



**CITY OF STURGIS**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2018



**Ketel Thorstenson, LLP**

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street • Rapid City, SD 57701 • [www.ktllp.com](http://www.ktllp.com)

**CITY OF STURGIS**

**TABLE OF CONTENTS**

	<u>PAGE</u>
Independent Auditor’s Report . . . . .	4-5
Management’s Discussion and Analysis (Unaudited) . . . . .	6-15
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position . . . . .	16
Statement of Activities . . . . .	17
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds . . . . .	18
Reconciliation of Governmental Funds Balance Sheet to Government-Wide Statement of Net Position . . . . .	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds . . . . .	21-22
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to Government-Wide Statement of Activities . . . . .	23
Statement of Net Position – Proprietary Funds . . . . .	24
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds . . . . .	26
Statement of Cash Flows – Proprietary Funds . . . . .	27
Notes to Financial Statements . . . . .	29-51
<i>Required Supplementary Information:</i>	
Budgetary Comparison Schedule – Budgetary Basis – General Fund . . . . .	53-54
Budgetary Comparison Schedule – Budgetary Basis – Capital Improvement Fund . . . . .	55
Schedule of the City’s Proportionate Share of the Net Pension Asset (Liability) . . . . .	56
Schedule of the City’s Contributions . . . . .	57
Notes to Required Supplementary Information . . . . .	58
<i>Other Supplementary Information:</i>	
Combining Balance Sheet – Nonmajor Governmental Funds . . . . .	60-61
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds . . . . .	62-63
Schedule of Rally Activities (Unaudited) . . . . .	64

**CITY OF STURGIS**

**TABLE OF CONTENTS (CONTINUED)**

*Single Audit Section:*

Schedule of Expenditures of Federal Awards .....	66
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 <i>Government Auditing Standards</i> .....	67-68
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance .....	69-70
Schedule of Findings and Questioned Costs .....	71-75

*Management Response:*

Summary Schedule of Prior Audit Findings .....	77
Corrective Action Plan .....	78-79



# 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: [ktllp@ktllp.com](mailto:ktllp@ktllp.com)

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Sturgis  
Sturgis, South Dakota

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF STURGIS** (the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

#### ***Opinions***

In our opinion, 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 as of December 31, 2018, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 15, budgetary comparison information on pages 53 through 55, pension information on pages 56 through 57, and notes to required supplementary information on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Report on 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 as a whole. The schedule of expenditures of federal awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on page 66 and the combining nonmajor fund financial statements and schedule of rally activities on pages 60 through 64 are presented for purposes of additional analysis and are not a required part of the financial statements. The SEFA and the combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The SEFA and the combining nonmajor fund financial statements have 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 SEFA and combining nonmajor fund financial statement information are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule of rally activities on page 64 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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

July 25, 2019

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2018**

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, 2018. 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 \$1,176,831 more than the \$10,437,985 governmental program expenditures. This includes any transfers in/out. The increase is due to an increase in Rally leases, sponsorships and other events held during the year. Taxes were down 0.51 percent compared to 2017. Capital Grants and Contributions were down 67.25 percent compared to 2017 primarily due to the completion of the Main Street project and there were no other projects in 2018 that involved grants. The City continues to see growth in construction of homes and businesses during 2018.
- In the City's business-type activities, revenues exceeded expenses by \$864,489, which includes transfers and any activity due to the disposal of capital assets. The increase is due to higher liquor store sales, grant money for the Wastewater project and Ambulance Fund. Overall expenses in the business-type activities were higher by 12.42 percent compared to 2017.

#### **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) (CONTINUED)  
DECEMBER 31, 2018**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

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

**Figure A-1**

	<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 of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2018**

#### **OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)**

##### **Government-wide Statements (Continued)**

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

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

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

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

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

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

The City has two kinds of funds:

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



**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
DECEMBER 31, 2018**

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

**Net Position**

The City's combined net position increased three percent between fiscal year 2017 and 2018. (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>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Current and Other Assets	<b>\$ 5,171,076</b>	\$ 4,969,100	<b>\$ 5,349,072</b>	\$ 4,148,552	<b>\$ 10,520,148</b>	\$ 9,117,652
Capital Assets	<b>46,482,294</b>	42,006,046	<b>26,479,389</b>	26,673,658	<b>72,961,683</b>	68,679,704
<b>Total Assets</b>	<b>\$51,653,370</b>	\$ 46,975,146	<b>\$ 31,828,461</b>	\$ 30,822,210	<b>\$ 83,481,831</b>	\$ 77,797,356
Pension Related Deferred Outflows	<b>\$ 845,429</b>	\$ 1,203,184	<b>\$ 529,431</b>	\$ 654,739	<b>\$ 1,374,860</b>	\$ 1,857,923
Long-Term Debt	<b>\$10,368,694</b>	\$ 7,053,789	<b>\$ 8,488,679</b>	\$ 8,828,880	<b>\$ 18,857,373</b>	\$ 15,882,669
Other Liabilities	<b>1,404,858</b>	1,576,125	<b>1,025,325</b>	668,670	<b>2,430,183</b>	2,244,795
<b>Total Liabilities</b>	<b>\$11,773,552</b>	\$ 8,629,914	<b>\$ 9,514,004</b>	\$ 9,497,550	<b>\$ 21,287,556</b>	\$ 18,127,464
<i>Net Position:</i>						
Net Investment in Capital Assets	<b>\$36,360,180</b>	\$ 35,166,804	<b>\$ 18,143,400</b>	\$ 17,958,805	<b>\$ 54,503,580</b>	\$ 53,125,609
Restricted	<b>3,988,373</b>	4,228,579	<b>582,664</b>	703,828	<b>4,571,037</b>	4,932,407
Unrestricted	<b>376,694</b>	153,033	<b>4,117,824</b>	3,316,766	<b>4,494,518</b>	3,469,799
<b>Total Net Position</b>	<b>\$40,725,247</b>	\$ 39,548,416	<b>\$ 22,843,888</b>	\$ 21,979,399	<b>\$ 63,569,135</b>	\$ 61,527,815
Beginning Net Position	<b>\$39,548,416</b>	\$ 36,551,214	<b>\$ 21,979,399</b>	\$ 20,031,936	<b>\$ 61,527,815</b>	\$ 56,583,150
<b>Increase in Net Position</b>	<b>\$ 1,176,831</b>	\$ 2,997,202	<b>\$ 864,489</b>	\$ 1,947,463	<b>\$ 2,041,320</b>	\$ 4,944,665
Percentage of Increase in Net Position	<b>3%</b>	8%	<b>4%</b>	10%	<b>3%</b>	9%

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**

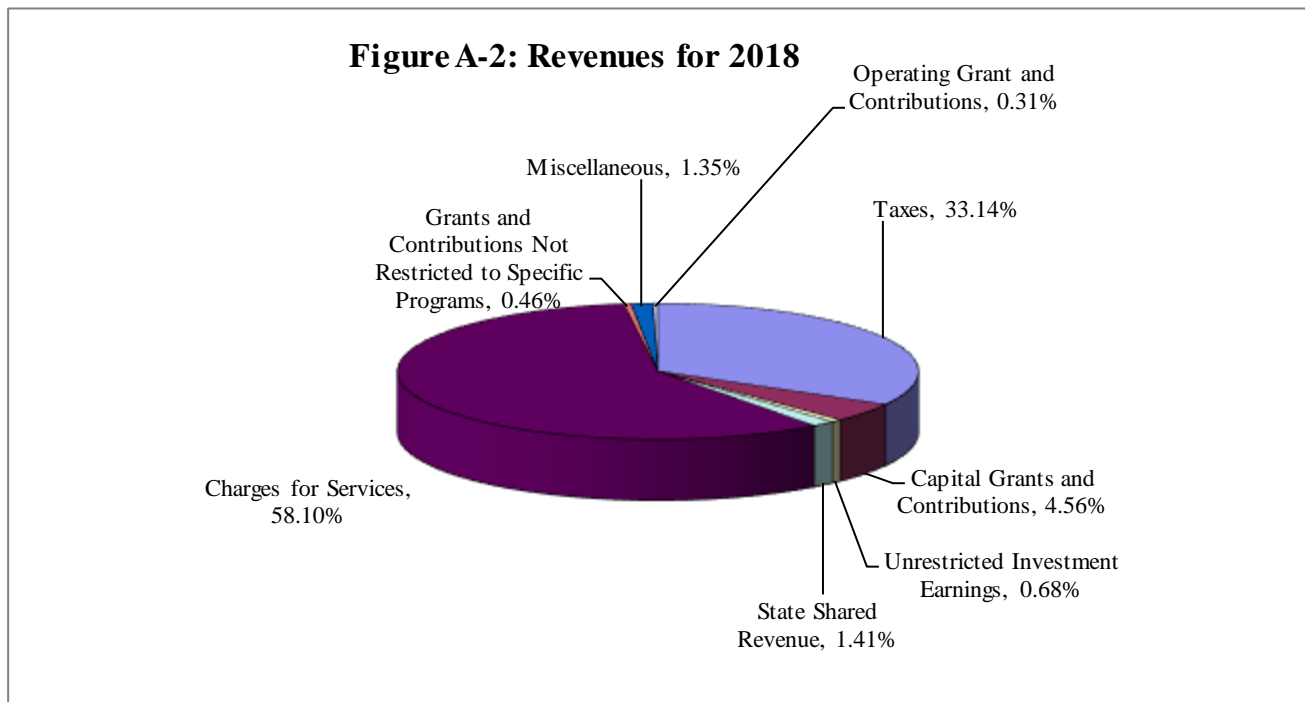
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
DECEMBER 31, 2018**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)**

**Changes in Net Position**

The City's revenues totaled \$20,306,336 (See Table A-2). Over half of the City's revenue comes from charges for services and taxes, with 58 cents of every dollar raised coming from charges for services (primarily liquor and water operations) and 33 cents of every dollar raised coming from some type of tax (See Figure A-2). The other nine 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 \$18,265,016 (See Table A-2). The City's expenses cover a range of services, including road maintenance, parks and recreation services and sewer system services. (See Figure A-3).

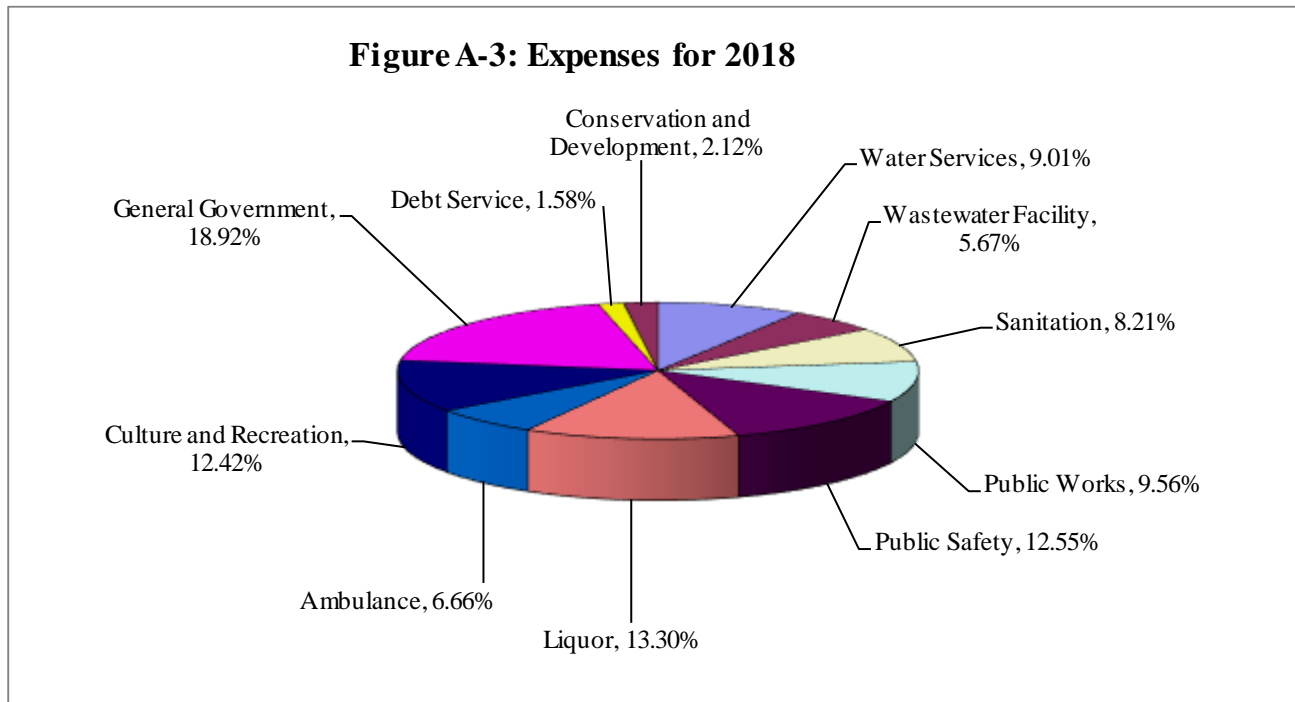


**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
DECEMBER 31, 2018**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)**

**Changes in Net Position (Continued)**



**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
DECEMBER 31, 2018**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)**

**Changes in Net Position (Concluded)**

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

<b>Table A-2</b>						
<b>Changes in Net Position</b>						
	<b>Governmental Activities</b>		<b>Business - Type Activities</b>		<b>Total</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 3,129,992	\$ 2,808,904	\$ 8,667,267	\$ 8,274,299	\$ 11,797,259	\$ 11,083,203
Operating Grants and Contributions	48,943	295,846	14,340	-	63,283	295,846
Capital Grants and Contributions	767,214	2,354,491	159,040	-	926,254	2,354,491
General Revenues						
Taxes	6,728,839	6,763,619	-	-	6,728,839	6,763,619
State Shared Revenue	286,373	292,636	-	-	286,373	292,636
Grants and Contributions not Program Specific	92,380	158,463	-	-	92,380	158,463
Unrestricted Investment Earnings	128,322	140,532	9,709	9,821	138,031	150,353
Miscellaneous	110,245	143,968	163,672	165,642	273,917	309,610
<b>Total Revenues</b>	<b>11,292,308</b>	<b>12,958,459</b>	<b>9,014,028</b>	<b>8,449,762</b>	<b>20,306,336</b>	<b>21,408,221</b>
<b>Expenses</b>						
General Government	3,454,911	3,270,212	-	-	3,454,911	3,270,212
Public Safety	2,292,354	2,222,402	-	-	2,292,354	2,222,402
Public Works	1,746,884	1,497,735	-	-	1,746,884	1,497,735
Culture and Recreation	2,267,750	1,791,833	-	-	2,267,750	1,791,833
Conservation and Development	387,483	390,772	-	-	387,483	390,772
Debt Service	288,603	328,098	-	-	288,603	328,098
Liquor	-	-	2,429,338	2,238,959	2,429,338	2,238,959
Water Services	-	-	1,645,648	1,499,234	1,645,648	1,499,234
Wastewater Services	-	-	1,036,177	844,215	1,036,177	844,215
Sanitation Services	-	-	1,498,861	1,306,410	1,498,861	1,306,410
Ambulance	-	-	1,217,007	1,073,686	1,217,007	1,073,686
<b>Total Expenses</b>	<b>10,437,985</b>	<b>9,501,052</b>	<b>7,827,031</b>	<b>6,962,504</b>	<b>18,265,016</b>	<b>16,463,556</b>
Excess Before Transfers	854,323	3,457,407	1,186,997	1,487,258	2,041,320	4,944,665
Transfers	322,508	(460,205)	(322,508)	460,205	-	-
<b>Increase in Net Position</b>	<b>1,176,831</b>	<b>2,997,202</b>	<b>864,489</b>	<b>1,947,463</b>	<b>2,041,320</b>	<b>4,944,665</b>
<b>Ending Net Position</b>	<b>\$ 40,725,247</b>	<b>\$ 39,548,416</b>	<b>\$ 22,843,888</b>	<b>\$ 21,979,399</b>	<b>\$ 63,569,135</b>	<b>\$ 61,527,815</b>

**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
DECEMBER 31, 2018**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)**

**Governmental Activities**

Total revenues of the governmental activities for the City decreased 13 percent compared to the prior year, while total expenses increased by 12 percent. The overall Decrease in revenues is due to the grant and contribution for the Main Street Project in 2017, but not in 2018. The increase in expenses is due to the building of the Public Works campus, a new playground and several other small projects.

**Business-Type Activities**

Operating revenues of the City's business-type activities increased by 7 percent compared to the prior year, while expenses increased by 12 percent. The overall increase in revenues is due to economic growth and grant money for the Wastewater project and Ambulance Fund. Increase in expenses is due to increased purchases at the liquor store and higher operating costs.

**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 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) (CONTINUED)  
DECEMBER 31, 2018**

**CAPITAL ASSET ADMINISTRATION**

By the end of 2018, the City had invested \$72,961,683 in a broad range of capital assets, including, land, buildings, and various machinery and equipment. (See Table A-3). This amount represents a net increase (including additions and deductions) of \$4,281,979, primarily due to the completion of 6<sup>th</sup> Street Park, HD Rally Point Solar Panels, Public Works outbuildings, 1<sup>st</sup> Street Curb and Gutter, and completion of Main Street Project.

<b>Table A-3 Capital Assets (net of depreciation)</b>				
	Governmental Activities		Business-type Activities	
	<b>2018</b>	2017	<b>2018</b>	2017
Land	\$ <b>2,923,815</b>	\$ 2,923,815	\$ <b>738,681</b>	\$ 738,681
Construction Work in Progress	<b>4,589,020</b>	3,895,047	<b>864,598</b>	2,269,008
Buildings	<b>8,681,816</b>	8,546,120	<b>1,311,179</b>	1,450,389
Improvements Other Than Buildings	<b>28,301,433</b>	24,683,864	<b>22,468,415</b>	21,176,565
Machinery and Equipment	<b>1,986,210</b>	1,957,200	<b>1,096,516</b>	1,039,015
<b>Total Capital Assets</b>	<b>\$ 46,482,294</b>	\$ 42,006,046	<b>\$ 26,479,389</b>	\$ 26,673,658

**LONG-TERM DEBT**

At year-end the City had \$18,857,373 in Revenue Bonds, Notes Payable, and other long-term obligations. This is an increase of \$2,974,704 as shown on Table A-4 below.

<b>Table A-4 Outstanding Debt and Obligations</b>				
	Governmental Activities		Business-type Activities	
	<b>2018</b>	2017	<b>2018</b>	2017
Compensated Absences	\$ <b>246,580</b>	\$ 214,547	\$ <b>97,696</b>	\$ 77,536
Tax Increment Financing Obligations	<b>1,750,000</b>	1,750,000	-	-
Notes Payable	<b>6,181,998</b>	5,089,242	<b>2,695,811</b>	2,819,929
Revenue Bonds	<b>2,190,116</b>	-	<b>5,695,172</b>	5,931,415
<b>Total Outstanding Debt and Obligations</b>	<b>\$ 10,368,694</b>	\$ 7,053,789	<b>\$ 8,488,679</b>	\$ 8,828,880

During the current year, the City obtained additional financing through the State for the wastewater treatment plant and the public works building projects. The City paid off the 2009 clean water revenue bonds and 2009 drinking water revenue bonds. The City also paid off a loan with First Interstate Bank for HD Rally Point construction. Also during 2018, the Pioneer was closed and regular payments will be required starting in 2019. The City made scheduled payments throughout the year on other debt balances.

**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONCLUDED)  
DECEMBER 31, 2018**

**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 \$26,137,735. The City requested a .018% increase in property tax for the year of 2018 payable in 2019. The growth factor of 2017 taxes payable in 2018 was 3.43%. The growth factor for 2018 taxes payable in 2019 was 3.83%.

The adopted 2019 general fund expenditures budget increased by 6.6%. The increase is primarily due to wage increases.

The City's business-type activities, sanitation fees will increase 2 percent in 2019. The Liquor Store anticipates a 3 percent increase in revenue over 2018. The Ambulance Fund continues to anticipate revenue to remain consistent.

**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, 2018

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE	TOTAL
	ACTIVITIES	ACTIVITIES	ACTIVITIES	
<b>Assets</b>				
Cash and Cash Equivalents (Note 2)	\$ 4,145,099	\$ 2,633,405	\$	6,778,504
Receivables, Net	879,804	769,100		1,648,904
Notes Receivable (Note 10)	318,242	-		318,242
Internal Balances (Note 6)	(1,504,177)	1,504,177		-
Inventories	-	377,587		377,587
Other Assets	401,085	11,570		412,655
Investment Real Estate Held for Sale	608,100	-		608,100
Restricted Assets:				
Cash (Note 5)	21,420	51,767		73,187
Deposits (Note 9)	297,313	-		297,313
Net Pension Asset (Note 8)	4,190	1,466		5,656
Capital Assets (Note 4)				
Land and Construction Work in Progress	7,512,835	1,603,279		9,116,114
Other Capital Assets, Net of Depreciation	38,969,459	24,876,110		63,845,569
<b>Total Assets</b>	<b>51,653,370</b>	<b>31,828,461</b>		<b>83,481,831</b>
<b>Deferred Outflows of Resources</b>				
Pension Related Deferred Outflows of Resources (Note 8)	845,429	529,431		1,374,860
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 52,498,799</b>	<b>\$ 32,357,892</b>	<b>\$</b>	<b>84,856,691</b>
<b>Liabilities</b>				
Accounts Payable	\$ 1,283,928	\$ 775,761	\$	2,059,689
Unearned Revenue	8,000	-		8,000
Other Current Liabilities	112,930	249,564		362,494
Noncurrent Liabilities (Note 5):				
Due Within One Year	941,545	384,372		1,325,917
Due in More Than One Year	9,427,149	8,104,307		17,531,456
<b>Total Liabilities</b>	<b>11,773,552</b>	<b>9,514,004</b>		<b>21,287,556</b>
<b>Net Position</b>				
Net Investment in Capital Assets	36,360,180	18,143,400		54,503,580
Restricted for:				
Debt Service	-	51,767		51,767
SDPAA (Note 9)	297,313	-		297,313
Revolving Loans	905,946	-		905,946
BID Tax	47,579	-		47,579
BBB Tax	706,022	-		706,022
Library Purposes	262,377	-		262,377
SDRS Pension (Note 8)	849,619	530,897		1,380,516
Hotel Occupancy	80,638	-		80,638
Equipment Replacement	325,291	-		325,291
Permanently Restricted Purposes:				
Expendable	136,053	-		136,053
Nonexpendable	377,535	-		377,535
Unrestricted	376,694	4,117,824		4,494,518
<b>Total Net Position</b>	<b>40,725,247</b>	<b>22,843,888</b>		<b>63,569,135</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 52,498,799</b>	<b>\$ 32,357,892</b>	<b>\$</b>	<b>84,856,691</b>

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



CITY OF STURGIS

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018

	----- 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	\$ 3,454,911	\$ 2,799,993	\$ 37,164	\$ 378,179	\$ (239,575)	\$ -	\$ (239,575)
Public Safety	2,292,354	48,977	11,779	50,000	(2,181,598)	-	(2,181,598)
Public Works	1,746,884	20,054	-	201,599	(1,525,231)	-	(1,525,231)
Health and Welfare	-	8,348	-	-	8,348	-	8,348
Culture and Recreation	2,267,750	252,620	-	74,000	(1,941,130)	-	(1,941,130)
Conservation and Development	387,483	-	-	63,436	(324,047)	-	(324,047)
Interest on Long-Term Debt	288,603	-	-	-	(288,603)	-	(288,603)
<b>Total Governmental Activities</b>	<b>10,437,985</b>	<b>3,129,992</b>	<b>48,943</b>	<b>767,214</b>	<b>(6,491,836)</b>	<b>-</b>	<b>(6,491,836)</b>
Business-Type Activities:							
Liquor	2,429,338	2,594,570	-	-	-	165,232	165,232
Water	1,645,648	1,721,879	-	-	-	76,231	76,231
Wastewater	1,036,177	2,138,294	-	106,402	-	1,208,519	1,208,519
Sanitation	1,498,861	1,324,433	-	-	-	(174,428)	(174,428)
Ambulance	1,217,007	888,091	14,340	52,638	-	(261,938)	(261,938)
<b>Total Business-Type Activities</b>	<b>7,827,031</b>	<b>8,667,267</b>	<b>14,340</b>	<b>159,040</b>	<b>-</b>	<b>1,013,616</b>	<b>1,013,616</b>
<b>Total Primary Government</b>	<b>\$ 18,265,016</b>	<b>\$ 11,797,259</b>	<b>\$ 63,283</b>	<b>\$ 926,254</b>	<b>(6,491,836)</b>	<b>1,013,616</b>	<b>(5,478,220)</b>
General Revenues:							
Taxes:							
Property Taxes					2,948,534	-	2,948,534
Sales Taxes					3,780,305	-	3,780,305
State Shared Revenue					286,373	-	286,373
Grants and Contributions Not Restricted							
to Specific Programs					92,380	-	92,380
Unrestricted Investment Earnings					128,322	9,709	138,031
Miscellaneous Revenue					110,245	163,672	273,917
Transfers					322,508	(322,508)	-
<b>Total General Revenues and Transfers</b>					<b>7,668,667</b>	<b>(149,127)</b>	<b>7,519,540</b>
<b>Change in Net Position</b>					<b>1,176,831</b>	<b>864,489</b>	<b>2,041,320</b>
Net Position, Beginning					39,548,416	21,979,399	61,527,815
<b>Net Position, Ending</b>					<b>\$ 40,725,247</b>	<b>\$ 22,843,888</b>	<b>\$ 63,569,135</b>

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

**CITY OF STURGIS**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2018**

	<b>General Fund</b>	<b>Capital Improvement Fund</b>	<b>TIF Funds</b>
<b>Assets</b>			
101 Cash (Note 2)	\$ 902,979	\$ 330,301	\$ 190,495
105 Savings Certificates (Note 2)	618,963	244,333	-
107 Restricted Cash (Note 5)	-	21,420	-
108 Property Taxes Receivable	100,757	-	623
108 Sales Tax Receivable	148,776	124,972	-
115 Accounts Receivable, Net	29,866	-	-
121 Special Assessments Receivable	-	36,599	-
128 Notes Receivable (Note 10)	-	204	-
132 Due from Federal/State Government	38,909	281,805	-
133 Advance to Other Funds (Note 6)	1,009,753	-	-
151 Investment Held for Sale	-	-	-
154.1 Restricted Deposits (Note 9)	297,313	-	-
155 Prepaid Expense	401,085	-	-
<b>Total Assets</b>	<b>\$ 3,548,401</b>	<b>\$ 1,039,634</b>	<b>\$ 191,118</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
<i>Liabilities</i>			
202 Accounts Payable	\$ 198,405	\$ 1,057,323	\$ 403
208 Due to Other Funds (Note 6)	-	-	197,952
216 Accrued Wages Payable	85,742	-	-
217 Accrued Taxes Payable	1,445	-	-
223 Unearned Revenue - Sponsorship	-	-	-
236 Advance from Other Funds (Note 6)	-	810,000	1,905,978
<b>Total Liabilities</b>	<b>285,592</b>	<b>1,867,323</b>	<b>2,104,333</b>
<i>Deferred Inflows of Resources</i>			
245 Unavailable Revenue - Property Taxes	157,219	-	-
246 Unavailable Revenue - Special Assessments	-	32,624	-
<b>Total Deferred Inflows of Resources</b>	<b>157,219</b>	<b>32,624</b>	<b>-</b>
<i>Fund Balances (Deficits) (Note 1)</i>			
263 Nonspendable	1,708,151	-	-
264 Restricted	-	-	-
265 Committed	134,742	-	-
266 Assigned	89,201	-	-
267 Unassigned	1,173,496	(860,313)	(1,913,215)
<b>Total Fund Balances (Deficits)</b>	<b>3,105,590</b>	<b>(860,313)</b>	<b>(1,913,215)</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 3,548,401</b>	<b>\$ 1,039,634</b>	<b>\$ 191,118</b>

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

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 1,371,905	\$ 2,795,680
486,123	1,349,419
-	21,420
2,953	104,333
44,067	317,815
46,065	75,931
24,412	61,011
318,038	318,242
-	320,714
400,000	1,409,753
608,100	608,100
-	297,313
-	401,085
<b>\$ 3,301,663</b>	<b>\$ 8,080,816</b>

\$ 27,797	1,283,928
-	197,952
-	85,742
13	1,458
8,000	8,000
-	2,715,978
<b>35,810</b>	<b>4,293,058</b>

-	157,219
24,412	57,036
<b>24,412</b>	<b>214,255</b>

777,535	2,485,686
2,463,906	2,463,906
-	134,742
-	89,201
-	(1,600,032)
<b>3,241,441</b>	<b>3,573,503</b>

<b>\$ 3,301,663</b>	<b>\$ 8,080,816</b>
---------------------	---------------------

**CITY OF STURGIS**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO GOVERNMENT-WIDE STATEMENT OF NET POSITION  
DECEMBER 31, 2018**

Total Fund Balances - Governmental Funds \$ 3,573,503

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. 46,482,294

Net pension asset reported in governmental activities is not an available financial  
resource and therefore is not reported in the funds. 4,190

Pension related deferred outflows are components of pension asset and therefore are  
not reported in the funds. 845,429

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. (10,368,694)

Accrued interest on long-term debt is not due and payable in the current period and  
therefore is not reported in the funds. (25,730)

Assets such as delinquent taxes receivable, special assessments, and grants are not  
available to pay for current period expenditures and therefore are deferred in the  
funds. 214,255

---

---

Total Net Position - Governmental Activities \$ **40,725,247**

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

**CITY OF STURGIS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

		<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 (Note 3)	\$ 2,665,126	\$ -	\$ 123,413	\$ -	\$ 2,788,539
313	General Sales and Use Taxes	1,719,821	1,444,650	-	615,834	3,780,305
315	Amusement Taxes	744	-	-	76,801	77,545
319	Penalties and Interest on Delinquent Taxes	9,144	-	-	194	9,338
320	Licenses and Permits	620,037	-	-	-	620,037
<i>Intergovernmental Revenue:</i>						
331	Federal Grants	11,779	309,216	-	-	320,995
334	State Grants	37,164	201,599	-	-	238,763
335	Bank Franchise Tax	14,557	-	-	-	14,557
335	Liquor Tax Reversion	40,512	-	-	-	40,512
335	Motor Vehicle Licenses	94,001	-	-	-	94,001
335.1	Local Government Highway and Bridge Fund	137,303	-	-	-	137,303
338	County Highway and Bridge Reserve Tax	5,855	-	-	-	5,855
338	Port of Entry	12,891	-	-	-	12,891
339	Other	1,308	-	-	-	1,308
<i>Charges for Goods and Services:</i>						
341	General Government	1,942,857	150,000	-	87,099	2,179,956
342	Public Safety	44,567	-	-	-	44,567
345	Health	8,348	-	-	-	8,348
346	Culture and Recreation	252,620	-	-	-	252,620
349	Other	15,004	-	-	-	15,004
<i>Fines and Forfeits:</i>						
351	Court Fines and Costs	4,410	-	-	-	4,410
<i>Miscellaneous Revenue:</i>						
361	Investment Earnings	115,651	-	315	12,356	128,322
362	Rentals/Airport Hangar Lease	17,543	-	-	-	17,543
363	Special Assessments	-	8,151	-	22,661	30,812
367	Contributions and Donations from Private Sources	54,139	38,241	-	-	92,380
369	Other	4,644	-	-	69,882	74,526
<b>Total Revenue</b>		<b>7,830,025</b>	<b>2,151,857</b>	<b>123,728</b>	<b>884,827</b>	<b>10,990,437</b>

## CITY OF STURGIS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2018

	<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	59,760	-	-	59,760
414	Financial Administration	1,251,740	-	-	1,251,740
419	Other	1,601,846	-	167,208	1,769,054
<i>Public Safety:</i>					
421	Police	1,939,633	-	-	1,939,633
422	Fire	123,761	-	-	123,761
<i>Public Works:</i>					
431	Highway and Streets	838,346	39,022	-	877,368
435	Airport	63,115	-	-	63,115
437	Cemeteries	102,706	-	-	102,706
<i>Culture and Recreation:</i>					
451	Recreation	753,292	30,176	28,755	812,223
452	Parks	564,252	69,636	-	633,888
455	Library	349,406	-	11,850	361,256
456	Auditorium	33,741	-	-	33,741
460	Conservation and Development	-	3,333	384,150	387,483
470	Debt Service	-	1,381,647	-	1,539,763
485	Capital Outlay	62,393	5,364,764	125,000	131,517
<b>Total Expenditures</b>		7,743,991	6,888,578	283,116	723,480
<b>Excess of Revenue Over (Under)</b>					
<b>Expenditures</b>		86,034	(4,736,721)	(159,388)	161,347
<b>Other Financing Sources (Uses)</b>					
391	Transfers In (Note 7)	328,752	-	-	68,000
391	Compensation for Loss or Damage to Capital Assets	34,716	-	-	34,716
391	Sale of Municipal Property	-	9,061	28,258	37,319
391.29	Other Long-Term Debt Issued	-	4,499,891	-	4,499,891
511	Transfers Out (Note 7)	-	-	(74,244)	(74,244)
<b>Total Other Financing Sources (Uses)</b>		363,468	4,508,952	-	22,014
<b>Net Change in Fund Balances (Deficit)</b>		449,502	(227,769)	(159,388)	183,361
Fund Balance (Deficit), December 31, 2017		2,656,088	(632,544)	(1,753,827)	3,058,080
<b>Fund Balance (Deficit), December 31, 2018</b>		<b>\$ 3,105,590</b>	<b>\$ (860,313)</b>	<b>\$ (1,913,215)</b>	<b>\$ 3,241,441</b>
		<b>\$ 3,573,503</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, 2018**

Net Change in Fund Balances - Total Government Funds \$ 245,706

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	5,683,674
Depreciation Expense	(1,331,526)
	4,352,148

Capital assets contributed to the City are included in the Statement of Activities as capital outlay expenditures and capitalized in the Statement of Net Position. 192,963

In the Statement of Activities, losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a loss is recognized. (68,863)

Governmental funds report property taxes, sponsorships 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. 105,736

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. 1,217,019

Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term debt in the Statement of Net Position. (4,499,891)

Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures. (32,033)

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. 34,141

Changes in the pension related deferred outflows, pension asset and related pension expenses are not reported in the governmental fund statements. (593,465)

Pension expense reported in the Statement of Activities does not require the use of current financial resources and is not reported as expenditures in the governmental funds. 223,370

Change in Net Position of Governmental Activities	<b>\$ 1,176,831</b>
---	---------------------

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

## CITY OF STURGIS

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2018

	<u>Liquor</u> <u>Fund</u>	<u>Water</u> <u>Fund</u>	<u>Wastewater</u> <u>Fund</u>	<u>Sanitation</u> <u>Fund</u>	<u>Ambulance</u> <u>Fund</u>	<u>Total</u> <u>Proprietary</u> <u>Funds</u>
<b>Assets and Deferred Outflows of Resources</b>						
<b>Current Assets</b>						
101 Cash (Note 2)	\$ 78,998	\$ 1,104,149	\$ 986,609	\$ 463,649	\$ -	\$ 2,633,405
107 Restricted Cash (Note 5)	32,784	18,983	-	-	-	51,767
115 Accounts Receivable, Net	364	132,184	188,455	73,980	317,950	712,933
131 Due from Other Funds (Note 6)	-	-	825,577	-	-	825,577
132 Due from Other Governments	-	-	12,144	-	44,023	56,167
142 Inventory of Supplies Purchased for Resale	377,587	-	-	-	-	377,587
155 Prepaid Expenses	2,238	2,948	1,741	3,482	1,161	11,570
<b>Total Current Assets</b>	<b>491,971</b>	<b>1,258,264</b>	<b>2,014,526</b>	<b>541,111</b>	<b>363,134</b>	<b>4,669,006</b>
<b>Noncurrent Assets</b>						
133 Advance to Other Funds (Note 6)	-	1,306,225	-	-	-	1,306,225
189 Net Pension Asset (Note 8)	178	258	239	371	420	1,466
<b>Capital Assets (Note 4)</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	(200,253)	(82,851)	(200,249)	(89,720)	(103,745)	(676,818)
164 Improvements Other Than Buildings	-	18,296,114	14,463,727	22,789	-	32,782,630
165 Accumulated Depreciation - Improvements Other Than Buildings	-	(5,928,206)	(4,367,856)	(18,153)	-	(10,314,215)
166 Machinery and Equipment	55,030	837,256	694,834	2,692,622	1,083,410	5,363,152
167 Accumulated Depreciation - Machinery and Equipment	(26,660)	(686,566)	(624,952)	(2,182,141)	(746,317)	(4,266,636)
168 Construction in Progress	-	-	864,598	-	-	864,598
<b>Total Noncurrent Assets</b>	<b>660,837</b>	<b>13,925,213</b>	<b>11,854,168</b>	<b>753,285</b>	<b>593,577</b>	<b>27,787,080</b>
<b>Total Assets</b>	<b>1,152,808</b>	<b>15,183,477</b>	<b>13,868,694</b>	<b>1,294,396</b>	<b>956,711</b>	<b>32,456,086</b>
<b>Deferred Outflows of Resources</b>						
196 Pension Related Deferred Outflows (Note 8)	26,444	63,809	91,286	115,073	232,819	529,431
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 1,179,252</b>	<b>\$ 15,247,286</b>	<b>\$ 13,959,980</b>	<b>\$ 1,409,469</b>	<b>\$ 1,189,530</b>	<b>\$ 32,985,517</b>

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



<b>Liabilities 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	\$ 176,541	\$ 23,830	\$ 486,800	\$ 29,998	\$ 58,592	\$ 775,761
208 Due to Other Funds (Note 6)	-	-	-	-	627,625	627,625
215 Accrued Interest Payable	13,218	16,476	4,551	-	-	34,245
216 Accrued Wages Payable	3,363	8,289	5,627	6,114	12,496	35,889
217 Accrued Taxes Payable	16,578	-	-	-	-	16,578
220 Customer Deposits	-	162,045	-	-	-	162,045
223 Unearned Revenue	-	-	-	807	-	807
226 Bonds Payable - Current (Note 5)	11,688	132,612	142,376	-	-	286,676
233 Accrued Leave Payable (Note 5)	2,278	30,088	35,260	24,104	5,966	97,696
<b>Total Current Liabilities</b>	<b>223,666</b>	<b>373,340</b>	<b>674,614</b>	<b>61,023</b>	<b>704,679</b>	<b>2,037,322</b>
<b>Long-Term Liabilities</b>						
231 Bonds Payable (Note 5)	703,965	4,548,243	2,852,099	-	-	8,104,307
<b>Total Liabilities</b>	<b>927,631</b>	<b>4,921,583</b>	<b>3,526,713</b>	<b>61,023</b>	<b>704,679</b>	<b>10,141,629</b>
<b>Net Position</b>						
253.10 Net Investment in Capital Assets	-	7,937,875	8,859,454	752,914	593,157	18,143,400
253.21 Restricted for Revenue Bond Debt Service (Note 5)	32,784	18,983	-	-	-	51,767
253.29 Restricted for SDRS Pension Purposes (Note 8)	26,622	64,067	91,525	115,444	233,239	530,897
253.9 Unrestricted (Deficit)	192,215	2,304,778	1,482,288	480,088	(341,545)	4,117,824
<b>Total Net Position</b>	<b>251,621</b>	<b>10,325,703</b>	<b>10,433,267</b>	<b>1,348,446</b>	<b>484,851</b>	<b>22,843,888</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 1,179,252</b>	<b>\$ 15,247,286</b>	<b>\$ 13,959,980</b>	<b>\$ 1,409,469</b>	<b>\$ 1,189,530</b>	<b>\$ 32,985,517</b>

**CITY OF STURGIS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<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 (Note 5)	\$ 2,594,570	\$ 1,721,879	\$ 2,138,294	\$ 1,324,433	\$ 888,091	\$ 8,667,267
<b>Operating Expenses</b>						
410 Personal Services	244,151	479,286	338,097	565,650	823,214	2,450,398
420 Other Current Expense	209,733	599,583	258,758	836,194	303,404	2,207,672
426.2 Materials (Cost of Goods Sold)	1,917,305	-	-	-	-	1,917,305
457 Depreciation (Note 4)	30,381	414,191	324,481	97,017	90,389	956,459
<b>Total Operating Expenses</b>	<b>2,401,570</b>	<b>1,493,060</b>	<b>921,336</b>	<b>1,498,861</b>	<b>1,217,007</b>	<b>7,531,834</b>
<b>Operating Income (Loss)</b>	<b>193,000</b>	<b>228,819</b>	<b>1,216,958</b>	<b>(174,428)</b>	<b>(328,916)</b>	<b>1,135,433</b>
<b>Nonoperating Revenue (Expense)</b>						
331 Federal Grants	-	-	-	-	52,638	52,638
334 State Grants	-	-	53,459	-	14,340	67,799
361 Investment Earnings (Note 2)	9,709	-	-	-	-	9,709
369 Other	1,244	8,770	-	27,641	189,092	226,747
442 Interest Expense	(27,768)	(152,588)	(114,841)	-	-	(295,197)
492 Loss on Disposition of Assets	-	(5,559)	(28,758)	(28,758)	-	(63,075)
<b>Total Nonoperating Revenue (Expense)</b>	<b>(16,815)</b>	<b>(149,377)</b>	<b>(90,140)</b>	<b>(1,117)</b>	<b>256,070</b>	<b>(1,379)</b>
<b>Income before Transfers and Contributions</b>	<b>176,185</b>	<b>79,442</b>	<b>1,126,818</b>	<b>(175,545)</b>	<b>(72,846)</b>	<b>1,134,054</b>
391.07 Capital Contributions	-	-	52,943	-	-	52,943
511 Transfers Out (Note 7)	(192,500)	-	(100,008)	(30,000)	-	(322,508)
<b>Total Transfers and Contributions</b>	<b>(192,500)</b>	<b>-</b>	<b>(47,065)</b>	<b>(30,000)</b>	<b>-</b>	<b>(269,565)</b>
<b>Change in Net Position</b>	<b>(16,315)</b>	<b>79,442</b>	<b>1,079,753</b>	<b>(205,545)</b>	<b>(72,846)</b>	<b>864,489</b>
Net Position, December 31, 2017	267,936	10,246,261	9,353,514	1,553,991	557,697	21,979,399
<b>Net Position, December 31, 2018</b>	<b>\$ 251,621</b>	<b>\$ 10,325,703</b>	<b>\$ 10,433,267</b>	<b>\$ 1,348,446</b>	<b>\$ 484,851</b>	<b>\$ 22,843,888</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, 2018

	<b>Liquor Fund</b>	<b>Water Fund</b>	<b>Wastewater Fund</b>
<b>Cash Flows from Operating Activities</b>			
Receipts from Customers	\$ 2,594,366	\$ 1,733,806	\$ 2,136,336
Payments to Suppliers	(2,016,233)	(592,348)	(495,463)
Payments to Employees	(228,397)	(452,301)	(305,417)
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>349,736</b>	<b>689,157</b>	<b>1,335,456</b>
<b>Cash Flows from Noncapital Financing Activities</b>			
Internal Activity, Net	(241,434)	85,526	(925,585)
<b>Net Cash Flows Provided by (Used in) Noncapital Financing Activities</b>	<b>(241,434)</b>	<b>85,526</b>	<b>(925,585)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchases of Capital Assets	-	-	(37,388)
Proceeds from Sale of Capital Assets	-	-	12,580
Principal Borrowings on Debt	-	-	331,480
Principal Paid on Debt	(11,878)	(320,217)	(359,746)
Interest Paid	(29,101)	(153,906)	(111,558)
Other Receipts	1,244	8,770	41,315
<b>Net Cash Flows Provided by (Used in) Capital and Related Financing Activities</b>	<b>(39,735)</b>	<b>(465,353)</b>	<b>(123,317)</b>
<b>Cash Flows Provided by Investing Activities</b>			
Cash Received from Investment Earnings	9,709	-	-
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>78,276</b>	<b>309,330</b>	<b>286,554</b>
<b>Cash and Cash Equivalents, 2017</b>	<b>33,506</b>	<b>813,802</b>	<b>700,055</b>
<b>Cash and Cash Equivalents, 2018</b>	<b>\$ 111,782</b>	<b>\$ 1,123,132</b>	<b>\$ 986,609</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>			
Operating Income (Loss)	\$ 193,000	\$ 228,819	\$ 1,216,958
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash</i>			
<i>Flows Provided by (Used in) Operating Activities:</i>			
Depreciation Expense	30,381	414,191	324,481
Change in Assets and Liabilities:			
Accounts Receivable	(204)	6,487	(1,958)
Inventory of Supplies Purchased for Resale	69,636	-	-
Prepaid Expenses	808	256	(140)
Pension Asset	520	843	728
Pension Related Deferred Outflows	15,225	22,071	20,422
Accounts Payable	39,653	6,979	(236,565)
Accrued Wages Payable	(1,377)	(50)	877
Accrued Taxes Payable	708	-	-
Customer Deposits	-	5,440	-
Unearned Revenue	-	-	-
Accrued Leave Payable	1,386	4,121	10,653
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>\$ 349,736</b>	<b>\$ 689,157</b>	<b>\$ 1,335,456</b>
<b>Noncash Capital and Related Financing Activities</b>			
Capital Assets Contributed	\$ -	\$ -	\$ 52,943
Loss on Disposal of Capital Assets Not Affecting Operating Income	-	5,559	28,758
Purchase of Capital Assets with Accounts Payable	-	-	484,244

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

	<b>Sanitation Fund</b>	<b>Ambulance Fund</b>	<b>Total Proprietary Funds</b>
\$	1,321,020	\$ 868,563	\$ 8,654,091
	(827,013)	(252,834)	(4,183,891)
	(532,570)	(784,052)	(2,302,737)
	<u>(38,563)</u>	<u>(168,323)</u>	<u>2,167,463</u>
	(30,000)	(48,824)	(1,160,317)
	<u>(30,000)</u>	<u>(48,824)</u>	<u>(1,160,317)</u>
	(275,850)	-	(313,238)
	12,580	-	25,160
	-	-	331,480
	-	-	(691,841)
	-	-	(294,565)
	27,641	217,147	296,117
	<u>(235,629)</u>	<u>217,147</u>	<u>(646,887)</u>
	-	-	9,709
	(304,192)	-	369,968
	767,841	-	2,315,204
<b>\$</b>	<b><u>463,649</u></b>	<b>\$ -</b>	<b>\$ <u>2,685,172</u></b>

\$ (174,428) \$ (328,916) \$ 1,135,433

	97,017	90,389	956,459
	(4,220)	(19,528)	(19,423)
	-	-	69,636
	(279)	2,563	3,208
	1,009	1,803	4,903
	31,685	35,905	125,308
	9,460	48,007	(132,466)
	(2,122)	(38)	(2,710)
	-	-	708
	-	-	5,440
	807	-	807
	2,508	1,492	20,160
<b>\$</b>	<b><u>(38,563)</u></b>	<b>\$ <u>(168,323)</u></b>	<b>\$ <u>2,167,463</u></b>

\$ - \$ - \$ 52,943  
28,758 - 63,075  
- - 484,244

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**(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 (CONTINUED) DECEMBER 31, 2018

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

##### Basis of Presentation (Continued)

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

##### Governmental Funds:

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

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

Capital Improvement Fund – 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 #9, #10, #11, #12, #13 and #15 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 (CONTINUED)  
DECEMBER 31, 2018**

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

**Basis of Presentation (Concluded)**

Proprietary Funds (Continued):

Proprietary Funds include:

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

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

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

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

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

**Measurement Focus and Basis of Accounting**

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

*Measurement Focus:*

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

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

**Measurement Focus and Basis of Accounting (Continued)**

*Basis of Accounting:*

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the City does not exceed one bill-paying cycle, and for the City, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2018 are property tax revenues, sponsorships 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.



**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

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

**Interfund Eliminations and Reclassifications (Continued)**

Fund Financial Statements:

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

**Capital Assets**

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

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

Government-wide Financial Statements:

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

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

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

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

	<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.

## CITY OF STURGIS

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2018

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

##### Capital Assets (Continued)

###### 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.

##### 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.

##### 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.

##### Cash and Cash Equivalents

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

## CITY OF STURGIS

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2018

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

##### 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. However, due to a deficit fund balance at year-end, the Capital Improvement Fund is presenting a negative unassigned fund balance, rather than a committed balance.

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

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

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

**Equity Classifications (Continued)**

Fund Financial Statements (Continued):

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

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

As of December 31, 2018, the City had the following governmental fund classifications:

	<b>General Fund</b>	<b>Capital Improvement Fund</b>	<b>TIF Funds</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>263 Nonspendable:</b>					
263.02 Nonspendable - Prepaid Expenses	\$ 401,085	\$ -	\$ -	\$ -	\$ 401,085
263.04 Nonspendable - Advances	1,009,753	-	-	400,000	1,409,753
263.49 Nonspendable - SDPAA Reserve (Note 9)	297,313	-	-	-	297,313
263.51 Nonspendable - Perpetual Care Cemetery	-	-	-	50,000	50,000
263.99 Nonspendable - Library Trust	-	-	-	327,535	327,535
	<b>1,708,151</b>	<b>-</b>	<b>-</b>	<b>777,535</b>	<b>2,485,686</b>
<b>264 Restricted:</b>					
264.03 Restricted - Perpetual Care Cemetery	-	-	-	136,053	136,053
264.04 Restricted - BBB Tax	-	-	-	706,022	706,022
264.05 Restricted - Library Purposes	-	-	-	262,377	262,377
264.09 Restricted - BID Tax	-	-	-	47,579	47,579
264.97 Restricted - Revolving Loan	-	-	-	905,946	905,946
264.99 Restricted - Hotel Occupancy	-	-	-	80,638	80,638
264.99 Restricted - Equipment Replacement	-	-	-	325,291	325,291
	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,463,906</b>	<b>2,463,906</b>
<b>265 Committed</b>					
265.97 Committed - Brick Fund	134,742	-	-	-	134,742
<b>266 Assigned</b>					
266.01 Assigned - Subsequent Year's Budget	89,201	-	-	-	89,201
	<b>89,201</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>89,201</b>
<b>267 Unassigned</b>	<b>1,173,496</b>	<b>(860,313)</b>	<b>(1,913,215)</b>	<b>-</b>	<b>(1,600,032)</b>
<b>Total Fund Balances</b>	<b>\$ 3,105,590</b>	<b>\$ (860,313)</b>	<b>\$ (1,913,215)</b>	<b>\$ 3,241,441</b>	<b>\$ 3,573,503</b>

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

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

**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.

**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 applies 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 governmental funds balance sheet 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 an inflow of resources until the applicable future period. Deferred inflows of resources consist primarily of property taxes and special assessments in the governmental funds balance sheet.

**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, 2018 is an allowance for doubtful accounts totaling \$10,000 for the general fund. Included in utility accounts receivable at December 31, 2018 are allowances for doubtful accounts totaling approximately \$2,500, \$4,000, \$3,500 and \$1,007,700 for the water, wastewater, sanitation and ambulance funds, respectively.

**(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.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

**(2) Deposits and Investments (Continued)**

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.

As of December 31, 2018, the City had the following investments:

Investments	Credit Rating	Maturity	Fair Value
Treasury Money Market	N/A	N/A	\$ 521
Negotiable Certificates of Deposits	N/A	1-5 Years	873,208
			<b>\$ 873,729</b>

Money markets and negotiable certificates of deposit are measured as level 2 recurring fair value measurements according to the fair value hierarchy.

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 (CONTINUED)  
DECEMBER 31, 2018**

**(2) Deposits and Investments (Concluded)**

*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, 2018, the City's deposits in financial institutions collateralized by securities held by the pledging financial institution were as follows:

	<u>Bank Balance</u>
Insured - FDIC	\$ 530,264
Uninsured, collateralized in accordance with SDCL 4-6A-3	5,921,123
<b>Total Deposits</b>	<b>\$ 6,451,387</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. More than five percent of the City's certificates of deposit are in: Capital One Bank (14.1 percent), GE Capital (29.0 percent), Goldman Sachs (28.4 percent), and Discover Bank (28.5 percent).

**(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.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

**(3) Property Taxes (Continued)**

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

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

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

**(4) Changes in Capital Assets**

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

	Balance 12/31/2017	Additions	Transfers/ Deletions	Balance 12/31/2018
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 2,923,815	\$ -	\$ -	\$ 2,923,815
Construction Work in Progress	3,895,047	4,776,823	(4,082,850)	4,589,020
<b>Total Capital Assets, not being Depreciated</b>	<b>6,818,862</b>	<b>4,776,823</b>	<b>(4,082,850)</b>	<b>7,512,835</b>
Capital Assets, being Depreciated:				
Buildings	13,531,204	445,926	-	13,977,130
Improvements Other Than Buildings	34,199,796	4,423,864	-	38,623,660
Machinery and Equipment	4,978,196	312,874	(84,188)	5,206,882
<b>Total Capital Assets, being Depreciated</b>	<b>52,709,196</b>	<b>5,182,664</b>	<b>(84,188)</b>	<b>57,807,672</b>
Less Accumulated Depreciation for:				
Buildings	4,985,084	310,230	-	5,295,314
Improvements Other Than Buildings	9,515,932	806,295	-	10,322,227
Machinery and Equipment	3,020,996	215,001	(15,325)	3,220,672
<b>Total Accumulated Depreciation</b>	<b>17,522,012</b>	<b>1,331,526</b>	<b>(15,325)</b>	<b>18,838,213</b>
<b>Total Governmental Activities Capital Assets, being Depreciated, Net</b>	<b>35,187,184</b>	<b>3,851,138</b>	<b>(68,863)</b>	<b>38,969,459</b>
<b>Total Governmental Capital Assets, Net</b>	<b>\$ 42,006,046</b>	<b>\$ 8,627,961</b>	<b>\$ (4,151,713)</b>	<b>\$ 46,482,294</b>

Depreciation expense was charged to functions as follows:

Public Works	\$ 624,759
Culture and Recreation	331,124
General Government	270,534
Public Safety	105,109
<b>Total Depreciation Expense - Governmental</b>	<b>\$ 1,331,526</b>



CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

(4) Changes in Capital Assets (Continued)

	Balance 12/31/2017	Additions	Transfers/ Deletions	Balance 12/31/2018
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 738,681	\$ -	\$ -	\$ 738,681
Construction Work in Progress	2,269,008	708,725	(2,113,135)	864,598
<b>Total Capital Assets, not being Depreciated</b>	<b>3,007,689</b>	<b>708,725</b>	<b>(2,113,135)</b>	<b>1,603,279</b>
Capital Assets, being Depreciated:				
Buildings	2,123,285	-	(135,288)	1,987,997
Improvements Other Than Buildings	30,809,207	1,973,423	-	32,782,630
Machinery and Equipment	5,087,302	275,850	-	5,363,152
<b>Total Capital Assets, being Depreciated</b>	<b>38,019,794</b>	<b>2,249,273</b>	<b>(135,288)</b>	<b>40,133,779</b>
Less Accumulated Depreciation for:				
Buildings	672,896	56,537	(52,615)	676,818
Improvements Other Than Buildings	9,632,642	681,573	-	10,314,215
Machinery and Equipment	4,048,287	218,349	-	4,266,636
<b>Total Accumulated Depreciation</b>	<b>14,353,825</b>	<b>956,459</b>	<b>(52,615)</b>	<b>15,257,669</b>
<b>Total Business-Type Activities Capital Assets, being Depreciated, Net</b>	<b>23,665,969</b>	<b>(1,292,814)</b>	<b>(82,673)</b>	<b>24,876,110</b>
<b>Total Business-Type Capital Assets, Net</b>	<b>\$ 26,673,658</b>	<b>\$ 2,001,539</b>	<b>\$ (2,195,808)</b>	<b>\$ 26,479,389</b>

Depreciation expense was charged to functions as follows:

Liquor	\$ 30,381
Water	414,191
Sanitation	97,017
Wastewater	324,481
Ambulance	90,389
<b>Total Depreciation Expense - Business-Type</b>	<b>\$ 956,459</b>

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

**(5) Long-Term Debt**

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

	Balance 12/31/2017	Additions	Deletions	Balance 12/31/2018	Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Tax Increment Financing Obligations	\$ 1,750,000	\$ -	\$ -	\$ 1,750,000	\$ -
2018 Sales Tax Revenue Bond	-	2,256,704	66,588	2,190,116	142,376
Notes Payable	5,089,242	2,243,187	1,150,431	6,181,998	552,589
Compensated Absences	214,547	206,085	174,052	246,580	246,580
<b>Total Governmental Activities</b>	<b>7,053,789</b>	<b>4,705,976</b>	<b>1,391,071</b>	<b>10,368,694</b>	<b>941,545</b>
<b>Business-Type Activities:</b>					
2010 Sales Tax Revenue Bond	727,531	-	11,878	715,653	11,688
2009 Drinking Water Revenue Bond	191,602	-	191,602	-	-
2009 Clean Water Revenue Bond	202,812	-	202,812	-	-
2011 Drinking Water Revenue Bond	3,068,747	-	44,154	3,024,593	45,588
2012 Drinking Water Revenue Bond	1,740,723	-	84,461	1,656,262	87,024
Wastewater Note Payable	2,819,929	-	124,118	2,695,811	142,376
2018 Clean Water Revenue Bond	-	331,480	32,816	298,664	-
Compensated Absences	77,536	81,652	61,492	97,696	97,696
<b>Total Business-Type Activities</b>	<b>8,828,880</b>	<b>413,132</b>	<b>753,333</b>	<b>8,488,679</b>	<b>384,372</b>
<b>Total Primary Government</b>	<b>\$ 15,882,669</b>	<b>\$ 5,119,108</b>	<b>\$ 2,144,404</b>	<b>\$ 18,857,373</b>	<b>\$ 1,325,917</b>

The City has restricted reserves of \$32,784, \$18,983, and \$21,420 at December 31, 2018, in accordance with debt covenants.

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

	Water	Wastewater
	<u>Fund</u>	<u>Fund</u>
Current Year Principal and Interest	\$ 472,805	\$ 474,587
Pledged Revenue	1,721,879	2,138,294

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

**(5) Long-Term Debt (Continued)**

Long-term debt at December 31, 2018, 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.	\$ 715,653
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.	3,024,593
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.	1,656,262
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.	298,664
Sales Tax Revenue Bonds, Series 2018, for \$4,600,000, matures September 2058, 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.	2,190,116

*Notes Payable*

Note Payable to Pioneer Bank for \$3,052,000, matures with a balloon payment in 2036, interest at a fixed 3.85 percent, due in monthly installments of \$19,186. Financed through Wastewater Fund.	2,695,811
Note payable to Pioneer Bank for \$5,757,000, interest only payments at a 4 percent fixed rate through December 2018. Principal and interest payments at a fixed 4.00 percent rate beginning January 2019 and through May 2028. Financed through the Capital Improvements Fund.	5,757,000
Note Payable to SD Department of Transportation. Non-interest bearing and due in varying annual installments through 2021. Financed through the Capital Improvements Fund.	424,998

*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.	1,750,000
<b>Total Bonds, Notes Payable, and TIF Obligations</b>	<b>18,513,097</b>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

(5) Long-Term Debt (Continued)

*Compensated Absences:*

General Fund	246,580
Liquor Fund	2,278
Water Fund	30,088
Wastewater Fund	35,260
Sanitation Fund	24,104
Ambulance Fund	5,966
<b>Total Compensated Absences</b>	<b>344,276</b>

**Total Long-Term Debt** **\$ 18,857,373**

The annual requirements to amortize long-term debt outstanding as of December 31, 2018, except for compensated absences are as follows:

	Revenue Bonds		TIF Obligations		Notes Payable		Total	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2019	\$ 175,598	\$ 286,676	\$ 129,254	\$ -	\$ 327,775	\$ 552,589	\$ 632,627	\$ 839,265
2020	170,975	293,656	94,227	35,027	314,600	586,217	579,802	914,900
2021	166,204	303,564	78,305	50,949	299,101	378,990	543,610	733,503
2022	161,278	313,809	75,935	53,319	283,876	394,215	521,089	761,343
2023	156,193	324,401	73,454	55,800	268,040	410,051	497,687	790,252
2024-2028	698,753	1,793,919	326,232	320,039	1,080,832	2,309,625	2,105,817	4,423,583
2029-2033	544,578	1,597,403	244,245	402,026	577,005	2,813,453	1,365,828	4,812,882
2034-2038	409,194	543,878	54,253	832,840	85,591	1,432,669	549,038	2,809,387
2039-2043	313,517	604,699	-	-	-	-	313,517	604,699
2044-2048	200,131	1,015,517	-	-	-	-	200,131	1,015,517
2049-2053	74,062	704,821	-	-	-	-	74,062	704,821
2054-2058	1,380	102,945	-	-	-	-	1,380	102,945
<b>Total</b>	<b>\$ 3,071,863</b>	<b>\$ 7,885,288</b>	<b>\$ 1,075,905</b>	<b>\$ 1,750,000</b>	<b>\$ 3,236,820</b>	<b>\$ 8,877,809</b>	<b>\$ 7,384,588</b>	<b>\$ 18,513,097</b>

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

**(5) Long-Term Debt (Concluded)**

Tax Increment Financing Obligations

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

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

During the year ended December 31, 2018, TIF related property tax revenues were \$123,413. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$158,116 for the year ended December 31, 2018.

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

Interfund receivable and payable balances at December 31, 2018, are as follows:

Fund	Interfund Receivables	Interfund Payables
<i>Major Funds:</i>		
Ambulance Fund	\$ -	\$ 627,625
Wastewater Fund	825,577	-
TIF Fund	-	197,952
<b>Total Interfund Receivable and Payable Balances</b>	<b>\$ 825,577</b>	<b>\$ 825,577</b>

The Wastewater Fund lent money to the TIF funds and Ambulance Fund to help maintain a positive cash balance at year end. The balances will be repaid within the next year.

Interfund advances balances at December 31, 2018, are as follows:

Fund	Interfund Advance To	Interfund Advance From
<i>Major Funds:</i>		
General Fund	\$ 1,009,753	\$ -
Revolving Loan Fund	400,000	-
Water Fund	1,306,225	-
TIF Funds	-	1,905,978
Capital Improvement Fund	-	810,000
<b>Total Interfund Receivable and Payable Balances</b>	<b>\$ 2,715,978</b>	<b>\$ 2,715,978</b>

The General Fund and Revolving Loan Fund advanced monies to the Capital Improvement Fund to assist with costs for HD Rally Point. The balance will be repaid through 2025. The General Fund and Water Fund advanced monies to the TIF Funds to assist in funding for TIF #11. The balance will be repaid through 2033 and bears interest at 4.00 percent. The General Fund advanced monies to the TIF Funds to assist in funding for TIF #13. The balance will be repaid through 2025 and bears interest at 5.00 percent. The Water Fund advanced monies to the TIF Funds to assist in funding for TIF #15. The balance will be repaid through 2035 and bears interest at 5.00 percent.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

**(7) Interfund Transfers**

	Transfers In	Transfers Out
<i>Major Funds:</i>		
General Fund	\$ 328,752	\$ -
Special Sales Tax Fund	-	74,244
BID Fund	68,000	-
Liquor Fund	-	192,500
Wastewater Fund	-	100,008
Sanitation Fund	-	30,000
<b>Total Transfers</b>	<b>\$ 396,752</b>	<b>\$ 396,752</b>

Transfers between the funds were made to cover general operational costs of the City and to transfer interest income to the General Fund in accordance with the City's policy.

**(8) 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/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund 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.

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 (CONTINUED)  
DECEMBER 31, 2018**

**(8) Pension Plan (Continued)**

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 the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3rd 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 3rd 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.

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 contribute an amount equal to the employee’s contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City’s share of contributions to the SDRS for the fiscal years ended December 31, 2018, 2017, and 2016 were **\$302,492**, \$299,638 and \$293,505 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, 2018, SDRS is 100.02 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, 2018 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 21,980,333	\$ 7,698,786	\$ <b>29,679,119</b>
Less: Proportionate Share of Total Pension Liability	(21,976,143)	(7,697,320)	(29,673,463)
<b>Proportionate Share of Net Pension Asset</b>	<b>\$ 4,190</b>	<b>\$ 1,466</b>	<b>\$ 5,656</b>

At December 31, 2018, the City reported an asset of \$5,656 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018, 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, 2018, the City’s proportion was 0.2425613 percent, which is a decrease of .01 percent from its proportion measured as of June 30, 2017.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

**(8) Pension Plan (Continued)**

For the year ended December 31, 2018, the City recognized pension expense of \$801,910. At December 31, 2018, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 213,817	\$ -
Changes in Assumption	1,436,236	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	(427,544)	-
Changes in Proportion and Difference between City Contributions and Proportionate Share of Contributions	-	-
City Contributions Subsequent to the Measurement Date	152,351	-
<b>Total</b>	<b>\$ 1,374,860</b>	<b>\$ -</b>

Deferred outflow of resources includes \$152,351 resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ending December 31, 2019. 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:

2019	\$ 771,369
2020	573,832
2021	(75,264)
2022	(47,428)
	<u><b>\$ 1,222,509</b></u>

Actuarial Assumptions:

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

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50 percent to 3.00 percent after 25 years of service
Investment Rate of Return	6.50 percent, net of pension plan investment expense

Mortality rates were based on 97 percent of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males.

Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.



**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018**

**(8) Pension Plan (Concluded)**

Actuarial Assumptions (Continued):

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, 2018 (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%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
	<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 Asset to Changes in the Discount Rate:

The following presents the City’s proportionate share of net pension liability/(asset) calculated using the discount rate of 6.50 percent, as well as what the City’s proportionate share of the net pension liability/(asset) 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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City’s Proportionate Share of the Net Pension (Asset)/Liability	\$ 4,272,690	\$ (5,656)	\$ (3,485,860)

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 (CONTINUED)  
DECEMBER 31, 2018**

**(9) Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2018, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City’s responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays 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 January 1, 2018, the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA a member may withdraw. Within 120 days of withdrawal, or as soon thereafter as the next Annual Budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool’s total contributions, along with the member’s total contributions, current losses, unpaid losses, and loss expenses, the member’s loss ratio, and number of membership years.

A member who withdraws from the SDPAA shall receive a calculated portion of their contributions refunded for unpaid casualty losses, based on the following schedule:

<u>Years</u>	<u>Percentage</u>
1	55%
2	50%
3	40%
4	35%
5	30%
6+	20%

All refunds shall be paid to the withdrawing Member over a five-year term.

The amount available for refund to the City is considered a deposit for financial reporting purposes.

As of December 31, 2018, the City’s balance available to be refunded per the SDPAA was \$297,313, which was an increase of \$161,469 from the previous year. The change in amount available for refund was accounted for as a decrease in insurance expenditures.

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

Property and Building Insurance:

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2018**

**(9) Risk Management (Continued)**

Worker's Compensation:

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

Unemployment Benefits:

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

**(10) Notes Receivable**

Notes receivable are revolving loans the City makes to promote urban development. The following is a summary of the notes receivable at December 31, 2018:

Governmental:

<u>Loan</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
Fickbohm	None	0%	October 1, 2019	\$ 204
Knuckle Brewery	Real Estate	3%	August 5, 2024	15,076
Sturgis ATV	Real Estate	3%	August 5, 2024	15,068
Jake's Garage	Real Estate	3%	December 5, 2024	15,886
Baldwin	Real Estate	3%	February 5, 2025	16,521
Dominos	Real Estate	3%	June 1, 2025	16,890
X-Treme Bikes	Inventory, Equipment, Cash	3%	April 1, 2026	75,244
Little Promises	Equipment, Cash	2%	December 1, 2027	163,353
				<b>\$ 318,242</b>

**(11) Operating Leases**

The City leases buildings under non-cancelable operating leases. Rent expense under these leases was \$200,000 for the year ended December 31, 2018.

Future minimum lease payments under the terms of these non-cancelable operating leases are as follows for the years ending December 31:

2019	\$ 220,000
2020	220,000
	<b>\$ 440,000</b>

REQUIRED SUPPLEMENTARY INFORMATION

## CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<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	\$ 2,675,690	\$ 2,675,690	\$ 2,665,126	\$ (10,564)
313 General Sales and Use Taxes	2,063,149	2,063,149	1,719,821	(343,328)
315 Amusement Taxes	816	816	744	(72)
319 Penalties and Interest on Delinquent Taxes	8,600	8,600	9,144	544
320 Licenses and Permits	637,870	637,870	620,037	(17,833)
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	7,891	11,779	3,888
334 State Grants	-	38,288	37,164	(1,124)
335 Bank Franchise Tax	9,300	9,300	14,557	5,257
335 Liquor Tax Reversion	43,200	43,200	40,512	(2,688)
335 Motor Vehicle Licenses	89,000	89,000	94,001	5,001
335.1 Local Government Highway and Bridge Fund	140,000	140,000	137,303	(2,697)
338 County Highway and Bridge Reserve Tax (25%)	5,855	5,855	5,855	-
338 Port of Entry	12,980	12,980	12,891	(89)
339 Other	5,500	5,500	1,308	(4,192)
<i>Charges for Goods and Services:</i>				
341 General Government	1,852,624	1,854,624	1,942,857	88,233
342 Public Safety	60,000	60,000	44,567	(15,433)
345 Health	5,601	5,601	8,348	2,747
346 Culture and Recreation	245,675	245,675	252,620	6,945
349 Other	-	-	15,004	15,004
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	5,500	5,500	4,410	(1,090)
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	170,000	170,000	115,651	(54,349)
362 Rentals/Airport Hangar Lease	17,100	29,700	17,543	(12,157)
367 Contributions and Donations - Private Sources	13,500	13,500	54,139	40,639
369 Other	1,800	1,800	4,644	2,844
<b>Total Revenue</b>	<b>8,063,760</b>	<b>8,124,539</b>	<b>7,830,025</b>	<b>(294,514)</b>

CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
<b>Expenditures</b>				
<i>General Government:</i>				
411 Legislative	291,686	289,186	59,760	229,426
414 Financial Administration	1,304,301	1,312,301	1,251,740	60,561
419 Other	1,635,826	1,997,501	1,601,846	395,655
<i>Public Safety:</i>				
421 Police	1,967,380	2,063,159	2,002,026	61,133
422 Fire	163,826	163,826	123,761	40,065
<i>Public Works:</i>				
431 Highway and Streets	903,741	942,445	838,346	104,099
435 Airport	61,998	71,998	63,115	8,883
437 Cemeteries	119,775	119,775	102,706	17,069
<i>Culture and Recreation:</i>				
451 Recreation	704,508	743,583	753,292	(9,709)
452 Parks	666,576	666,576	564,252	102,324
455 Library	350,221	350,221	349,406	815
456 Auditorium	26,552	34,802	33,741	1,061
<b>Total Expenditures</b>	<b>8,196,390</b>	<b>8,755,373</b>	<b>7,743,991</b>	<b>1,011,382</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(132,630)</b>	<b>(630,834)</b>	<b>86,034</b>	<b>716,868</b>
<b>Other Financing Sources (Uses)</b>				
391.01 Transfers In	624,572	624,572	328,752	(295,820)
391.04 Compensation for Loss or Damage to Capital Assets	-	34,716	34,716	-
511 Transfers Out	(12,000)	(12,000)	-	12,000
<b>Total Other Financing Sources</b>	<b>612,572</b>	<b>647,288</b>	<b>363,468</b>	<b>(283,820)</b>
Net Change in Fund Balance	479,942	16,454	449,502	433,048
Fund Balance, December 31, 2017	2,656,088	2,656,088	2,656,088	-
<b>Fund Balance, December 31, 2018</b>	<b>\$ 3,136,030</b>	<b>\$ 2,672,542</b>	<b>\$ 3,105,590</b>	<b>\$ 433,048</b>

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

CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
CAPITAL IMPROVEMENT FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<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	\$ 1,494,005	\$ 1,494,005	\$ 1,444,650	\$ (49,355)
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	309,216	309,216
334 State Grants	-	-	201,599	201,599
<i>Charges for Goods and Services:</i>				
341 General Government	150,000	150,000	150,000	-
<i>Miscellaneous Revenue:</i>				
363 Special Assessments	-	-	8,151	8,151
367 Contributions and Donations	-	-	38,241	38,241
<b>Total Revenue</b>	<b>1,644,005</b>	<b>1,644,005</b>	<b>2,151,857</b>	<b>507,852</b>
<b>Expenditures</b>				
431 Highway and Streets	-	50,000	39,022	10,978
<i>Culture and Recreation:</i>				
451 Recreation	-	50,000	30,176	19,824
452 Parks	-	60,000	69,636	(9,636)
460 Conservation and Development	-	-	3,333	(3,333)
470 Debt Service	575,174	1,293,409	1,381,647	(88,238)
900 Capital Outlay	1,068,831	9,178,722	5,364,764	3,813,958
<b>Total Expenditures</b>	<b>1,644,005</b>	<b>10,632,131</b>	<b>6,888,578</b>	<b>3,743,553</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>-</b>	<b>(8,988,126)</b>	<b>(4,736,721)</b>	<b>4,251,405</b>
<b>Other Financing Sources (Uses)</b>				
391 Sale of Municipal Property	-	-	9,061	9,061
391.29 Long-Term Debt Issued	-	4,499,891	4,499,891	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>4,499,891</b>	<b>4,508,952</b>	<b>9,061</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>(4,488,235)</b>	<b>(227,769)</b>	<b>4,260,466</b>
Fund Balance, December 31, 2017	(632,544)	(632,544)	(632,544)	-
<b>Fund Balance, December 31, 2018</b>	<b>\$ (632,544)</b>	<b>\$ (5,120,779)</b>	<b>\$ (860,313)</b>	<b>\$ 4,260,466</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)  
DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
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  
DECEMBER 31, 2018**

	<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, 2018**

**(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, 2018.
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 USGAAP 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.

OTHER SUPPLEMENTARY INFORMATION

CITY OF STURGIS

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2018

	<u>Special Sales Tax Fund</u>	<u>Hotel Occupancy Fund</u>	<u>Revolving Loan Fund</u>	<u>Equipment Replacement Fund</u>	<u>Library Fund</u>	<u>BID Fund</u>
<b>Assets</b>						
101 Cash	\$ 84,456	\$ 78,278	\$ 335,255	\$ 301,487	\$ 74,127	\$ 51,986
105 Savings Certificates	-	-	230,588	-	-	-
108 Property Tax Receivable	-	2,360	-	-	-	593
108 Sales Tax Receivable	20,263	-	-	23,804	-	-
115 Accounts Receivable	1,000	-	42,065	-	-	3,000
121 Special Assessments Receivable	-	-	-	-	-	24,412
128 Notes Receivable	-	-	318,038	-	-	-
133 Advance to Other Funds	-	-	400,000	-	-	-
151 Investment Held for Sale	608,100	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 713,819</b>	<b>\$ 80,638</b>	<b>\$ 1,325,946</b>	<b>\$ 325,291</b>	<b>\$ 74,127</b>	<b>\$ 79,991</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>						
<i>Liabilities</i>						
202 Accounts Payable	\$ 7,797	\$ -	\$ 20,000	\$ -	\$ -	\$ -
217 Accrued Taxes Payable	-	-	-	-	-	-
223 Unearned Revenue - Sponsorship	-	-	-	-	-	8,000
<b>Total Liabilities</b>	<b>7,797</b>	<b>-</b>	<b>20,000</b>	<b>-</b>	<b>-</b>	<b>8,000</b>
<i>Deferred Inflows of Resources</i>						
246 Unavailable Revenue - Special Assessments	-	-	-	-	-	24,412
<i>Fund Balances</i>						
263.04 Nonspendable - Advances	-	-	400,000	-	-	-
263.51 Nonspendable - Perpetual Care Cemetery	-	-	-	-	-	-
263.99 Nonspendable - Library Trust	-	-	-	-	-	-
264.03 Restricted - Perpetual Care Cemetery	-	-	-	-	-	-
264.04 Restricted - BBB Tax	706,022	-	-	-	-	-
264.05 Restricted - Library Purposes	-	-	-	-	74,127	-
264.09 Restricted - BID Tax	-	-	-	-	-	47,579
264.97 Restricted - Revolving Loan	-	-	905,946	-	-	-
264.99 Restricted - Hotel Occupation	-	80,638	-	-	-	-
264.99 Restricted - Equipment Replacement	-	-	-	325,291	-	-
<b>Total Fund Balances</b>	<b>706,022</b>	<b>80,638</b>	<b>1,305,946</b>	<b>325,291</b>	<b>74,127</b>	<b>47,579</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 713,819</b>	<b>\$ 80,638</b>	<b>\$ 1,325,946</b>	<b>\$ 325,291</b>	<b>\$ 74,127</b>	<b>\$ 79,991</b>

<b>Alice W. Dunn Fund</b>	<b>Perpetual Maintenance Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 260,250	\$ 186,066	\$ 1,371,905
255,535	-	486,123
-	-	2,953
-	-	44,067
-	-	46,065
-	-	24,412
-	-	318,038
-	-	400,000
-	-	608,100
<b>\$ 515,785</b>	<b>\$ 186,066</b>	<b>\$ 3,301,663</b>

\$ -	\$ -	\$ 27,797
-	13	13
-	-	8,000
-	13	35,810

-	-	24,412
---	---	--------

-	-	400,000
-	50,000	50,000
327,535	-	327,535
-	136,053	136,053
-	-	706,022
188,250	-	262,377
-	-	47,579
-	-	905,946
-	-	80,638
-	-	325,291
515,785	186,053	3,241,441

<b>\$ 515,785</b>	<b>\$ 186,066</b>	<b>\$ 3,301,663</b>
-------------------	-------------------	---------------------

## CITY OF STURGIS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Special Sales Tax Fund</u>	<u>Hotel Occupancy Fund</u>	<u>Revolving Loan Fund</u>	<u>Equipment Replacement Fund</u>	<u>Library Fund</u>	<u>BID Fund</u>
<b>Revenue:</b>						
313 General Sales and Use Taxes	\$ 340,663	\$ -	\$ -	\$ 275,171	\$ -	\$ -
315 Amusement Taxes	-	76,801	-	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	-	-	-	194
341 Charges for Goods and Services - General Government	-	-	-	-	-	87,099
361 Investment Earnings	-	-	8,064	52	42	-
363 Special Assessments	-	-	-	-	-	22,661
369 Other	59,949	-	-	-	-	4,900
<b>Total Revenue</b>	<b>400,612</b>	<b>76,801</b>	<b>8,064</b>	<b>275,223</b>	<b>42</b>	<b>114,854</b>
<b>Expenditures:</b>						
419 General Government - Other	-	-	-	31,732	-	135,476
451 Culture and Recreation	-	28,755	-	-	-	-
455 Library	-	-	-	-	11,850	-
460 Conservation and Development	374,215	-	9,935	-	-	-
485 Capital Outlay	-	-	-	131,517	-	-
<b>Total Expenditures</b>	<b>374,215</b>	<b>28,755</b>	<b>9,935</b>	<b>163,249</b>	<b>11,850</b>	<b>135,476</b>
<b>Other Financing Sources (Uses)</b>						
391 Transfers In	-	-	-	-	-	68,000
391 Sale of Municipal Property	-	-	-	28,258	-	-
511 Transfers Out	(74,244)	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(74,244)</b>	<b>-</b>	<b>-</b>	<b>28,258</b>	<b>-</b>	<b>68,000</b>
<b>Net Change in Fund Balances</b>	<b>(47,847)</b>	<b>48,046</b>	<b>(1,871)</b>	<b>140,232</b>	<b>(11,808)</b>	<b>47,378</b>
Fund Balance, December 31, 2017	753,869	32,592	1,307,817	185,059	85,935	201
<b>Fund Balance, December 31, 2018</b>	<b>\$ 706,022</b>	<b>\$ 80,638</b>	<b>\$ 1,305,946</b>	<b>\$ 325,291</b>	<b>\$ 74,127</b>	<b>\$ 47,579</b>

<b>Alice W. Dunn Fund</b>	<b>Perpetual Maintenance Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ -	\$ -	\$ 615,834
-	-	76,801
-	-	194
-	-	87,099
4,198	-	12,356
-	-	22,661
-	5,033	69,882
<u>4,198</u>	<u>5,033</u>	<u>884,827</u>
-	-	167,208
-	-	28,755
-	-	11,850
-	-	384,150
-	-	131,517
<u>-</u>	<u>-</u>	<u>723,480</u>
-	-	68,000
-	-	28,258
-	-	(74,244)
<u>-</u>	<u>-</u>	<u>22,014</u>
4,198	5,033	183,361
511,587	181,020	3,058,080
<u><b>\$ 515,785</b></u>	<u><b>\$ 186,053</b></u>	<u><b>\$ 3,241,441</b></u>

**CITY OF STURGIS**

**SCHEDULE OF RALLY ACTIVITIES (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**Revenue**

*Taxes:*

313 Sales Tax	\$	628,839
320 Licenses and Permits		340,146

*Charges for Goods and Services:*

341 General Government		1,603,987
346 Culture & Recreation		6,762
344 Special Sanitation Fee		201,488

---

<b>Total Revenue</b>		<b>2,781,222</b>
----------------------	--	------------------

---

**Expenditures**

*General Government:*

419 Other		(1,378,799)
-----------	--	-------------

---

<b>Total Expenditures</b>		<b>(1,378,799)</b>
---------------------------	--	--------------------

---

---

<b>Excess of Revenue over Expenditures</b>	<b>\$</b>	<b>1,402,423</b>
--	-----------	------------------

---



**SINGLE AUDIT SECTION**

**CITY OF STURGIS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Identifying Number	CFDA Number	Amount
<i>U.S. Department of Transportation:</i>			
Pass-Through the S.D. Department of Transportation			
Airport Improvement Program	3-46-0054-14-2018	20.106	292,881
<i>U.S. Department of Agriculture Direct Program:</i>			
Community Facilities Loans and Grants - Public Works Campus	N/A	10.766	2,580,002
<i>U.S. Department of Health and Human Services:</i>			
Pass-Through the S.D. Department of Health			
Public Health Emergency Preparedness	N/A	93.069	14,340
<i>U.S. Department of Homeland Security:</i>			
Direct Federal Funding			
Assistance to Firefighters Grant	EMW-2017-FO-06031	97.044	8,615
Pass-Through the S.D. Department of Public Safety			
Homeland Security Grant Program - Law Enforcement Grant	N/A	97.067	7,891
Homeland Security Grant Program - Ambulance Radios	N/A	97.067	44,023
Total Homeland Security Grant Program			51,914
<b>Total U.S. Department of Homeland Security</b>			<b>60,529</b>
<i>U.S. General Services Administration:</i>			
Pass-Through the S.D. Federal Property Agency			
Donation of Federal Surplus Personal Property	N/A	39.003	443
<b>Total</b>			<b>2,948,195</b>

Note 1: This schedule is presented on the modified accrual basis of accounting.

Note 2: The City did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.



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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 25, 2019.

**Internal Control over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as #2018-001 and #2018-002 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as #2018-003 and #2018-004 to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance or other matters that are described in the Schedule of Findings as #2018-004 that are required to be reported under *Government Auditing Standards*.

City Council  
City of Sturgis

---

**City's Response to Findings**

The City's response to the findings identified in our audit is described in the Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of this Report**

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

July 25, 2019



## 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: [ktllp@ktllp.com](mailto:ktllp@ktllp.com)

### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

City Council  
City of Sturgis  
Sturgis, South Dakota

#### **Report on Compliance for Each Major Federal Program**

We have audited the City's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

#### ***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

#### **Report on Internal Control over Compliance**

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

City Council  
City of Sturgis

---

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as #2018-001 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings as #2018-005 and #2018-006 to be significant deficiencies.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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

July 25, 2019

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**A. SUMMARY OF AUDIT RESULTS**

1. The Independent Auditor's Report expresses unmodified opinions on all of the financial statements of the City of Sturgis (the City).
2. Material weaknesses and significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the City's financial statements were disclosed during the audit.
4. A material weakness and significant deficiencies were disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses unmodified opinions on all major programs, as listed in #7.
6. Audit findings relative to the major federal award programs for the City are reported in part C of this schedule.
7. The programs tested as major programs were:
  - a. Communities Facilities Loans and Grants (CFDA #10.766)
8. The threshold for distinguishing type A and B programs was \$750,000.
9. The City was not determined to be a low-risk auditee.

**B. FINDINGS -- FINANCIAL STATEMENT AUDIT**

**MATERIAL WEAKNESSES**

2018-001 FINDING: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation

*Federal Program Affected:* All major federal programs listed in Part A, #7

*Compliance Requirement:* Reporting

*Questioned Costs:* None

*Condition and Cause:* We were requested to draft the audited financial statements, related footnote disclosures, and made material adjustments to the SEFA as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the City's statements, footnotes, and SEFA, 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:* City management is responsible for the preparation of these reports. The adjustments were not recorded through the City's existing controls, and therefore, resulted in misstatements of the City's audited financial statements and SEFA.

*Repeat Finding from Prior Year:* Financial statement portion was prior year finding 2017-001.

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)**

**MATERIAL WEAKNESSES (CONTINUED)**

#2018-001 FINDING: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation (Continued)

*Recommendation:* As in prior years, we have instructed management to review a draft of the auditor prepared financials 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.

2018-002 FINDING: Audit Adjustments

*Federal Program Affected:* None

*Compliance Requirement:* None

*Questioned Costs:* None

*Condition and Cause:* During the course of our engagement, we proposed material audit adjustments that were approved and recorded. Audit adjustments resulted in an overall decrease to reported change in net position of approximately \$261,000. Adjustments included an entry to rollforward fund balance/net position, to adjust sponsorship revenue, to adjust receivables and deferrals, to adjust special assessment revenue and receivable, to record state grant revenue and receivable, to record loan forgiveness, to adjust prepaid expenses, to record accrued interest on TIF #12 debt, to adjust governmental capital assets, to record retainage payable on construction in progress, to record loan payments and grants, and to record adjustments for pension activity. Additionally, we proposed reclassification entries with no effect on net income. Furthermore, other 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 2017-002.

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

- a. The City should consider obtaining assistance, prior to the audit, to ensure accuracy of general ledger information. Specifically, the City should consider assistance with the recording of capital assets and long-term debt.
- b. Capital assets should be reviewed to make sure all additions and disposals are properly reflected, including the activity within TIF Funds. During the course of the year, the City should reconcile capital assets, at a minimum, on a quarterly basis.

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



**CITY OF STURGIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)**

**SIGNIFICANT DEFICIENCIES**

2018-003 FINDING: Internal Controls

*Federal Program Affected:* None

*Compliance Requirement:* None

*Questioned Costs:* None

*Condition and Cause:* The Finance Officer and Senior Accountant have access to the general ledger and prepare and post journal entries. Prior to August 2018, journal entries are not reviewed before they are posted.

*Criteria and Effect:* Journal entries posted by the Finance Officer or Senior Accountant may not be supported by appropriate documentation, or have a greater risk of being posted incorrectly without adequate review procedures.

*Repeat Finding from Prior Year:* Yes, prior year finding 2017-003.

*Recommendation:* The Finance Officer should review journal entries proposed by the Senior Accountant prior to posting. Additionally, the Senior Accountant or a City Manager should review the journal entries proposed by the Finance Officer prior to posting.

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

2018-004 FINDING: Compliance with State Laws

*Federal Program Affected:* None

*Compliance Requirement:* None

*Questioned Costs:* None

*Condition and Cause:* The City is in violation of three state laws:

- a. The City is invested in participating and negotiable certificates of deposit.
- b. The City has unsecured debt with a final maturity in excess of five years.
- c. The City has budgetary overdrafts in the following departments:

Fund	Department	Overdraft
General	Recreation	(9,709)
Capital Improvement	Parks	(9,636)
Capital Improvement	Conservation and Development	(3,333)
Capital Improvement	Debt Service	(88,238)

*Criteria and Effect:* The City did not follow state law, which could result in additional inquiries from state officials regarding such violation. Specifically:

- a. South Dakota Codified Law 4-5-6 indicates the types of investments that the City may invest public funds.
- b. South Dakota Codified Law 9-25-12 limits the term of unsecured notes payable to five years.
- c. South Dakota Codified Law 9-21-9 limits expenditures to appropriated amounts.

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONCLUDED)**

**SIGNIFICANT DEFICIENCIES (CONTINUED)**

2018-004 FINDING: Compliance with State Laws (Continued)

*Repeat Finding from Prior Year:* Partially repeated from prior year finding 2017-004.

*Recommendation:* We recommend the following:

- a. The City re-evaluate their investment policy and invest funds in investments allowed by SDCL 4-5-6.
- b. 2019 South Dakota Legislative Session revised SDCL 9-25-12 to allow maturity terms of 20 years for unsecured notes payable issued to municipalities. We have no further recommendation as the revised law will take effect July 1, 2019.
- c. The City should complete supplemental appropriations for unbudgeted expenditures.

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

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAM AUDIT**

Finding #2018-001 listed in Part B related to a major program as noted in the finding.

**SIGNIFICANT DEFICIENCIES**

#2018-005 FINDING: Suspension and Debarment

*Federal Program Affected:* All major federal programs listed in Part A, #7

*Compliance Requirement:* Suspension and Debarment

*Questioned Costs:* None

*Condition and Cause:* The City does not have an internal control process in place to meet the compliance requirements of suspension and debarment related to vendors and contractors the City utilizes in the normal course of business. Actual vendors charged to major federal programs were properly not suspended or debarred.

*Criteria and Effect:* Recipients of federal grants are prohibited from contracting with or making sub-awards under covered transactions to parties suspended or debarred. "Covered transactions" include those contracts for goods or services awarded under a non-procurement transaction (e.g. grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. The recipient of federal grants must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity.

The lack of adequate internal controls over suspension and debarment could result in the City making payments to an ineligible party, which could result in noncompliance with federal requirements.

*Repeat Finding from Prior Year:* N/A

*Recommendation:* The City should adopt a policy to verify covered transactions do not transpire with suspended or debarred parties prior to any goods being purchased or services being provided.

*Response/Corrective Action Plan:* The City is in agreement with the finding. See City's Corrective Action Plan.

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAM AUDIT (CONTINUED)**

**SIGNIFICANT DEFICIENCIES (CONTINUED)**

#2018-006 FINDING: Written Uniform Guidance Policies

*Federal Program Affected:* All major federal programs listed in Part A, #7

*Compliance Requirement:* Allowable Costs/Cost Principles and Cash Management

*Questioned Costs:* None

*Condition and Cause:* The City does not have written policies for allowable costs/cost principles and cash management.

*Criteria and Effect:* Uniform Guidance specifically requires entities to maintain written policies for allowable costs/cost principles and cash management. Not properly maintaining such policies leads to noncompliance and potential unallowable costs.

*Repeat Finding from Prior Year:* N/A

*Recommendation:* The City should create written policies for allowable costs/cost principles and cash management.

*Response/Corrective Action Plan:* The City is in agreement with the finding. See City's Corrective Action Plan.

## MANAGEMENT RESPONSE



**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2018**

The City of Sturgis respectfully submits the following summary schedule of prior audit findings from December 31, 2017 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2017 Schedule of Findings.

2017-001 FINDING: Financial Statement 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 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 2018, see Corrective Action Plan.

2017-002 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.

2017-003 FINDING: Internal Controls

*Status:* The Finance Officer and Senior Accountant have access to the general ledger and prepare and post journal entries. Journal entries are not reviewed before they are posted

*Initial Year Report:* Originally issued years ago.

*Reasons for Recurrence and Corrective Action Plan:* The City has continued to make improvement with segregation of duties, but has not implemented all recommendations. This finding is repeated in 2018, see Corrective Action Plan.

2017-004: FINDING: Compliance with State Laws

*Status:* The City is in violation of three state laws:

- a. The City is invested in participating and negotiable certificates of deposit.
- b. The City has unsecured debt with a final maturity in excess of five years.
- c. The City has budgetary overdrafts in the following departments:

*Initial Year Report:* Partially issued in 2016 and updated in 2017.

*Reasons for Recurrence and Corrective Action Plan:* The existing certificates of deposit have not matured. As the certificates of deposit mature, the City will re-evaluate the investment policy and determine if there is a more appropriate investment strategy. Legislation was passed during the 2019 South Dakota Legislative Session to revise SDCL 9-25-12, with an effective date of July 1, 2019. The City did not perform supplemental appropriations for overspent budget line items. This finding is repeated in 2018, see Corrective Action Plan.



**CORRECTIVE ACTION PLAN  
DECEMBER 31, 2018**

The City respectfully submits the following corrective action plan regarding findings from December 31, 2018 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

2018-001 FINDING: Financial Statement Preparation

*Responsible Officials:* Fay Bueno, Finance Officer

*Corrective Action Plan:* The City has accepted the risk associated with Finding #2018-001 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 and the person in the newly formed position of Senior Accountant (4<sup>th</sup> quarter 2016) will continue to monitor the financial statement preparation and determine if any modification can be done to the procedure.

*Anticipated Completion Date:* Ongoing

2018-002 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 or the Senior Accountant will inquire on how to make the correct entry. With the newly formed position of Senior Accountant (4<sup>th</sup> quarter of 2016) and the Finance Officer they will have more time to make sure that the accounting adjustment are made correctly. Capital assets will be reviewed monthly by the Finance Officer and capitalized in a timely manner. The ambulance receivables are being analyzed and adjusted by the Senior Accountant on a monthly basis.

*Anticipated Completion Date:* Ongoing

2018-003 FINDING: Internal Controls

*Responsible Officials:* Fay Bueno, Finance Officer

*Corrective Action Plan:* Starting August of 2018 the Finance Officer started reviewing the Senior Accountants journal entries and signed off on entries and the posting of those entries. Starting August 2018, the Senior Accountant started reviewing the Finance Officers journal entries and signed off on the entries and the posting of those entries. All appropriate documentation will be accompanied by the sign off sheet.

*Anticipated Completion Date:* Ongoing



**CORRECTIVE ACTION PLAN (CONTINUED)  
DECEMBER 31, 2018**

2018-004 FINDING: State Law Violations

*Responsible Officials:* Fay Bueno, Finance Officer

*Corrective Action Plan:*

- a. As the Certificates of Deposit come due the City will re-evaluate the investment policy and determine if there is a better area to invest the City's money.
- b. Legislation was passed during the 2019 South Dakota Legislative Session to revise 9-25-12, with effective date of July 1, 2019 to change 5 years to 20 years for maturity of unsecured debt.
- c. Every effort will be made to supplement the budget as needed.

*Anticipated Completion Date:*

- a. When Certificates of Deposit's mature they will be cashed in, final CD 9-30-2020.
- b. July 1, 2019 for the unsecured debt.
- c. An ongoing effort to make sure there is no budgetary overdrafts in the departments.

#2018-005 FINDING: Suspension and Debarment

*Responsible Individuals:* Fay Bueno, Finance Officer

*Corrective Action Plan:* The Public Works director of City Engineer will check all contractors for Suspension and Debarment prior to the project starting. They will document their procedure and provide the Finance Officer with confirmation of their qualifications.

*Anticipated Completion Date:* August 1, 2019 and throughout every project that is done with Federal money

#2018-006 FINDING: Written Uniform Guidance Policies

*Responsible Individuals:* Fay Bueno, Finance Officer

*Corrective Action Plan:* The City Finance Officer will create a policy for Allowable Costs and Cash Management for every project that is funded by Federal money.

*Anticipated Completion Date:* June 1, 2019 and before any new project that is done with Federal money