted (Deficit)	276,124	1,891,629	1,841,840	237,608	(364,770)	3,882,431
<b>Total Net Position</b>	<b>348,258</b>	<b>11,114,732</b>	<b>14,959,895</b>	<b>1,086,972</b>	<b>300,081</b>	<b>27,809,938</b>
<b>Total Liabilities Deferred Inflows of Resources and Net Position</b>	<b>\$ 1,282,277</b>	<b>\$ 18,025,515</b>	<b>\$ 32,357,661</b>	<b>\$ 1,308,518</b>	<b>\$ 1,521,842</b>	<b>\$ 54,495,813</b>

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Sanitation Fund</u>	<u>Ambulance Fund</u>	<u>Total Proprietary Funds</u>
<b>Total Operating Revenue</b>						
380 Charges for Goods and Services	\$ 3,448,336	\$ 1,852,475	\$ 2,174,678	\$ 1,526,324	\$ 850,107	\$ 9,851,920
<b>Operating Expenses</b>						
410 Personal Services	281,630	556,159	399,542	545,919	1,281,999	3,065,249
420 Other Current Expense	291,919	711,497	656,537	938,289	333,167	2,931,409
426.2 Materials (Cost of Goods Sold)	2,501,947	-	-	-	-	2,501,947
457 Depreciation	34,785	419,536	535,324	91,472	92,662	1,173,779
<b>Total Operating Expenses</b>	<b>3,110,281</b>	<b>1,687,192</b>	<b>1,591,403</b>	<b>1,575,680</b>	<b>1,707,828</b>	<b>9,672,384</b>
<b>Operating Income (Loss)</b>	<b>338,055</b>	<b>165,283</b>	<b>583,275</b>	<b>(49,356)</b>	<b>(857,721)</b>	<b>179,536</b>
<b>Nonoperating Revenue (Expense)</b>						
331 Federal Grants	-	-	159,742	-	1,405	161,147
334 State Grants	-	-	-	-	50,000	50,000
361 Investment Earnings	9,213	-	-	-	-	9,213
367 Contributions and Donations	-	90,000	90,000	-	8,300	188,300
369 Other	1,207	-	338	4,013	250,453	256,011
442 Interest Expense	(27,983)	(132,899)	(448,195)	-	-	(609,077)
<b>Total Nonoperating Revenue (Expense)</b>	<b>(17,563)</b>	<b>(42,899)</b>	<b>(198,115)</b>	<b>4,013</b>	<b>310,158</b>	<b>55,594</b>
<b>Income before Transfers and Contributions</b>	<b>320,492</b>	<b>122,384</b>	<b>385,160</b>	<b>(45,343)</b>	<b>(547,563)</b>	<b>235,130</b>
391.07 Capital Contributions	-	-	-	-	-	-
391.10 Transfers In	-	-	-	12,000	135,000	147,000
511 Transfers Out	(381,716)	-	(170,800)	-	-	(552,516)
<b>Total Transfers and Contributions</b>	<b>(381,716)</b>	<b>-</b>	<b>(170,800)</b>	<b>12,000</b>	<b>135,000</b>	<b>(405,516)</b>
<b>Change in Net Position</b>	<b>(61,224)</b>	<b>122,384</b>	<b>214,360</b>	<b>(33,343)</b>	<b>(412,563)</b>	<b>(170,386)</b>
Net Position, December 31, 2021	409,482	10,992,348	14,745,535	1,120,315	712,644	27,980,324
<b>Net Position, December 31, 2022</b>	<b>\$ 348,258</b>	<b>\$ 11,114,732</b>	<b>\$ 14,959,895</b>	<b>\$ 1,086,972</b>	<b>\$ 300,081</b>	<b>\$ 27,809,938</b>

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, 2022

	<b>Liquor Fund</b>	<b>Water Fund</b>	<b>Wastewater Fund</b>
<b>Cash Flows from Operating Activities</b>			
Receipts from Customers	\$ 3,447,894	\$ 1,835,050	\$ 2,081,945
Payments to Suppliers	(2,788,360)	(357,562)	(545,231)
Payments to Employees	(284,871)	(580,806)	(418,583)
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>374,663</b>	<b>896,682</b>	<b>1,118,131</b>
<b>Cash Flows from Noncapital Financing Activities</b>			
Internal Activity, Net	(381,716)	546,961	(1,109,615)
<b>Net Cash Flows Provided by (Used in) Noncapital Financing Activities</b>	<b>(381,716)</b>	<b>546,961</b>	<b>(1,109,615)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchases of Capital Assets	(40,261)	(1,409,942)	(986,796)
Principal Paid on Debt	(13,235)	(145,438)	(437,613)
Interest Paid	(27,744)	(133,597)	(446,828)
Other Receipts	1,207	90,000	709,257
<b>Net Cash Flows Provided by (Used in) Capital and Related Financing Activities</b>	<b>(80,033)</b>	<b>(1,598,977)</b>	<b>(1,161,980)</b>
<b>Cash Flows Provided by Investing Activities</b>			
Cash Received from Investment Earnings	9,213	-	-
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(77,873)</b>	<b>(155,334)</b>	<b>(1,153,464)</b>
<b>Cash and Cash Equivalents, 2021</b>	<b>307,490</b>	<b>313,405</b>	<b>1,230,940</b>
<b>Cash and Cash Equivalents, 2022</b>	<b>\$ 229,617</b>	<b>\$ 158,071</b>	<b>\$ 77,476</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>			
Operating Income (Loss)	\$ 338,055	\$ 165,283	\$ 583,275
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by (Used in) Operating Activities:</i>			
Depreciation Expense	34,785	419,536	535,324
Change in Assets and Liabilities:			
Accounts Receivable	(442)	(22,941)	(11,254)
Lease Receivable	-	-	(81,479)
Inventory of Supplies Purchased for Resale	8,037	-	-
Prepaid Expenses	(244)	(35)	(1,713)
Pension Asset	66,950	131,229	105,912
Pension Related Deferred Outflows and Inflows	(74,111)	(143,126)	(117,523)
Accounts Payable	(3,717)	353,996	31,938
Accrued Wages Payable	3,391	281	4,839
Accrued Taxes Payable	1,430	(26)	-
Customer Deposits	-	5,516	-
Accrued Leave Payable	529	(13,031)	(12,269)
Lease Related Deferred Inflows	-	-	81,081
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>\$ 374,663</b>	<b>\$ 896,682</b>	<b>\$ 1,118,131</b>
<b>Noncash Capital and Related Financing Activities</b>			
Purchase of Capital Assets with Accounts Payable	\$ -	\$ 215,702	\$ 265,702

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

<b>Sanitation Fund</b>	<b>Ambulance Fund</b>	<b>Total Proprietary Funds</b>
\$ 1,522,732	\$ 897,276	\$ 9,784,897
(890,522)	(322,251)	(4,903,926)
(567,437)	(1,328,192)	(3,179,889)
<u>64,773</u>	<u>(753,167)</u>	<u>1,701,082</u>
12,000	457,416	(474,954)
<u>12,000</u>	<u>457,416</u>	<u>(474,954)</u>
(339,218)	(14,407)	(2,790,624)
-	-	(596,286)
-	-	(608,169)
4,013	310,158	1,114,635
<u>(335,205)</u>	<u>295,751</u>	<u>(2,880,444)</u>
-	-	9,213
(258,432)	-	(1,645,103)
495,620	-	2,347,455
<u>\$ 237,188</u>	<u>\$ -</u>	<u>\$ 702,352</u>

\$ (49,356)	\$ (857,721)	\$ 179,536
91,472	92,662	1,173,779
(3,592)	47,169	8,940
-	-	(81,479)
-	-	8,037
(3,565)	(3,252)	(8,809)
164,008	205,176	673,275
(172,221)	(263,272)	(770,253)
51,331	14,168	447,716
700	9,690	18,901
1	-	1,405
-	-	5,516
(14,005)	2,213	(36,563)
-	-	81,081
<u>\$ 64,773</u>	<u>\$ (753,167)</u>	<u>\$ 1,701,082</u>

\$ -      \$ -      \$ 481,404

## CITY OF STURGIS

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

#### (1) Summary of Significant Accounting Policies

##### 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).

##### 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  
DECEMBER 31, 2022**

**(1) Summary of Significant Accounting Policies**

**Basis of Presentation**

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, other governments, or for major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Improvement Fund – Under Ordinance 2012-01, 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.

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. The City has the following debt service fund:

TIF Debt Service Fund – TIF funds are Tax Increment Financing Districts allowed by SDCL 11-9-24 to account for the proceeds of incremental property taxes, restricted for the payment of principal and interest on debt issued to finance a public improvement. Separate accounts are maintained for TIF Districts #11, #12, #13, #15, #16, #17, #18, #20, and #21 revenues and expenditures. This is a major fund.

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  
DECEMBER 31, 2022**

**(1) Summary of Significant Accounting Policies**

**Basis of Presentation**

Proprietary Funds:

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.

**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  
DECEMBER 31, 2022**

**(1) Summary of Significant Accounting Policies**

**Measurement Focus and Basis of Accounting**

*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, 2022 are property and sales tax revenues and special assessments.

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 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.

**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.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in Advance to asset accounts) are equally offset by a non-spendable 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.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**(1) Summary of Significant Accounting Policies**

**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.

**Receivables and Payables**

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year. Included in accounts receivable at December 31, 2022 is an allowance for doubtful accounts totaling \$10,000 for the general fund. Included in utility accounts receivable at December 31, 2022 are allowances for doubtful accounts totaling approximately \$2,500, \$4,000, \$3,500, and \$1,300,000 for the water, wastewater, sanitation, and ambulance funds, respectively.

**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.

**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 acquisition value on the donation date. 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.

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.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**(1) Summary of Significant Accounting Policies**

**Capital Assets**

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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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

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.

**Leases**

*Lessee:*

The City is a lessee for noncancellable leases of property. The City recognizes a lease liability (Note 5) and an intangible right-to-use lease asset (Note 4) in the government-wide financial statements.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the Statement of Net Position.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**(1) Summary of Significant Accounting Policies**

**Leases**

*Lessor:*

The City is a lessor for noncancellable leases of real estate. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

**Deferred Inflows and Deferred Outflows of Resources**

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that apply to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period. Deferred outflows of resources consist of pension activity.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as inflow of resources until the applicable future period. Deferred inflows of resources consist of property taxes, special assessments, pension activity, and leases.

**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 revenue bonds, tax increment financing, notes 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.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**(1) Summary of Significant Accounting Policies**

**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 Brick Fund and Capital Improvement Fund 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.

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.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

(1) Summary of Significant Accounting Policies

Equity Classifications

Fund Financial Statements:

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, 2022, the City had the following governmental fund classifications:

	General Fund	Capital Improvement Fund	TIF Funds	Other Governmental Funds	Total Governmental Funds
<b>263 Nonspendable:</b>					
263.01 Nonspendable - Inventory	\$ 48,870	\$ -	\$ -	\$ -	\$ 48,870
263.02 Nonspendable - Prepaid Expenses	88,406	-	-	-	88,406
263.04 Nonspendable - Advances	3,072,215	-	-	190,000	3,262,215
263.05 Nonspendable - Notes Receivable	-	-	138,933	-	138,933
263.51 Nonspendable - Perpetual Care Cemetery	-	-	-	50,000	50,000
	<b>3,209,491</b>	<b>-</b>	<b>138,933</b>	<b>240,000</b>	<b>3,588,424</b>
<b>264 Restricted:</b>					
264.01 Restricted - Debt Service	-	107,100	-	-	107,100
264.03 Restricted - Perpetual Care Cemetery	-	-	-	154,456	154,456
264.04 Restricted - BBB Tax	-	-	-	910,164	910,164
264.05 Restricted - Library Purposes	-	-	-	366,242	366,242
264.09 Restricted - BID Tax	-	-	-	71,115	71,115
264.97 Restricted - Revolving Loan	-	-	-	1,111,849	1,111,849
264.99 Restricted - Hotel Occupancy	-	-	-	132,073	132,073
	<b>-</b>	<b>107,100</b>	<b>-</b>	<b>2,745,899</b>	<b>2,852,999</b>
<b>265 Committed</b>					
265.02 Committed - Equipment Replacement	-	-	-	213,567	213,567
265.04 Committed - Capital Improvements	-	1,352,824	-	-	1,352,824
265.97 Committed - Brick Fund	185,969	-	-	-	185,969
	<b>185,969</b>	<b>1,352,824</b>	<b>-</b>	<b>213,567</b>	<b>1,752,360</b>
<b>266 Assigned</b>					
266.01 Assigned - Subsequent Year's Budget	151,279	-	-	-	151,279
266.99 Assigned - Adventure Park	142,769	-	-	-	142,769
	<b>294,048</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>294,048</b>
<b>267 Unassigned</b>	<b>153,716</b>	<b>-</b>	<b>(6,798,453)</b>	<b>-</b>	<b>(6,644,737)</b>
<b>Total Fund Balances</b>	<b>\$ 3,843,224</b>	<b>\$ 1,459,924</b>	<b>\$ (6,659,520)</b>	<b>\$ 3,199,466</b>	<b>\$ 1,843,094</b>

## CITY OF STURGIS

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

#### (1) Summary of Significant Accounting Policies

##### 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.

##### Proprietary Funds Revenue and Expense Classifications

In the proprietary funds' Statement of Revenues, Expenses, and Changes in Fund Net Position, 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.

##### Accounting Standard Adopted

The City implemented GASB Statement No. 87, *Leases*, during the year ended December 31, 2022. The standard enhances the relevance and consistency of information of the government's leasing activities. The standard requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the terms of the lease. The statement requires a lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The standard was implemented using the facts and circumstances that existed at the beginning of the period of implementation, or January 1, 2022. Implementation of the standard had no effect on beginning net position as deferred inflows were equal to the lease receivable for lessor transactions, and the right-of-use intangible assets were equal to the lease liability for lessee transactions.

##### Subsequent Events

The City has assessed subsequent events through August 16, 2023, the date which the financial statements were available to be issued.

## CITY OF STURGIS

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

#### **(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 are summarized below:

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.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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, including investment income generated by the Perpetual Maintenance Fund, which must be credited to the General Fund, and used only for maintenance for the municipal cemetery, as required by SDCL 9-32-18. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income except where legal or contractual requirements require investment income to be credited to a fund other than the one associated with the assets. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. Liquor Fund interest income consists of monies received from Build America Bonds, not income generated from bank account balances.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**(2) Deposits and Investments**

*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, and repurchase agreements fully collateralized by allowable securities.

*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, 2022, the City’s deposits in financial institutions collateralized by securities held by the pledging financial institution were as follows:

	Bank Balance
Insured - FDIC	\$ 280,302
Uninsured, collateralized in accordance with SDCL 4-6A-3	3,955,691
<b>Total Deposits</b>	<b>\$ 4,235,993</b>

*Concentration Risk:*

The City minimizes concentration of credit risk by diversifying the investment portfolio so 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.

**(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.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**(4) Changes in Capital Assets**

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

	Balance 12/31/2021	Additions	Transfers/ Deletions	Balance 12/31/2022
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 2,923,815	\$ 1,400,908	\$ -	\$ 4,324,723
Construction Work in Progress	3,924,451	679,356	(273,247)	4,330,560
<b>Total Capital Assets, not being Depreciated</b>	<b>6,848,266</b>	<b>2,080,264</b>	<b>(273,247)</b>	<b>8,655,283</b>
Capital Assets, being Depreciated:				
Buildings	22,459,075	-	-	22,459,075
Improvements Other Than Buildings	42,166,051	582,459	-	42,748,510
Machinery and Equipment	6,128,467	660,235	-	6,788,702
Right-To-Use Lease Assets	-	316,568	-	316,568
<b>Total Capital Assets, being Depreciated</b>	<b>70,753,593</b>	<b>1,559,262</b>	<b>-</b>	<b>72,312,855</b>
Less Accumulated Depreciation for:				
Buildings	6,613,176	524,393	-	7,137,569
Improvements Other Than Buildings	12,919,222	939,365	-	13,858,587
Machinery and Equipment	3,832,432	260,673	-	4,093,105
<b>Total Accumulated Depreciation</b>	<b>23,364,830</b>	<b>1,724,431</b>	<b>-</b>	<b>25,089,261</b>
Total Governmental Activities Capital Assets, being Depreciated, Net				
	47,388,763	(165,169)	-	47,223,594
<b>Total Governmental Capital Assets, Net</b>	<b>\$ 54,237,029</b>	<b>\$ 1,915,095</b>	<b>\$ (273,247)</b>	<b>\$ 55,878,877</b>

Depreciation expense was charged to functions as follows:

Public Works	\$ 804,229
Culture and Recreation	389,301
General Government	426,659
Public Safety	104,242
<b>Total Depreciation Expense - Governmental</b>	<b>\$ 1,724,431</b>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

(4) Changes in Capital Assets

	Balance 12/31/2021	Additions	Transfers/ Deletions	Balance 12/31/2022
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 738,681	\$ -	\$ -	\$ 738,681
Construction Work in Progress	16,757,627	2,332,886	(17,036,515)	2,053,998
<b>Total Capital Assets, not being Depreciated</b>	<b>17,496,308</b>	<b>2,332,886</b>	<b>(17,036,515)</b>	<b>2,792,679</b>
Capital Assets, being Depreciated:				
Buildings	1,987,997	-	-	1,987,997
Improvements Other Than Buildings	35,803,607	17,036,515	-	52,840,122
Machinery and Equipment	5,303,024	457,738	-	5,760,762
<b>Total Capital Assets, being Depreciated</b>	<b>43,094,628</b>	<b>17,494,253</b>	<b>-</b>	<b>60,588,881</b>
Less Accumulated Depreciation for:				
Buildings	846,424	56,535	-	902,959
Improvements Other Than Buildings	12,466,735	913,758	-	13,380,493
Machinery and Equipment	4,426,229	203,486	-	4,629,715
<b>Total Accumulated Depreciation</b>	<b>17,739,388</b>	<b>1,173,779</b>	<b>-</b>	<b>18,913,167</b>
<b>Total Business-Type Activities Capital Assets, being Depreciated, Net</b>	<b>25,355,240</b>	<b>16,320,474</b>	<b>-</b>	<b>41,675,714</b>
<b>Total Business-Type Capital Assets, Net</b>	<b>\$ 42,851,548</b>	<b>\$ 18,653,360</b>	<b>\$ (17,036,515)</b>	<b>\$ 44,468,393</b>

Depreciation expense was charged to functions as follows:

Liquor	\$ 34,785
Water	419,536
Sanitation	91,472
Wastewater	535,324
Ambulance	92,662
<b>Total Depreciation Expense - Business-Type</b>	<b>\$ 1,173,779</b>

As of December 31, 2022, the City has remaining significant commitments on the Hidden Estates and Senior Living projects. The Hidden Estates project has a remaining commitment of approximately \$2.4 million. The project is funded through the Water and TIF funds. The Senior Living project has a remaining commitment of approximately \$1.2 million. The project is funded through the TIF fund.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**(5) Long-Term Financing Arrangements**

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

	Balance 12/31/2021	Additions	Deletions	Balance 12/31/2022	Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Tax Increment Financing Obligations	\$ 1,690,424	\$ -	\$ 270,901	\$ 1,419,523	\$ 263,434
2018 Public Works Building Debt	4,315,896	-	64,147	4,251,749	66,433
Notes Payable	5,145,621	-	195,882	4,949,739	203,577
Lease Obligations	-	316,568	64,857	251,711	67,452
Compensated Absences	258,715	420,988	425,497	254,206	254,206
<b>Total Governmental Activities</b>	<b>11,410,656</b>	<b>737,556</b>	<b>1,021,284</b>	<b>11,126,928</b>	<b>855,102</b>
<b>Business-Type Activities:</b>					
2010 Sales Tax Revenue Bond	677,089	-	13,235	663,854	13,673
2011 Drinking Water Revenue Bond	2,883,197	-	50,255	2,832,942	51,908
2012 Drinking Water Revenue Bond	1,387,190	-	95,187	1,292,003	98,075
Wastewater Note Payable	2,376,002	-	90,454	2,285,548	94,002
2018 Clean Water Revenue Bond	14,407,157	-	347,155	14,060,002	-
Compensated Absences	137,320	194,512	231,075	100,757	100,757
<b>Total Business-Type Activities</b>	<b>21,867,955</b>	<b>194,512</b>	<b>827,361</b>	<b>21,235,106</b>	<b>358,415</b>
<b>Total Primary Government</b>	<b>\$ 33,278,611</b>	<b>\$ 932,068</b>	<b>\$ 1,848,645</b>	<b>\$ 32,362,034</b>	<b>\$ 1,213,517</b>

The City has restricted reserves of \$40,980, \$143,232, and \$107,100 at December 31, 2022, in accordance with debt covenants.

The City has pledged revenues of the Water and Wastewater Fund, as well as all sales tax revenues for the retirement of debt issues associated with those funds through the maturity dates listed below. All debt is 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 of principal and interest payments and total pledged revenue for the current year.

	Water <u>Fund</u>	Wastewater <u>Fund</u>	<u>Sales Tax Bonds</u>
Current Year Principal and Interest	\$ 278,337	\$ 885,808	\$ 255,394
Pledged Revenue	1,852,475	2,174,678	5,086,185

## CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022**(5) Long-Term Financing Arrangements**

Long-term debt at December 31, 2022, is comprised of the following:

*Revenue Bonds*

Sales Tax Revenue Bonds, Series 2010 (Build America Bonds - Direct Pay), for \$811,000, matures 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. \$ 663,854

Drinking Water Revenue Borrower Bond, 2011 Series for \$3,200,000, matures in September 2054, interest at a fixed 3.25 percent, due in monthly installments of \$11,936. Water revenues pledged and financed through the Water Fund. 2,832,942

Drinking Water Revenue Borrower Bond, Series 2012 for \$2,035,893, matures in July 2034, interest at a fixed 3.00 percent, due in quarterly installments of \$33,935. Water revenues pledged and financed through the Water Fund. 1,292,003

Clean Water Revenue Borrower Bond, Series 2018 for borrowings up to \$16,247,000, with 9.90 percent principal forgiveness not to exceed \$1,600,000, matures in May 2048, interest at a fixed 2.50 percent, payment amounts will be finalized in the future. Wastewater revenue pledged and financed through the Wastewater Fund. 14,060,002

Public Works Building Debt, Series 2018, for \$4,600,000, matures September 2056, interest at a fixed 3.50 percent, due in monthly installments of \$17,848. Sales tax revenues pledged and financed through the Capital Improvements Fund for construction of the Public Works Campus. 4,251,749

*Notes Payable*

Note Payable to Pioneer Bank for \$3,052,000, matures May 2040, interest at a fixed 3.85 percent, due in monthly installments of \$15,029. Financed through Wastewater Fund. 2,285,548

Note payable to Pioneer Bank for \$5,757,000, interest at a 3.85 percent fixed rate, with principal and interest payments of \$32,547 through May 2040. Financed through the Capital Improvements Fund. 4,949,739

*Tax Increment Financing Obligations*

TIF #12 maximum borrowings of \$1,900,000, including interest not to exceed 10.00 percent per annum, due in varying installments within 30 days of property tax collections from the County. Financed through TIF Debt Service Funds. 1,419,523

**Total Bonds, Notes Payable, and TIF Obligations** **31,755,360**

*Lease Liabilities*

Noncancellable lease for lot space, due in annual installments through July 2026 (currently \$38,108 per year), including interest at 4.00 percent. Financed through the General Fund. 155,360

Noncancellable lease for lot spaces, due in annual installments through June 2025 (currently \$31,508 per year), including interest at 4.00 percent. Financed through the General Fund. 96,351

**Total Lease Liabilities** **251,711**

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

(5) Long-Term Financing Arrangements

*Compensated Absences:*

General Fund	254,206
Liquor Fund	3,616
Water Fund	19,498
Wastewater Fund	29,498
Sanitation Fund	31,844
Ambulance Fund	16,301
<b>Total Compensated Absences</b>	<b>354,963</b>

**Total Long-Term Debt** **\$ 32,362,034**

The annual requirements to amortize long-term debt outstanding as of December 31, 2022, except for compensated absences are as follows:

	Revenue Bonds		TIF Obligations		Notes Payable	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2023	\$ 156,193	\$ 230,089	\$ 51,960	\$ 263,434	\$ 273,329	\$ 297,579
2024	151,060	237,686	44,207	271,187	262,416	308,492
2025	145,657	245,536	32,982	282,412	249,579	321,329
2026	140,079	253,648	21,428	293,966	236,987	333,921
2027	134,322	262,029	9,402	308,524	223,902	347,006
2028-2032	578,537	1,445,963	-	-	905,708	1,948,833
2033-2037	431,654	1,164,929	-	-	491,855	2,201,713
2038-2042	336,577	1,186,920	-	-	64,229	1,476,414
2043-2047	240,845	1,410,328	-	-	-	-
2048-2052	105,618	15,632,980	-	-	-	-
2053-2057	7,177	1,030,442	-	-	-	-
<b>Total</b>	<b>\$ 2,427,719</b>	<b>\$ 23,100,550</b>	<b>\$ 159,979</b>	<b>\$ 1,419,523</b>	<b>\$ 2,708,005</b>	<b>\$ 7,235,287</b>

	Lease Obligations		Total	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2023	\$ 10,068	\$ 67,452	\$ 481,482	\$ 791,102
2024	7,370	70,150	457,683	817,365
2025	4,564	72,956	428,218	849,277
2026	1,646	41,153	398,494	881,535
2027	-	-	367,626	917,559
2028-2032	-	-	1,484,245	3,394,796
2033-2037	-	-	923,509	3,366,642
2038-2042	-	-	400,806	2,663,334
2043-2047	-	-	240,845	1,410,328
2048-2052	-	-	105,618	15,632,980
2053-2057	-	-	7,177	1,030,442
	<b>\$ 23,648</b>	<b>\$ 251,711</b>	<b>\$ 5,295,703</b>	<b>\$ 31,755,360</b>

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**(5) Long-Term Financing Arrangements**

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, 2022, TIF related property tax revenues were \$504,328. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$560,578 for the year ended December 31, 2022.

**(6) Leases**

*Lessee:*

Lease agreements are summarized as follows:

Lease Asset	Lease Term Commencement	Payment	Interest Rate	Initial Lease Liability	Balance December 31, 2022
Property	January 2022	\$42,800 per year	4%	\$ 190,538	\$ 155,360
Property	May 2022	\$34,720 per year	4%	126,030	96,351

The City entered into lease agreements for property used during the Sturgis Motorcycle Rally. Lease terms are 5 to 10 years.

For purposes of measuring the lease liability and right-to-use asset, the City uses the incremental borrowing rate of 4 percent.

*Lessor:*

The City’s leasing operations consist of leasing land. A summary of leases by asset class are as follows:

Lessor	Lease Asset	Lease Receivable December 31, 2022	Lease Revenue	Lease Interest Revenue
	Land	\$ 1,783,578	\$ 211,890	\$ 6,641

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**(6) Leases**

Future payments due to the City under non-cancelable long-term lease agreements are as follows for the years ending December 31:

	Principal	Interest
2023	\$ 209,325	\$ 5,929
2024	210,380	5,231
2025	216,162	4,530
2026	207,153	3,826
2027	186,865	3,135
2028-2032	753,693	6,291
<b>Total</b>	<b>\$ 1,783,578</b>	<b>\$ 28,942</b>

**(7) Individual Fund Interfund Receivable and Payable Balances**

Interfund receivable and payable balances at December 31, 2022, are as follows:

Fund	Interfund Receivables	Interfund Payables
<i>Major Funds:</i>		
Capital Improvement Fund	\$ 909,356	\$ -
Ambulance Fund	-	909,356
Water Fund	-	2,083,923
Wastewater Fund	2,457,065	-
TIF Fund	-	373,142
<b>Total Interfund Receivable and Payable Balances</b>	<b>\$ 3,366,421</b>	<b>\$ 3,366,421</b>

Interfund receivables and payables are generally made to help maintain positive cash balances at year end. The balances are expected to be repaid within the next year.

Interfund advances balances at December 31, 2022, are as follows:

Fund	Interfund Advance To	Interfund Advance From
<i>Major Funds:</i>		
General Fund	\$ 3,072,215	\$ -
Water Fund	4,415,955	-
TIF Funds	-	7,078,170
Capital Improvement Fund	-	600,000
Nonmajor Funds	190,000	-
<b>Total Interfund Receivable and Payable Balances</b>	<b>\$ 7,678,170</b>	<b>\$ 7,678,170</b>

The General and Water Funds advanced monies to the TIF Funds to assist in funding TIF projects. The balances will be repaid between 2025 through 2041 and bear interest between 4.00 to 5.00 percent. The General and Revolving Loan Fund advanced monies to the Capital Improvement Fund to assist with costs for the HD Rally Point. The amount is non-interest bearing and will be repaid in 2025.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**(8) Interfund Transfers**

	Transfers In	Transfers Out
General Fund	\$ 531,716	\$ 147,000
Special Sales Tax Fund	-	66,289
Capital Improvement Fund	20,800	-
BID Fund	66,289	-
Liquor Fund	-	381,716
Wastewater Fund	-	170,800
Sanitation Fund	12,000	-
Ambulance Fund	135,000	-
<b>Total Transfers</b>	<b>\$ 765,805</b>	<b>\$ 765,805</b>

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

**(9) Pension Plan**

All employees, working more than 20 hours per week during the year, participate in the SDRS, a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' 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 SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has four different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

(9) Pension Plan

Legislation enacted in 2017 established the current Cost-of-Living Adjustment (COLA) process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3<sup>rd</sup> quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3<sup>rd</sup> quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent. All benefits except those depending on the Member’s Accumulated Contributions are annually increased by COLA.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. 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, 2022, 2021, and 2020 were **\$378,462**, \$350,922, and \$308,000, respectively, equal to the required contributions each year.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2022, SDRS is 100.10 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the City as of June 30, 2022 and reported by the City as of December 31, 2022, are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 20,818,749	\$ 15,037,312	\$ 35,856,061
Less: Proportionate Share of Total Pension Liability	(20,804,821)	(15,027,252)	(35,832,073)
<b>Proportionate Share of Net Pension Asset</b>	<b>\$ 13,928</b>	<b>\$ 10,060</b>	<b>\$ 23,988</b>

At December 31, 2022, the City reported an asset of \$23,988 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2022 and the total pension asset used to calculate the net pension asset was based on a projection of the City’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the City’s proportion was 0.25382900 percent, which is an increase of .015 percent from its proportion measured as of June 30, 2021.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**(9) Pension Plan**

For the year ended December 31, 2022, the City recognized pension expense of \$218,883. At December 31, 2022, the City reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 456,638	\$ 1,557
Changes in Assumption	1,524,633	1,336,135
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	57,488
City Contributions Subsequent to the Measurement Date	197,116	-
<b>Total</b>	<b>\$ 2,178,387</b>	<b>\$ 1,395,180</b>

Deferred outflow of resources includes \$197,116 resulting from City contributions subsequent to the measurement date that will be recognized as an increase of the net pension asset in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

2023	\$ 157,626
2024	333,140
2025	(379,934)
2026	475,259
	<b>\$ 586,091</b>

Actuarial Assumptions:

The total pension asset in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	Graded by years of service, from 7.66 percent at entry to 3.15 percent after 25 years of service
Discount Rate	6.50 percent, net of pension plan investment expense
Future COLAs	2.10 percent
Mortality Rates	All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020
	Active and Terminated Vested Members:
	Teachers, Certified Regents, and Judicial: PubT-2010
	Other Class A Members: PubG-2010
	Public Safety Members: PubS-2010
	Retired Members:
	Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
	Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
	Public Safety Retirees: PubS-2010, 102% of rates at all ages
	Beneficiaries:
	PubG-2010 contingent survivor mortality table
	Disabled Members:
	Public Safety: PubS-2010 disabled member mortality table
	Others: PubG-2010 disabled member mortality table

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**(9) Pension Plan**

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2021.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2022 (see the discussion of the pension plan’s investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	3.7%
Fixed Income	30.0%	1.1%
Real Estate	10.0%	2.6%
Cash	2.0%	4.0%
	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the total pension asset was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of Liability/(Asset) to Changes in the Discount Rate:

The following presents the City’s proportionate share of net pension asset calculated using the discount rate of 6.50 percent, as well as what the District’s proportionate share of the net pension (asset)/liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.50 percent) or 1-percentage point higher (7.50 percent) than the current rate:

	Current Discount		
	1% Decrease	Rate	1% Increase
City’s Proportionate Share of the Net Pension (Asset)/Liability	\$ 498,977	\$ (23,988)	\$ (4,114,368)

Pension Plan Fiduciary Net Position:

Detailed information about the plan’s fiduciary net position is available in the separately issued SDRS financial report.

## CITY OF STURGIS

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

#### **(10) Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2022, 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 three 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 a Members' Annual Operating Contribution, to provide liability coverage detailed below, under a claims-made policy and premiums are accrued on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. 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.

Effective October 5, 2021, the SDPAA adopted a new policy on member departures. Departing members will no longer be eligible for any partial refund of the calculated portion of their contributions which was previously allowed. The prior policy provided the departing member with such a partial refund because the departing member took sole responsibility for all claims and claims expenses whether reported or unreported at the time of their departure from the SDPAA. With such partial refund being no longer available, the SDPAA will now assume responsibility for all reported claims of a departing member pursuant to the revised IGC.

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 three years.

##### 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 three 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 three 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.

## CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

## (11) 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, 2022:

<u>Loan</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
Hans Nelson	N/A	0%	July 1, 2025	\$ 1,732
Morgan Picke	N/A	0%	November 4, 2023	727
Steve Denton	N/A	0%	August 31, 2025	5,660
D&M Rentals	Equipment	2%	June 1, 2029	33,717
Jake's Garage	Real Estate	3%	December 5, 2024	5,830
Baldwin	Real Estate	3%	February 5, 2025	6,329
Dominos	Real Estate	3%	June 1, 2025	6,743
Little Promises	Equipment, Cash	2%	December 1, 2027	94,280
Dolan Creek, LLC	Real Estate	5%	December 1, 2032	138,933
Sports Adventure	Inventory, Equipment, Deposits	2%	August 1, 2032	96,977
A&A Sturgis	Inventory, Equipment	2%	April 1, 2030	75,327
Strain Morman Law Firm	Real Estate	2%	July 1, 2029	18,340
Sturgis Brewing	Inventory and Equipment	3%	May 1, 2031	172,314
Emma's Ice Cream	Personal Property and Personal Guarantees of Borrowers	3%	August 1, 2031	21,929
910 1st St. LLC	Personal Guarantees of Borrower	2%	August 1, 2042	357,909
				<b>\$ 1,036,747</b>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
<b>Revenue</b>				
<i>Taxes:</i>				
311 General Property Taxes	\$ 2,772,280	\$ 2,872,280	\$ 2,789,196	\$ (83,084)
313 General Sales and Use Taxes	2,216,778	2,216,778	2,317,884	101,106
315 Amusement Taxes	420	420	-	(420)
319 Penalties and Interest on Delinquent Taxes	9,000	9,000	5,589	(3,411)
320 Licenses and Permits	710,875	710,875	779,108	68,233
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	124,073	124,073
334 State Grants	-	-	11,759	11,759
335 Bank Franchise Tax	23,200	23,200	21,438	(1,762)
335 Liquor Tax Reversion	47,800	47,800	48,793	993
335 Motor Vehicle Licenses	100,000	100,000	104,733	4,733
335.1 Local Government Highway and Bridge Fund	143,000	143,000	147,339	4,339
338 County Highway and Bridge Reserve Tax (25%)	5,855	5,855	5,855	-
338 Port of Entry	1,700	1,700	10,139	8,439
<i>Charges for Goods and Services:</i>				
341 General Government	1,863,235	1,863,235	1,905,263	42,028
342 Public Safety	86,536	86,536	61,471	(25,065)
345 Health	4,300	4,300	13,931	9,631
346 Culture and Recreation	253,050	253,050	303,890	50,840
349 Other	181,500	181,500	237,445	55,945
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	2,100	2,100	7,125	5,025
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	445,000	445,000	413,007	(31,993)
362 Rentals/Airport Hangar Lease	31,353	31,353	38,466	7,113
367 Contributions and Donations - Private Sources	20,200	20,200	186,549	166,349
369 Other	1,000	1,000	-	(1,000)
<b>Total Revenue</b>	<b>8,919,182</b>	<b>9,019,182</b>	<b>9,533,053</b>	<b>513,871</b>

CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<b><u>Original Budget</u></b>	<b><u>Final Budget</u></b>	<b><u>Actual - Budgetary Basis</u></b>	<b><u>Variance</u></b>
<b>Expenditures</b>				
<i>General Government:</i>				
411 Legislative	309,155	309,155	291,104	18,051
414 Financial Administration	1,332,869	1,395,869	1,280,966	114,903
419 Other	2,502,602	2,557,602	2,642,769	(85,167)
<i>Public Safety:</i>				
421 Police	2,386,428	2,386,428	2,399,161	(12,733)
422 Fire	150,188	150,188	147,444	2,744
<i>Public Works:</i>				
431 Highway and Streets	953,409	1,472,209	905,692	566,517
435 Airport	224,293	332,293	285,789	46,504
437 Cemeteries	118,717	118,717	108,641	10,076
<i>Culture and Recreation:</i>				
451 Recreation	819,309	2,319,309	2,171,835	147,474
452 Parks	730,382	880,382	686,457	193,925
455 Library	393,223	393,223	302,850	90,373
456 Auditorium	21,147	24,147	23,946	201
<b>Total Expenditures</b>	<b>9,941,722</b>	<b>12,339,522</b>	<b>11,246,654</b>	<b>1,092,868</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(1,022,540)</b>	<b>(3,320,340)</b>	<b>(1,713,601)</b>	<b>1,606,739</b>
<b>Other Financing Sources (Uses)</b>				
391.01 Transfers In	1,169,540	1,169,540	531,716	(637,824)
391.02 Lease Proceeds	-	-	316,568	316,568
391.03 Sale of Municipal Property	-	-	46,100	46,100
391.04 Compensation for Loss or Damage to Capital Assets	-	-	263,735	263,735
511 Transfers Out	(147,000)	(147,000)	(147,000)	-
<b>Total Other Financing Sources</b>	<b>1,022,540</b>	<b>1,022,540</b>	<b>1,011,119</b>	<b>(11,421)</b>
Net Change in Fund Balance	-	(2,297,800)	(702,482)	1,595,318
Fund Balance, December 31, 2021	4,545,706	4,545,706	4,545,706	-
<b>Fund Balance, December 31, 2022</b>	<b>\$ 4,545,706</b>	<b>\$ 2,247,906</b>	<b>\$ 3,843,224</b>	<b>\$ 1,595,318</b>

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

CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)  
CAPITAL IMPROVEMENT FUND  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
<b>Revenue</b>				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 1,995,100	\$ 1,995,100	\$ 2,086,096	\$ 90,996
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	13,978	13,978
334 State Grants	240,618	240,618	238,216	(2,402)
341 Rally Property Leases	150,000	150,000	100,000	(50,000)
367 Contributions and Donations	-	-	7,500	7,500
<b>Total Revenue</b>	<b>2,385,718</b>	<b>2,385,718</b>	<b>2,445,790</b>	<b>60,072</b>
<b>Expenditures</b>				
<i>General Government:</i>				
419 Other	-	-	101,545	(101,545)
<i>Public Works:</i>				
431 Highway and Streets	-	-	32,121	(32,121)
<i>Culture and Recreation:</i>				
451 Recreation	-	-	27,658	(27,658)
452 Parks	-	-	16,313	(16,313)
470 Debt Service	604,741	604,741	604,741	-
900 Capital Outlay	2,980,977	3,080,977	625,780	2,455,197
<b>Total Expenditures</b>	<b>3,585,718</b>	<b>3,685,718</b>	<b>1,408,158</b>	<b>2,277,560</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(1,200,000)</b>	<b>(1,300,000)</b>	<b>1,037,632</b>	<b>2,337,632</b>
<b>Other Financing Sources</b>				
391.01 Transfers In	-	-	20,800	20,800
391.04 Compensation for Loss or Damage to Capital Assets	-	-	14,907	14,907
<b>Total Other Financing Sources</b>	<b>-</b>	<b>-</b>	<b>35,707</b>	<b>35,707</b>
<b>Net Change in Fund Balance</b>	<b>(1,200,000)</b>	<b>(1,300,000)</b>	<b>1,073,339</b>	<b>2,373,339</b>
Fund Balance, December 31, 2021	386,585	386,585	386,585	-
<b>Fund Balance, December 31, 2022</b>	<b>\$ (813,415)</b>	<b>\$ (913,415)</b>	<b>\$ 1,459,924</b>	<b>\$ 2,373,339</b>

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

**CITY OF STURGIS**

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET (LIABILITY) (UNAUDITED)  
DECEMBER 31, 2022**

	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
City's Proportion of the Net Pension Asset (Liability)	0.2538290%	0.2392350%	0.23066390%	0.23558680%
City's Proportionate Share of Net Pension Asset (Liability)	\$ 23,988	\$ 1,832,131	\$ 10,017	\$ 24,965
City's Covered Payroll (Plan's Fiscal Year)	\$ 5,717,190	\$ 5,130,278	\$ 4,813,573	\$ 4,741,713
City's Proportionate Share of the Net Pension Asset (Liability) as a Percentage of its Covered Payroll	0.42%	35.71%	0.21%	0.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset (Liability)	100.10%	105.52%	100.04%	100.09%
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
City's Proportion of the Net Pension Asset (Liability)	0.24256130%	0.25232870%	0.25267720%	0.24867220%
City's Proportionate Share of Net Pension Asset (Liability)	\$ 5,656	\$ 22,899	\$ (853,519)	\$ 1,054,689
City's Covered Payroll (Plan's Fiscal Year)	\$ 4,809,142	\$ 4,699,493	\$ 4,639,694	\$ 4,346,273
City's Proportionate Share of the Net Pension Asset (Liability) as a Percentage of its Covered Payroll	0.12%	0.49%	-18.40%	24.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset (Liability)	100.02%	100.10%	96.89%	104.10%

**CITY OF STURGIS**

**SCHEDULE OF THE CITY'S CONTRIBUTIONS (UNAUDITED)  
DECEMBER 31, 2022**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually Required Contribution	\$ 378,462	\$ 350,922	\$ 308,000	\$ 297,836
Contributions in Relation to the Contractually Required Contribution	378,462	350,922	308,000	297,836
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 5,959,543	\$ 5,523,922	\$ 4,842,364	\$ 4,791,084
Contributions as a Percentage of Covered Payroll	6.4%	6.4%	6.4%	6.2%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 302,492	\$ 299,638	\$ 293,505	\$ 291,141
Contributions in Relation to the Contractually Required Contribution	302,492	299,638	293,505	291,141
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 4,756,469	\$ 4,789,633	\$ 4,705,530	\$ 4,686,344
Contributions as a Percentage of Covered Payroll	6.4%	6.3%	6.2%	6.2%

## CITY OF STURGIS

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2022

#### (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, 2022.
7. Formal budgetary integration is employed as a management control device during the year for the general fund and major special revenue funds.
8. The financial statements prepared in conformity with US GAAP applied within the context of the modified accrual basis of accounting present capital outlay expenditure information in a separate category of expenditures. For the general fund, 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.

The City specifically budgets for capital outlay expenditures in the Capital Improvement Fund and budgets are adopted on the modified accrual basis of accounting.

#### (2) Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Schedule of Pension Contributions

*Changes from Prior Valuation:* The June 30, 2022 Actuarial Valuation reflects numerous changes to the actuarial assumptions as a result of an experience analysis completed since the June 30, 2021 Actuarial Valuation. In addition, two changes in actuarial methods have been implemented since the prior valuation.

The details of the changes since the last valuation are as follows:

*Benefit Provision Changes:* During the 2022 Legislative Session no significant SDRS benefit changes were made and gaming enforcement agents became Class B Public Safety Members.

*Actuarial Assumption Changes:* As a result of an experience analysis covering the period from July 1, 2016, to June 30, 2021, and presented to the SDRS Board of Trustees in April and June 2022, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for this June 30, 2022, actuarial valuation.

**CITY OF STURGIS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2022**

**(2) Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Schedule of Pension Contributions**

The changes to economic assumptions included increasing the price inflation to 2.50% and increasing the wage inflation to 3.15%. The current assumed investment return assumption of 6.50% was retained, lowering the assumed real investment return to 4.00%. The baseline COLA assumption of 2.25% was also retained. Salary increase assumptions were modified to reflect the increase in assumed wage inflation and recent experience. The assumed interest on accumulated contributions was decreased to 2.25%

The demographic assumptions were also reviewed and revised. The mortality assumption was changed to the Pub-2010 amount-weighted tables using separate tables for teachers, general, and public safety retirees, with assumptions for retirees adjusted based on credible experience. The mortality assumption for active and terminated vested members was changed to the unadjusted amount-weighted Pub-2010 tables, again by member classification and the assumption for beneficiaries was changed to the amount-weighted Pub-2010 general contingent survivor table. Adjustments based on experience were also made to the assumptions regarding retirement, termination, disability, age of spouses for married Foundation members, percentage of terminated vested members electing a refund, and benefit commencement age for terminated vested Public Safety members with 15 or more years of service.

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

As of June 30, 2021, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was greater than 100% and the full 0% to 3.5% COLA range was payable. For the June 30, 2021, Actuarial Valuation, future COLAs were assumed to equal the baseline COLA assumption of 2.25%.

As of June 30, 2022, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is less than 100% and the July 2023 SDRS COLA is limited to a restricted maximum of 2.10%. The July 2023 SDRS COLA will equal inflation, between 0% and 2.10%. For this June 30, 2022, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 2.10%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027, Actuarial Valuation and any recommended 7 changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027, Actuarial Valuation.

*Actuarial Method Changes:* Actuarial method changes with minor impact were implemented for this valuation after recommendation by Cavanaugh Macdonald Consulting as part of their reviews of prior valuations. As a result, liabilities and normal costs for refund benefits and the Generational Variable Retirement Account are now calculated using the entry age normal cost method with normal costs based on the expected value of these accounts rather than the actual balance.

OTHER SUPPLEMENTARY INFORMATION

CITY OF STURGIS

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2022

	<u>Special Sales Tax Fund</u>	<u>Hotel Occupancy Fund</u>	<u>Revolving Loan Fund</u>	<u>Equipment Replacement Fund</u>	<u>BID Fund</u>
<b>Assets</b>					
101 Cash	\$ 277,659	\$ 132,073	\$ 222,153	\$ 195,399	\$ 81,016
108 Property Tax Receivable	-	-	-	-	1,976
108 Sales Tax Receivable	25,055	-	-	18,168	-
115 Accounts Receivable	-	-	-	-	4,693
121 Special Assessments Receivable	-	-	-	-	76,296
135 Interest Receivable	-	-	-	-	-
128 Notes Receivable	-	-	889,696	-	-
133 Advance to Other Funds	-	-	190,000	-	-
151 Investment Held for Sale	608,100	-	-	-	-
<b>Total Assets</b>	<b>\$ 910,814</b>	<b>\$ 132,073</b>	<b>\$ 1,301,849</b>	<b>\$ 213,567</b>	<b>\$ 163,981</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>					
<i>Liabilities</i>					
202 Accounts Payable	\$ 650	\$ -	\$ -	\$ -	\$ 13,470
217 Accrued Taxes Payable	-	-	-	-	-
220 Customer Deposits	-	-	-	-	3,100
<b>Total Liabilities</b>	<b>650</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,570</b>
<i>Deferred Inflows of Resources</i>					
246 Unavailable Revenue - Special Assessments	-	-	-	-	76,296
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,296</b>
<i>Fund Balances</i>					
263.04 Nonspendable - Advances	-	-	190,000	-	-
263.51 Nonspendable - Perpetual Care Cemetery	-	-	-	-	-
264.03 Restricted - Perpetual Care Cemetery	-	-	-	-	-
264.04 Restricted - BBB Tax	910,164	-	-	-	-
264.05 Restricted - Library Purposes	-	-	-	-	-
264.09 Restricted - BID Tax	-	-	-	-	71,115
264.97 Restricted - Revolving Loan	-	-	1,111,849	-	-
264.99 Restricted - Hotel Occupancy	-	132,073	-	-	-
265.02 Committed - Equipment Replacement	-	-	-	213,567	-
<b>Total Fund Balances</b>	<b>910,164</b>	<b>132,073</b>	<b>1,301,849</b>	<b>213,567</b>	<b>71,115</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 910,814</b>	<b>\$ 132,073</b>	<b>\$ 1,301,849</b>	<b>\$ 213,567</b>	<b>\$ 163,981</b>

<b>Alice W. Dunn Fund</b>	<b>Perpetual Maintenance Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 364,815	\$ 204,528	\$ 1,477,643
-	-	1,976
-	-	43,223
-	-	4,693
-	-	76,296
1,427	-	1,427
-	-	889,696
-	-	190,000
-	-	608,100
<b>\$ 366,242</b>	<b>\$ 204,528</b>	<b>\$ 3,293,054</b>
\$ -	\$ -	\$ 14,120
-	72	72
-	-	3,100
-	72	17,292
-	-	76,296
-	-	76,296
-	-	190,000
-	50,000	50,000
-	154,456	154,456
-	-	910,164
366,242	-	366,242
-	-	71,115
-	-	1,111,849
-	-	132,073
-	-	213,567
366,242	204,456	3,199,466
<b>\$ 366,242</b>	<b>\$ 204,528</b>	<b>\$ 3,293,054</b>

CITY OF STURGIS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Special Sales Tax Fund</u>	<u>Hotel Occupancy Fund</u>	<u>Revolving Loan Fund</u>	<u>Equipment Replacement Fund</u>	<u>BID Fund</u>	<u>Alice W. Dunn Fund</u>
<b>Revenue:</b>						
313 General Sales and Use Taxes	\$ 450,417	\$ -	\$ -	\$ 231,788	\$ -	\$ -
315 Amusement Taxes	-	85,424	-	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	-	-	1,208	-
341 Charges for Goods and Services - General Government	-	-	-	-	63,382	-
361 Investment Earnings	-	-	14,666	-	-	-
363 Special Assessments	-	-	-	-	77,001	-
369 Other	-	-	-	-	27,381	6,275
<b>Total Revenue</b>	<b>450,417</b>	<b>85,424</b>	<b>14,666</b>	<b>231,788</b>	<b>168,972</b>	<b>6,275</b>
<b>Expenditures:</b>						
419 General Government - Other	-	-	-	-	240,576	-
451 Culture and Recreation	-	81,773	-	-	-	-
460 Conservation and Development	249,404	-	1,000	-	-	-
485 Capital Outlay	-	-	-	466,543	-	-
<b>Total Expenditures</b>	<b>249,404</b>	<b>81,773</b>	<b>1,000</b>	<b>466,543</b>	<b>240,576</b>	<b>-</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>201,013</b>	<b>3,651</b>	<b>13,666</b>	<b>(234,755)</b>	<b>(71,604)</b>	<b>6,275</b>
<b>Other Financing Sources (Uses)</b>						
391 Transfers In	-	-	-	-	66,289	-
511 Transfers Out	(66,289)	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(66,289)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>66,289</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>134,724</b>	<b>3,651</b>	<b>13,666</b>	<b>(234,755)</b>	<b>(5,315)</b>	<b>6,275</b>
Fund Balance, December 31, 2021	775,440	128,422	1,288,183	448,322	76,430	359,967
<b>Fund Balance, December 31, 2022</b>	<b>\$ 910,164</b>	<b>\$ 132,073</b>	<b>\$ 1,301,849</b>	<b>\$ 213,567</b>	<b>\$ 71,115</b>	<b>\$ 366,242</b>

<b>Perpetual Maintenance Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ -	\$ 682,205
-	85,424
-	1,208
-	63,382
-	14,666
-	77,001
4,315	37,971
<u>4,315</u>	<u>961,857</u>
-	240,576
-	81,773
-	250,404
-	466,543
<u>-</u>	<u>1,039,296</u>
4,315	(77,439)
-	66,289
-	(66,289)
<u>-</u>	<u>-</u>
4,315	(77,439)
200,141	3,276,905
<u>\$ 204,456</u>	<u>\$ 3,199,466</u>

CITY OF STURGIS

SCHEDULE OF RALLY ACTIVITIES (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2022

**Revenue**

*Taxes:*

313 Sales Tax	\$	741,177
320 Licenses and Permits		618,382

*Charges for Goods and Services:*

341 General Government		943,880
344 Special Sanitation Fee		167,673

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<b>Total Revenue</b>		<b>2,471,111</b>
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**Expenditures**

*General Government:*

429 Other		(1,178,132)
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*Special Sanitation:*

429 Other		(68,037)
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*Donations to Charities:*

429 Other		(162,771)
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<b>Total Expenditures</b>		<b>(1,408,940)</b>
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<b>Excess of Revenue over Expenditures</b>	<b>\$</b>	<b>1,062,171</b>
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OTHER REPORTS



# Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street  
P.O. Box 3140, Rapid City, South Dakota 57709  
Telephone (605) 342-5630 • e-mail: [info@ktllp.com](mailto:info@ktllp.com)

## 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, 2022, 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 16, 2023.

### **Report on 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) as a basis for designing 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.

*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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings as #2022-001 and #2022-002, that we consider to be material weaknesses.

### **Report on 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 financial statements. 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 Council  
City of Sturgis

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**City's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Findings. The City's response was not subjected to the other 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. 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  
Certified Public Accountants

August 16, 2023

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

**SCHEDULE OF FINDINGS**

**MATERIAL WEAKNESSES**

#2022-001 FINDING: Financial Statement Preparation

*Condition and Cause:* We were requested to draft the audited financial statements, and related footnote disclosures 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 and 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 municipalities of your size.

*Criteria and Effect:* It is our responsibility to inform the Council that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the City's management.

*Repeat Finding from Prior Year:* Yes, prior year finding #2021-001.

*Recommendation:* As in prior years, we have instructed management to review a draft of the auditor prepared financials 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/Corrective Action Plan:* The City agrees with the above finding. See Corrective Action Plan.

#2022-002 FINDING: Audit Adjustments

*Condition and Cause:* During the course of our engagement, we proposed material audit adjustments that were approved and recorded. Adjustments included an entry to adjust net pension activity, to adjust receivables and deferrals, to adjust governmental capital assets and related accumulated depreciation, to record retainage payable on construction in progress, to record fuel inventory, and to adjust 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.

*Repeat Finding from Prior Year:* Yes, prior year finding 2021-002.

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

**MATERIAL WEAKNESSES**

#2022-002 FINDING: Audit Adjustments

*Recommendation:* We recommend that management consider the following:

- a. Record retainage associated with all projects in process at year-end.
- b. Work with lenders to verify year-end long-term debt balances, including interest, and adjust balances accordingly.
- c. Adjust property tax receivables and deferrals to actual at year-end.
- d. Management should continue to review and approve the pension entries.
- e. Analyze and write-off any revolving loans deemed uncollectible.
- f. Capital assets should be reviewed to make sure all additions and disposals are properly reflected, including the activity within TIF Funds. When adjusting these figures, take into account capital contributions, both external and between funds, that may need recorded.
- g. Adjust interfund advances to agree to amortization schedules.
- h. Adjust fuel inventory balances to actual at year-end.

*Response/Corrective Action Plan:* The City agrees with the above finding. See Corrective Action Plan.

MANAGEMENT RESPONSE



**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2022**

The City of Sturgis respectfully submits the following summary schedule of prior audit findings from December 31, 2021 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2021 Schedule of Findings.

#2021-001 FINDING: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation

*Status:* It is more cost effective for the City to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements and Schedule of Expenditures of Federal Awards (SEFA) as a part of the annual audit process. The City has designated a member of management to review the draft financial statements and accompanying notes to the financial statements.

*Initial Year Report:* Originally issued years ago.

*Reasons for Recurrence and Corrective Action Plan:* As the City has accepted the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2022, see Corrective Action Plan.

#2021-002 FINDING: Audit Adjustments

*Status:* The City made efforts to record all year-end entries, but several audit adjustments were made.

*Initial Year Report:* Originally issued years ago.

*Reasons for Recurrence and Corrective Action Plan:* The finding is altered based on specific audit adjustments each year, but is repeated in the Schedule of Findings. See Corrective Action Plan.



**CORRECTIVE ACTION PLAN  
DECEMBER 31, 2022**

The City respectfully submits the following corrective action plan regarding findings from December 31, 2022 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

#2022-001 FINDING: Financial Statement Preparation

*Responsible Officials:* Fay Bueno, Finance Officer

*Corrective Action Plan:* The City has accepted the risk associated with Finding #2022-001 regarding the preparation of the financial statements and will continue to have the independent auditor prepare the annual financial statements. For future audits, Finance Officer Fay Bueno will continue to monitor the financial statement preparation and determine if any modification is necessary.

*Anticipated Completion Date:* Ongoing

#2022-002 FINDING: Audit Adjustments

*Responsible Officials:* Fay Bueno, Finance Officer

*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. The Finance Officer will make every effort to make sure the accounting adjustments are made correctly. Capital assets will be reviewed monthly by the Finance Officer and capitalized in a timely manner. Some of the ambulance receivables will be analyzed and adjusted by Accounting Clerk on a monthly basis.

*Anticipated Completion Date:* Ongoing