

CITY OF STURGIS  
STURGIS, SOUTH DAKOTA

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FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2010

**CITY OF STURGIS**

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## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Sturgis  
Sturgis, South Dakota

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), Meade County, South Dakota, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2011, 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. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, and the required supplementary budgetary information on pages 39 through 42 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.

City Council

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



KETEL THORSTENSON, LLP  
Certified Public Accountants

September 28, 2011

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2010**

This section of the City of Sturgis' annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended on December 31, 2010. 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 \$2,559,293 more than the \$8,575,208 governmental program expenditures. This does not take into account any transfers in/out or any activity due to the disposal of fixed assets. The overall change in net assets, transfers included, in Governmental activities increased 10 percent compared to last year. The increase was due to the grant money received for the Airport Reconstruction and Lighting project.
- In the City's business-type activities, revenues exceeded expenses by \$61,261; this includes transfers and any activity due to the disposal of fixed assets. The overall change in net assets in business-type activities was comparable to the prior year.

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

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 four proprietary funds – the Liquor Fund, Water Fund, Wastewater Fund, and Sanitation Fund.

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

**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2010**

**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>
<b>Scope</b>	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
<b>Required Financial Statements</b>	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<b>Type of Asset/Liability Information</b>	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
<b>Type of Inflow/Outflow Information</b>	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 assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2010**

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

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

The two government-wide statements report the City's net assets and how they have changed. Net assets – 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 assets 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 three 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, and sanitation funds are included here.
- **Component Units** -- The City does not have any component units.

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

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

The City has two kinds of funds:

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

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2010

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets increased by seven percent between fiscal year 2009 and 2010. (See Table A-1).

	Governmental Activities		Business-Type Activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and Other Assets	\$ 5,455,579	\$ 5,661,992	\$ 1,858,977	\$ 2,460,533	\$ 7,314,556	\$ 8,122,525
Capital Assets	34,270,030	30,967,509	17,214,359	15,525,871	51,484,389	46,493,380
<b>Total Assets</b>	<b>\$ 39,725,609</b>	<b>\$36,629,501</b>	<b>\$ 19,073,336</b>	<b>\$17,986,404</b>	<b>\$ 58,798,945</b>	<b>\$54,615,905</b>
Long-Term Debt	\$ 6,184,990	\$ 6,591,430	\$ 3,478,286	\$ 2,474,173	\$ 9,663,276	\$ 9,065,603
Other Liabilities	756,582	398,243	325,309	303,751	1,081,891	701,994
<b>Total Liabilities</b>	<b>6,941,572</b>	<b>6,989,673</b>	<b>3,803,595</b>	<b>2,777,924</b>	<b>10,745,167</b>	<b>9,767,597</b>
<i>Net Assets:</i>						
Invested in Capital Assets, Net of Related Debt	28,259,029	24,536,508	13,530,527	13,105,871	41,789,556	37,642,379
Restricted	3,323,038	2,996,588	-	-	3,323,038	2,996,588
Unrestricted	1,201,970	2,106,732	1,739,214	2,102,609	2,941,184	4,209,341
<b>Total Net Assets</b>	<b>\$ 32,784,037</b>	<b>\$29,639,828</b>	<b>\$ 15,269,741</b>	<b>\$15,208,480</b>	<b>\$ 48,053,778</b>	<b>\$44,848,308</b>
Beginning Net Assets	29,639,828	29,298,565	15,208,480	15,137,539	44,848,308	44,436,104
<b>Increase in Net Assets</b>	<b>\$ 3,144,209</b>	<b>\$ 341,263</b>	<b>\$ 61,261</b>	<b>\$ 70,941</b>	<b>\$ 3,205,470</b>	<b>\$ 412,204</b>
Percentage of Increase in Net Assets	11%	1%	0%	0%	7%	1%

The Statement of Net Assets 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 assets.

Changes in Net Assets

The City's revenues totaled \$16,331,701 (See Table A-2). Well over half of the City's revenue comes from charges for services and taxes, with 42 cents of every dollar raised coming from charges for services (primarily liquor and water operations) and 37 cents of every dollar raised coming from some type of tax (See Figure A-2). Of the City's total revenue, 17 percent comes from state and federal grants for capital purposes, and the rest comes from operating grants, contributions, state shared revenue, interest and miscellaneous.

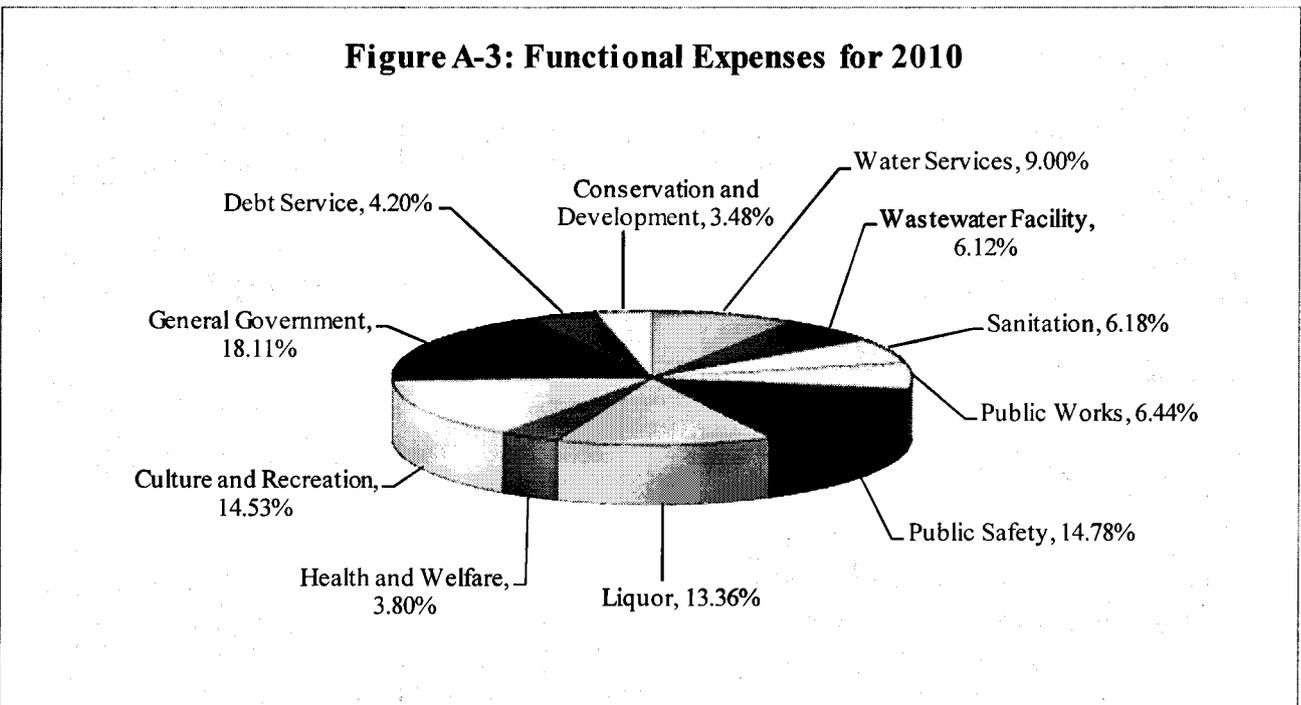
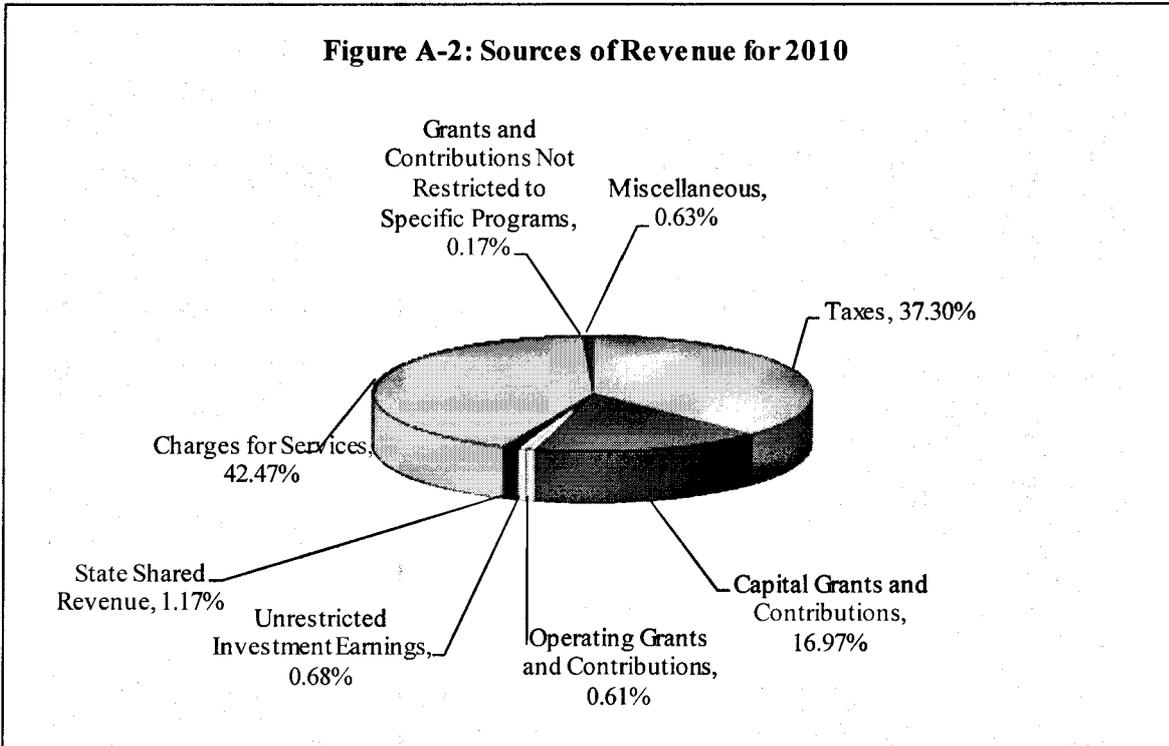
**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2010**

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

**Changes in Net Assets (Continued)**

The total cost of all programs and services was \$13,126,231 (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 (CONTINUED)  
DECEMBER 31, 2010**

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

**Changes in Net Assets (Concluded)**

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

<b>Table A-2 Changes in Net Assets</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 2,228,269	\$ 2,076,475	\$ 4,707,829	\$ 4,337,768	\$ 6,936,098	\$ 6,414,243
Operating Grants and Contributions	100,421	9,976	-	1,405	100,421	11,381
Capital Grants and Contributions	2,307,828	652,153	463,919	7,034	2,771,747	659,187
General Revenues						
Taxes	6,091,079	5,483,791	-	-	6,091,079	5,483,791
State Shared Revenue	191,065	196,280	-	-	191,065	196,280
Grants and Contributions not Program Specific	27,651	66,304	-	-	27,651	66,304
Unrestricted Investment Earnings	89,064	124,023	22,184	21,127	111,248	145,150
Miscellaneous	99,124	251,707	3,268	6,769	102,392	258,476
<b>Total Revenues</b>	<b>11,134,501</b>	<b>8,860,709</b>	<b>5,197,200</b>	<b>4,374,103</b>	<b>16,331,701</b>	<b>13,234,812</b>
<b>Expenses</b>						
General Government	2,376,696	2,031,190	-	-	2,376,696	2,031,190
Public Safety	1,939,302	1,985,311	-	-	1,939,302	1,985,311
Public Works	844,737	1,371,994	-	-	844,737	1,371,994
Health and Welfare	498,609	415,481	-	-	498,609	415,481
Culture and Recreation	1,907,030	1,964,503	-	-	1,907,030	1,964,503
Conservation and Development	456,918	310,243	-	-	456,918	310,243
Debt Service	551,916	507,850	-	-	551,916	507,850
Liquor	-	-	1,753,787	1,664,242	1,753,787	1,664,242
Water Services	-	-	1,181,895	1,006,385	1,181,895	1,006,385
Wastewater Services	-	-	803,488	736,346	803,488	736,346
Sanitation Services	-	-	811,853	829,063	811,853	829,063
<b>Total Expenses</b>	<b>8,575,208</b>	<b>8,586,572</b>	<b>4,551,023</b>	<b>4,236,036</b>	<b>13,126,231</b>	<b>12,822,608</b>
Excess Before Transfers	2,559,293	274,137	646,177	138,067	3,205,470	412,204
Transfers	584,916	67,126	(584,916)	(67,126)	-	-
<b>Increase in Net Assets</b>	<b>3,144,209</b>	<b>341,263</b>	<b>61,261</b>	<b>70,941</b>	<b>3,205,470</b>	<b>412,204</b>
<b>Ending Net Assets</b>	<b>\$ 32,784,037</b>	<b>\$ 29,639,828</b>	<b>\$ 15,269,741</b>	<b>\$ 15,208,480</b>	<b>\$ 48,053,778</b>	<b>\$ 44,848,308</b>

**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2010**

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

**Governmental Activities**

Total revenues of the Governmental Activities for the City increased by 26 percent compared to the prior year, while total expenses decreased by 0.13 percent. The primary reason for the increase of revenue is that the City had more capital grants and contributions to fund projects.

**Business-Type Activities**

Operating revenues of the City's business-type activities increased by 19 percent compared to the prior year, while total expenses increased 7 percent. The overall increase in revenues is due to an increase in water rates, grant money for the Murray Addition project in the Wastewater fund and Sanitation had an increase due to an additional charge for recycling. The overall increase in expenses is due to utility expenses, a larger inventory in the Liquor Fund and fuel expenses in the Sanitation Fund.

**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 Fund), Debt Service Funds, Capital Projects Funds and Permanent Funds. The City also maintains four business type funds - Liquor, Water, Wastewater, and Sanitation Funds.

**BUDGETARY HIGHLIGHTS**

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

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

The General Fund budget variances are as follows:

- General Government - Other - \$40,785 - There was unexpected increases in Sponsorship and the Rally Department due the 70th Rally. Electrical utility costs were higher in the Building Fund.
- Culture & Recreation - Recreation - \$10,088 - There were many repairs on the pool at the Community Center and utilities were higher.

The Capital Improvement Fund budget variances are as follows:

- Culture & Recreation-Recreation- \$75,600 - This amount represents a deposit on land that was bought in 2009.
- Public Works - Highway & Streets-\$100,763 - The Vanocker /Pine View project grant money should have been supplemented to cover the expenses of the project.

**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2010**

**CAPITAL ASSET ADMINISTRATION**

By the end of 2010, the City had invested \$51,484,389 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 \$4,991,009.

	Governmental Activities		Business-type Activities	
	2010	2009	2010	2009
Land	\$ 2,184,497	\$ 1,994,225	\$ 741,941	\$ 741,941
Construction Work in Progress	2,589,424	77,234	633,223	381,491
Buildings	9,729,326	9,783,840	743,015	773,235
Improvements Other Than Buildings	17,946,009	17,724,720	14,120,139	12,839,595
Machinery and Equipment	1,820,774	1,387,490	976,041	789,609
<b>Total Capital Assets</b>	<b>\$ 34,270,030</b>	<b>\$ 30,967,509</b>	<b>\$ 17,214,359</b>	<b>\$ 15,525,871</b>

This year's major capital asset additions included:

- The City was awarded an airport improvement grant totaling \$1,987,039 during the current year.

**LONG-TERM DEBT**

At the year-end the City had \$9,663,276 in Sales Tax Revenue Bonds, General Obligation Bonds and other long-term obligations. This is an increase of seven percent as shown on Table A-4 below.

	Governmental Activities		Business-type Activities	
	2010	2009	2010	2009
Compensated Absences	\$ 173,989	\$ 160,429	\$ 60,702	\$ 54,173
Tax Increment Financing Obligations	406,001	406,001	-	-
Sales Tax Revenue Bonds	5,605,000	6,025,000	1,207,584	-
General Obligation Bonds	-	-	2,210,000	2,420,000
<b>Total Outstanding Debt and Obligations</b>	<b>\$ 6,184,990</b>	<b>\$ 6,591,430</b>	<b>\$ 3,478,286</b>	<b>\$ 2,474,173</b>

During the current year, the City refinanced their General Obligation bonds and issued sales tax revenue bonds. The City made scheduled payments throughout the year on its debt balances.

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2010**

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

The City's current economic position has shown little change, except for the many Capital Improvement projects and equipment for the City. The City did experience a decrease in total property valuation of \$6,308,961 or 1.9 percent decrease from the prior year. The City did not ask for any additional property tax for the year 2010, as property taxes remained the same as 2009. This was done to reduce the mill levy. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower. In 2010, the CPI was -0- percent and growth was .57%.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The city has experienced an increase in taxable sales of 6.4 percent over the prior year. The City budgeted for a small increase in sales tax revenue for the next year.

The City's adopted General Fund budget for the next fiscal year will increase by 3 percent to \$7,187,794. The increase is due to an increase in wages and a cost-of-living adjustment for the city's employees.

The City's business-type activities (liquor, water, wastewater, sanitation) expect that the results for 2011 will be consistent with the results of 2010.

#### **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 2<sup>nd</sup> Street, Suite 103, Sturgis, SD 57785.

**CITY OF STURGIS**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2010**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>Assets</b>			
Cash and Certificates of Deposit (Note 2)	\$ 3,387,335	\$ 1,322,368	\$ 4,709,703
Receivables, Net	526,530	238,815	765,345
Notes Receivable (Note 10)	623,371	62,500	685,871
Internal Balances (Note 6)	(60,000)	60,000	-
Inventories	1,051	166,705	167,756
Deferred Charges	116,707	-	116,707
Other Assets	32,119	8,589	40,708
Restricted Assets:			
Cash with Fiscal Agent (Note 5)	692,622	-	692,622
Deposits	135,844	-	135,844
Capital Assets (Note 4)			
Land and Construction Work in Progress	4,773,921	1,375,164	6,149,085
Other Capital Assets, Net of Depreciation	29,496,109	15,839,195	45,335,304
<b>Total Assets</b>	<b>\$ 39,725,609</b>	<b>\$ 19,073,336</b>	<b>\$ 58,798,945</b>
<b>Liabilities</b>			
Accounts Payable	\$ 534,265	\$ 151,278	\$ 685,543
Other Current Liabilities	222,317	174,031	396,348
Noncurrent Liabilities (Note 5):			
Due Within One Year	623,288	408,797	1,032,085
Due in More Than One Year	5,561,702	3,069,489	8,631,191
<b>Total Liabilities</b>	<b>6,941,572</b>	<b>3,803,595</b>	<b>10,745,167</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	28,259,029	13,530,527	41,789,556
Restricted for:			
Capital Outlay	525,462	-	525,462
Debt Service	656,258	-	656,258
SDPAA (Note 9)	135,844	-	135,844
Revolving Loans	1,294,334	-	1,294,334
BID Tax	108,924	-	108,924
Permanently Restricted Purposes:			
Expendable	224,681	-	224,681
Nonexpendable	377,535	-	377,535
Unrestricted	1,201,970	1,739,214	2,941,184
<b>Total Net Assets</b>	<b>32,784,037</b>	<b>15,269,741</b>	<b>48,053,778</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 39,725,609</b>	<b>\$ 19,073,336</b>	<b>\$ 58,798,945</b>

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

CITY OF STURGIS

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010

	----- Program Revenues -----				Net (Expense) Revenue and ----- Changes in Net Assets -----		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs</b>							
Primary Government							
Governmental Activities:							
General Government	\$ 2,376,696	\$ 1,220,489	\$ -	\$ -	\$ (1,156,207)	\$ -	\$ (1,156,207)
Public Safety	1,939,302	42,073	-	-	(1,897,229)	-	(1,897,229)
Public Works	844,737	160,010	100,421	2,307,828	1,723,522	-	1,723,522
Health and Welfare	498,609	481,151	-	-	(17,458)	-	(17,458)
Culture and Recreation	1,907,030	324,546	-	-	(1,582,484)	-	(1,582,484)
Conservation and Development	456,918	-	-	-	(456,918)	-	(456,918)
Interest on Long-Term Debt	551,916	-	-	-	(551,916)	-	(551,916)
<b>Total Governmental Activities</b>	<b>8,575,208</b>	<b>2,228,269</b>	<b>100,421</b>	<b>2,307,828</b>	<b>(3,938,690)</b>	<b>-</b>	<b>(3,938,690)</b>
Business-Type Activities:							
Liquor	1,753,787	1,880,844	-	-	-	127,057	127,057
Water	1,181,895	1,118,688	-	60,841	-	(2,366)	(2,366)
Wastewater	803,488	935,126	-	218,283	-	349,921	349,921
Sanitation	811,853	773,171	-	184,795	-	146,113	146,113
<b>Total Business-Type Activities</b>	<b>4,551,023</b>	<b>4,707,829</b>	<b>-</b>	<b>463,919</b>	<b>-</b>	<b>620,725</b>	<b>620,725</b>
<b>Total Primary Government</b>	<b>\$ 13,126,231</b>	<b>\$ 6,936,098</b>	<b>\$ 100,421</b>	<b>\$ 2,771,747</b>	<b>(3,938,690)</b>	<b>620,725</b>	<b>(3,317,965)</b>
General Revenues:							
Taxes:							
Property Taxes					3,076,140	-	3,076,140
Sales Taxes					3,014,939	-	3,014,939
State Shared Revenue					191,065	-	191,065
Grants and Contributions Not Restricted to Specific Programs					27,651	-	27,651
Unrestricted Investment Earnings					89,064	22,184	111,248
Miscellaneous Revenue					99,124	3,268	102,392
Transfers					584,916	(584,916)	-
<b>Total General Revenues and Transfers</b>					<b>7,082,899</b>	<b>(559,464)</b>	<b>6,523,435</b>
<b>Change in Net Assets</b>					<b>3,144,209</b>	<b>61,261</b>	<b>3,205,470</b>
Net Assets, Beginning					29,639,828	15,208,480	44,848,308
<b>Net Assets, Ending</b>					<b>\$ 32,784,037</b>	<b>\$ 15,269,741</b>	<b>\$ 48,053,778</b>

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

CITY OF STURGIS

BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2010

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
101 Cash	\$ 15,950	\$ -	\$ -	\$ 15,950
104 Interest Bearing Accounts	123,062	645,218	2,175,570	2,943,850
105 Savings Certificates	-	-	427,535	427,535
106 Restricted Cash with Fiscal Agent (Note 5)	-	692,622	-	692,622
108 Property Taxes Receivable	190,128	-	-	190,128
108 Sales Tax Receivable	92,426	92,426	10,399	195,251
115 Accounts Receivable	29,067	8,700	406,025	443,792
116 Estimated Uncollectible Accounts Receivable	(10,000)	-	(366,917)	(376,917)
121 Special Assessments Receivable	6,474	38,439	-	44,913
128 Notes Receivable (Note 10)	-	-	623,371	623,371
132 Due from Federal/State Government	29,363	-	-	29,363
142 Inventory of Supplies Purchased for Resale	1,051	-	-	1,051
154.1 Restricted Deposits	135,844	-	-	135,844
155 Prepaid Expense	26,107	-	6,012	32,119
<b>Total Assets</b>	<b>\$ 639,472</b>	<b>\$ 1,477,405</b>	<b>\$ 3,281,995</b>	<b>\$ 5,398,872</b>
<b>Liabilities and Fund Balances</b>				
<i>Liabilities</i>				
202 Accounts Payable	\$ 73,010	\$ 453,388	\$ 7,867	\$ 534,265
216 Accrued Wages Payable	80,141	-	13,502	93,643
217 Accrued Taxes Payable	1,211	-	176	1,387
224 Deferred Revenue	147,881	38,438	-	186,319
236 Advance from Other Funds (Note 6)	-	-	60,000	60,000
<b>Total Liabilities</b>	<b>302,243</b>	<b>491,826</b>	<b>81,545</b>	<b>875,614</b>
<i>Fund Balances</i>				
261 <i>Reserved Fund Balances</i>				
261.00 SDPAA Reserve (Note 9)	135,844	-	-	135,844
261.04 Reserved for Debt Service	-	625,765	-	625,765
261.16 Reserved for Long-Term Notes Receivable	-	-	623,371	623,371
261.16 Reserved for Endowment	-	-	377,535	377,535
261.99 Reserved for Inventory	1,051	-	-	1,051
261.99 Reserved for Prepaid Expense	26,107	-	6,012	32,119
262 <i>Unreserved Fund Balances</i>				
262.01 Designated for Next Year's Appropriations	174,227	-	49,027	223,254
262.09 Undesignated	-	359,814	-	359,814
262.09 Special Revenue Funds	-	-	1,708,039	1,708,039
262.09 Debt Service Funds	-	-	30,493	30,493
262.09 Capital Projects Funds	-	-	181,292	181,292
262.09 Permanent Funds	-	-	224,681	224,681
<b>Total Fund Balances</b>	<b>337,229</b>	<b>985,579</b>	<b>3,200,450</b>	<b>4,523,258</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 639,472</b>	<b>\$ 1,477,405</b>	<b>\$ 3,281,995</b>	<b>\$ 5,398,872</b>

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

**CITY OF STURGIS**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
DECEMBER 31, 2010**

Total Fund Balances - Governmental Funds	\$ 4,523,258
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	34,270,030
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.	(6,184,990)
Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported in the funds.	(127,287)
Assets such as delinquent taxes receivable and special assessments are not available to pay for current period expenditures and therefore are deferred in the funds.	186,319
Discount on bonds and bond costs are capitalized on the Statement of Activities as deferred charges and amortized over the life of the refunded bonds. These costs were expensed in the governmental funds.	116,707
<b>Total Net Assets - Governmental Funds</b>	<b>\$ 32,784,037</b>

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, 2010

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	
<b>Revenue</b>					
<i>Taxes:</i>					
311	General Property Taxes	\$ 2,645,033	\$ -	\$ 367,450	\$ 3,012,483
313	General Sales and Use Taxes	1,373,754	1,373,754	267,431	3,014,939
315	Amusement Taxes	864	-	-	864
319	Penalties and Interest on Delinquent Taxes	13,132	-	-	13,132
320	Licenses and Permits	388,418	-	-	388,418
<i>Intergovernmental Revenue:</i>					
331	Federal Grants	100,421	2,133,039	151,321	2,384,781
335.01	Bank Franchise Tax	5,964	-	-	5,964
335.03	Liquor Tax Reversion	40,940	-	-	40,940
335.04	Motor Vehicle Licenses	49,296	-	-	49,296
335.08	Local Government Highway and Bridge Fund	94,865	-	-	94,865
338.02	County Highway and Bridge Reserve Tax	5,855	-	-	5,855
338.04	Port of Entry	12,338	-	-	12,338
338.99	Other	6,028	-	-	6,028
<i>Charges for Goods and Services:</i>					
341	General Government	799,247	-	32,824	832,071
342	Public Safety	38,757	-	-	38,757
343	Highways and Streets	685	-	-	685
344	Sanitation	-	-	135,104	135,104
345	Health	796	-	-	796
346	Culture and Recreation	324,434	-	112	324,546
347	Ambulance	-	-	480,355	480,355
349	Other	-	-	32,886	32,886
<i>Fines and Forfeits:</i>					
351	Court Fines and Costs	3,316	-	-	3,316
<i>Miscellaneous Revenue:</i>					
361	Earnings on Deposits and Investments	1,794	35,948	51,322	89,064
362	Rentals	4,067	-	300	4,367
363	Special Assessments	5,265	16,051	-	21,316
367	Contributions and Donations	18,871	-	8,780	27,651
369	Other	36,333	-	7,255	43,588
<b>Total Revenue</b>		<b>5,970,473</b>	<b>3,558,792</b>	<b>1,535,140</b>	<b>11,064,405</b>

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Expenditures</b>				
<i>General Government:</i>				
411 Legislative	203,589	9,637	34,492	247,718
414 Financial Administration	887,092	-	-	887,092
419 Other	1,051,899	-	10,202	1,062,101
<i>Public Safety:</i>				
421 Police	1,652,580	-	2,464	1,655,044
422 Fire	157,682	-	-	157,682
<i>Public Works:</i>				
431 Highway and Streets	83,099	12,608	-	95,707
432 Sanitation	43,397	-	105,743	149,140
435 Airport	38,103	263	-	38,366
437 Cemeteries	66,593	-	232	66,825
<i>Health and Welfare:</i>				
441 Health	435	-	-	435
446 Ambulance	-	-	482,740	482,740
<i>Culture and Recreation:</i>				
451 Recreation	741,694	-	-	741,694
452 Parks	13,840	56,434	493,173	563,447
455 Library	335,094	5,799	2,110	343,003
456 Auditorium	27,632	-	-	27,632
459 Community Center	-	-	770	770
460 Conservation and Development	168,270	-	287,818	456,088
465 Economic Development	-	-	830	830
470 Debt Service	-	617,955	414,771	1,032,726
485 Capital Outlay	567,672	3,416,620	333,851	4,318,143
<b>Total Expenditures</b>	<b>6,038,671</b>	<b>4,119,316</b>	<b>2,169,196</b>	<b>12,327,183</b>
<b>Excess of Revenue Under Expenditures</b>	<b>(68,198)</b>	<b>(560,524)</b>	<b>(634,056)</b>	<b>(1,262,778)</b>
<b>Other Financing Sources (Uses)</b>				
391.1 Transfers In (Note 7)	571,773	26,247	844,245	1,442,265
391.4 Compensation for Loss or Damage to Capital Assets	13,678	-	4,605	18,283
511 Transfers Out (Note 7)	(570,677)	-	(286,672)	(857,349)
<b>Total Other Financing Sources</b>	<b>14,774</b>	<b>26,247</b>	<b>562,178</b>	<b>603,199</b>
<b>Net Change in Fund Balance</b>	<b>(53,424)</b>	<b>(534,277)</b>	<b>(71,878)</b>	<b>(659,579)</b>
<b>Fund Balance, December 31, 2009</b>	<b>390,653</b>	<b>1,519,856</b>	<b>3,272,328</b>	<b>5,182,837</b>
<b>Fund Balance, December 31, 2010</b>	<b>\$ 337,229</b>	<b>\$ 985,579</b>	<b>\$ 3,200,450</b>	<b>\$ 4,523,258</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, 2010**

Net change in fund balances - total government funds \$ (659,579)

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. This is the amount by which capital outlays exceeded depreciation in the current period. 3,314,952

The receipt of donated capital assets is not reported on the fund statements, but is reported as a program revenue on the government wide statements. 17,796

The governmental funds reflect proceeds (loss) from capital asset sales, if any, while the Statement of Activities reports a gain (loss) on sale or disposal of capital assets. (30,227)

Governmental funds report property taxes and special assessments as revenue when funds become available, but the Statement of Activities includes the property tax and special assessments as revenue when earned. 34,017

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 420,000

Debt issuance costs are deferred in the government wide statements and amortized over the term of the related debt. 22,924

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. 37,886

Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures. (13,560)

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Change in Net Assets of Governmental Activities \$ 3,144,209

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

**CITY OF STURGIS**

**BALANCE SHEET  
PROPRIETARY FUNDS  
DECEMBER 31, 2010**

<b>Assets</b>	<b>Liquor Fund</b>	<b>Water Fund</b>	<b>Wastewater Fund</b>	<b>Sanitation Fund</b>	<b>Total Proprietary Funds</b>
<b>Current Assets</b>					
104 Interest Bearing Accounts	\$ -	\$ 858,328	\$ 403,273	\$ 60,767	\$ 1,322,368
115 Accounts Receivable, Net	25,212	80,049	80,850	52,704	238,815
128 Notes Receivable (Note 10)	-	-	62,500	-	62,500
131 Due from Liquor Fund	-	266,248	-	-	266,248
142 Inventory of Supplies for Resale	166,705	-	-	-	166,705
155 Prepaid Expenses	1,359	3,713	-	3,517	8,589
<b>Total Current Assets</b>	<b>193,276</b>	<b>1,208,338</b>	<b>546,623</b>	<b>116,988</b>	<b>2,065,225</b>
<b>Noncurrent Asset</b>					
131 Advance to Parks Fund (Note 6)	-	-	-	60,000	60,000
<b>Capital Assets (Note 4)</b>					
160 Land	6,500	1,800	733,641	-	741,941
162 Buildings	59,828	181,183	445,257	310,994	997,262
163 Accumulated Depreciation - Buildings	(51,972)	(38,928)	(120,664)	(42,683)	(254,247)
164 Improvements Other Than Buildings	-	10,068,168	10,129,936	22,789	20,220,893
165 Accumulated Depreciation - Improvements Other Than Buildings	-	(3,542,535)	(2,544,579)	(13,640)	(6,100,754)
166 Machinery and Equipment	66,913	551,245	604,766	2,045,452	3,268,376
167 Accumulated Depreciation - Machinery and Equipment	(36,824)	(465,719)	(458,758)	(1,331,034)	(2,292,335)
168 Construction Work in Progress	633,223	-	-	-	633,223
<b>Total Noncurrent Assets</b>	<b>677,668</b>	<b>6,755,214</b>	<b>8,789,599</b>	<b>1,051,878</b>	<b>17,274,359</b>
<b>Total Assets</b>	<b>\$ 870,944</b>	<b>\$ 7,963,552</b>	<b>\$ 9,336,222</b>	<b>\$ 1,168,866</b>	<b>\$ 19,339,584</b>

<b>Liabilities and Net Assets</b>	<b>Liquor Fund</b>	<b>Water Fund</b>	<b>Wastewater Fund</b>	<b>Sanitation Fund</b>	<b>Total Proprietary Funds</b>
<b>Current Liabilities</b>					
202 Accounts Payable	\$ 105,518	\$ 20,861	\$ 5,919	\$ 18,980	\$ 151,278
208 Due to Water Fund	266,248	-	-	-	266,248
215 Accrued Interest Payable	-	-	4,467	-	4,467
216 Accrued Wages	3,522	10,723	6,804	7,783	28,832
217 Accrued Taxes Payable	11,254	35	-	3,658	14,947
220 Customer Deposits	150	125,635	-	-	125,785
226 General Obligation Bonds Payable - Current (Note 5)	10,077	68,843	269,175	-	348,095
233 Accrued Leave Payable (Note 5)	1,257	24,763	17,173	17,509	60,702
<b>Total Current Liabilities</b>	<b>398,026</b>	<b>250,860</b>	<b>303,538</b>	<b>47,930</b>	<b>1,000,354</b>
<b>Long-Term Liabilities (Note 5)</b>					
231 Bonds Payable	351,314	721,833	1,996,342	-	3,069,489
<b>Total Liabilities</b>	<b>749,340</b>	<b>972,693</b>	<b>2,299,880</b>	<b>47,930</b>	<b>4,069,843</b>
<b>Net Assets</b>					
253.1 Invested in Capital Assets, Net of Related Debt	50,029	5,964,538	6,524,082	991,878	13,530,527
252.0 Unrestricted Net Assets	71,575	1,026,321	512,260	129,058	1,739,214
<b>Total Net Assets</b>	<b>121,604</b>	<b>6,990,859</b>	<b>7,036,342</b>	<b>1,120,936</b>	<b>15,269,741</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 870,944</b>	<b>\$ 7,963,552</b>	<b>\$ 9,336,222</b>	<b>\$ 1,168,866</b>	<b>\$ 19,339,584</b>

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

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Sanitation Fund</u>	<u>Total Proprietary Funds</u>
<b>Total Operating Revenue</b>					
380 Charges for Goods and Services	\$ 1,880,844	\$ 1,118,688	\$ 935,126	\$ 773,171	\$ 4,707,829
<b>Operating Expenses</b>					
410 Personal Services	138,152	450,050	277,899	331,069	1,197,170
420 Other Current Expense	162,657	468,719	139,486	334,869	1,105,731
426.2 Materials (Cost of Goods Sold)	1,446,522	-	-	-	1,446,522
457 Depreciation	6,456	241,029	247,862	145,915	641,262
<b>Total Operating Expenses</b>	<b>1,753,787</b>	<b>1,159,798</b>	<b>665,247</b>	<b>811,853</b>	<b>4,390,685</b>
<b>Operating Income (Loss)</b>	<b>127,057</b>	<b>(41,110)</b>	<b>269,879</b>	<b>(38,682)</b>	<b>317,144</b>
<b>Nonoperating Income (Expense)</b>					
361 Earnings on Deposits and Investments	351	10,126	10,924	783	22,184
369 Other	-	2,089	-	-	2,089
442 Interest Expense	-	(22,097)	(138,241)	-	(160,338)
<b>Total Nonoperating Income (Expense)</b>	<b>351</b>	<b>(9,882)</b>	<b>(127,317)</b>	<b>783</b>	<b>(136,065)</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>127,408</b>	<b>(50,992)</b>	<b>142,562</b>	<b>(37,899)</b>	<b>181,079</b>
391.1 Transfers In (Note 7)	-	-	-	12,000	12,000
391 Capital Grants	-	60,841	218,283	184,795	463,919
391.4 Compensation for Loss or Damage to Capital Assets	679	500	-	-	1,179
511 Transfers Out (Note 7)	(212,271)	-	(147,601)	(237,044)	(596,916)
<b>Contributions and Transfers</b>	<b>(211,592)</b>	<b>61,341</b>	<b>70,682</b>	<b>(40,249)</b>	<b>(119,818)</b>
<b>Net Income (Loss)</b>	<b>(84,184)</b>	<b>10,349</b>	<b>213,244</b>	<b>(78,148)</b>	<b>61,261</b>
Net Assets, December 31, 2009	205,788	6,980,510	6,823,098	1,199,084	15,208,480
<b>Net Assets, December 31, 2010</b>	<b>\$ 121,604</b>	<b>\$ 6,990,859</b>	<b>\$ 7,036,342</b>	<b>\$ 1,120,936</b>	<b>\$ 15,269,741</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, 2010

	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>
<b>Cash Flows from Operating Activities</b>			
Receipts from Customers	\$ 1,876,943	\$ 1,116,903	\$ 922,955
Payments to Suppliers	(1,589,754)	(453,375)	(169,736)
Payments to Employees	(137,993)	(446,906)	(273,927)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>149,196</b>	<b>216,622</b>	<b>479,292</b>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers In	-	-	-
Transfers Out	(212,271)	-	(147,601)
Internal Activity - Receipts from (Payments to) Other Funds	266,248	(266,248)	-
Cash Receipts from Notes Receivable	-	-	12,500
<b>Net Cash Flows Provided by (Used in) Noncapital Financing Activities</b>	<b>53,977</b>	<b>(266,248)</b>	<b>(135,101)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchases of Capital Assets	(271,832)	(205,927)	(274,816)
Capital Grants	-	60,841	218,283
Compensation for Loss or Damage to Capital Assets	679	500	-
Principal Paid on Debt	-	(23,100)	(186,900)
Interest Paid	-	(22,097)	(142,279)
Other Receipts	-	2,089	-
<b>Net Cash Flows Used in Capital and Related Financing Activities</b>	<b>(271,153)</b>	<b>(187,694)</b>	<b>(385,712)</b>
<b>Cash Flows Provided by Investing Activities</b>			
Cash Received From Interest	351	10,126	10,924
<b>Decrease in Cash and Cash Equivalents</b>	<b>(67,629)</b>	<b>(227,194)</b>	<b>(30,597)</b>
<b>Cash and Cash Equivalents, January 1, 2010</b>	<b>67,629</b>	<b>1,085,522</b>	<b>433,870</b>
<b>Cash and Cash Equivalents, December 31, 2010</b>	<b>\$ -</b>	<b>\$ 858,328</b>	<b>\$ 403,273</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>			
Operating Income (Loss)	\$ 127,057	\$ (41,110)	\$ 269,879
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:</i>			
Depreciation Expense	6,456	241,029	247,862
<b>Change in Assets and Liabilities:</b>			
Accounts Receivable	(4,051)	(8,200)	(12,171)
Inventory of Supplies	(10,027)	-	-
Prepaid Expenses and Deposits	(192)	672	2,162
Accounts Payable	21,916	14,666	(32,412)
Accrued Wages	298	898	1,004
Accrued Taxes Payable	7,728	6	-
Customer Deposits	150	6,415	-
Accrued Leave Payable	(139)	2,246	2,968
<b>Net Cash Flows Provided by Operating Activities</b>	<b>\$ 149,196</b>	<b>\$ 216,622</b>	<b>\$ 479,292</b>
<b>Noncash Capital and Related Financing Activities</b>			
Noncash Purchase of Equipment with Long-Term Debt	\$ 361,391	\$ 547,576	\$ 298,617

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

<u>Sanitation Fund</u>	<u>Total Proprietary Funds</u>
\$ 764,309	\$ 4,681,110
(151,109)	(2,363,974)
(328,744)	(1,187,570)
<u>284,456</u>	<u>1,129,566</u>

12,000	12,000
(237,044)	(596,916)
25,000	25,000
-	12,500

<u>(200,044)</u>	<u>(547,416)</u>
------------------	------------------

(369,591)	(1,122,166)
184,795	463,919
-	1,179
-	(210,000)
-	(164,376)
-	2,089

<u>(184,796)</u>	<u>(1,029,355)</u>
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<u>783</u>	<u>22,184</u>
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(99,601)	(425,021)
----------	-----------

160,368	1,747,389
---------	-----------

<u>\$ 60,767</u>	<u>\$ 1,322,368</u>
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\$ (38,682)	\$ 317,144
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145,915	641,262
---------	---------

(8,862)	(33,284)
---------	----------

-	(10,027)
---	----------

179,704	182,346
---------	---------

3,603	7,773
-------	-------

871	3,071
-----	-------

453	8,187
-----	-------

-	6,565
---	-------

1,454	6,529
-------	-------

<u>\$ 284,456</u>	<u>\$ 1,129,566</u>
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\$ -	\$ 1,207,584
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**CITY OF STURGIS**

**STATEMENT OF FIDUCIARY NET ASSETS  
DECEMBER 31, 2010**

	<b>Agency Fund</b>
<b>Assets</b>	
Interest Bearing Accounts	\$ 80,396
<b>Total Assets</b>	<b>\$ 80,396</b>
<b>Liabilities</b>	
Amounts Held for Others	\$ 80,396
<b>Total Liabilities</b>	<b>\$ 80,396</b>

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

**a. Reporting Entity**

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

**b. Basis of Presentation**

*Government-wide Financial Statements:*

The Statement of Net Assets 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, 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, 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, 2010**

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

**b. Basis of Presentation (Continued)**

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

Governmental Funds:

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

**Special Revenue Funds** – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes. The Capital Improvement Fund is a major special revenue fund.

**Capital Improvement Fund** – 50 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. There are no major debt service funds.

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

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

Proprietary Funds:

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

The enterprise funds and business-type activities do not apply any FASB Statements and Interpretations issued after November 30, 1989.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010**

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

**b. Basis of Presentation (Concluded)**

Proprietary Funds (Continued):

Proprietary Funds include:

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

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

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

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

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and are never considered to be major funds:

Agency Funds - agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are used to account for the accumulation and distribution of property tax revenues and various pass through funds. This fund includes special assessment activities.

**c. Measurement Focus and Basis of Accounting**

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

*Measurement Focus:*

Government-wide Financial Statements:

In the government-wide Statement of Net Assets 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, 2010

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

*Basis of Accounting:*

Government-wide Financial Statements:

In the Government-wide Statement of Net Assets 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, 2010 are sales tax revenues and intergovernmental revenue.

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

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

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

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets

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

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

Government-wide Financial Statements:

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

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

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Government-wide Statement of Activities. Accumulated depreciation is reported on the Government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/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-----
Improvements Other Than Buildings	\$ 15,000	Straight-line	10-50 years
Buildings	\$ 15,000	Straight-line	10-50 years
Machinery and Equipment	\$ 10,000	Straight-line	5-40 years

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010**

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

**e. Capital Assets (Continued)**

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

**f. Long-Term Liabilities**

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

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

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

**g. Program Revenues**

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

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

**h. Proprietary Funds Revenue and Expense Classifications**

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

**i. Cash and Cash Equivalents**

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010**

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

**j. Equity Classifications**

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt – 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 assets – Consists of net assets 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 assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between Reserved and Unreserved components. Proprietary fund equity is classified the same as in the government-wide financial statements. Agency funds have no fund equity.

**k. Application of Net Assets**

It is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**l. Inventory**

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.

**m. Compensated Absences**

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

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

**n. Deferred Revenue**

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010**

**(2) Deposits and Investments**

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

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

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

As of December 31, 2010, the City's cash and investments consisted of checking and savings accounts, certificates of deposit, and money market accounts. All of these accounts are insured or collateralized in the City's name. The money market accounts are unrated.

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 fund making the investment, with the exception of the Cemetery Perpetual Care Fund, which must be credited to the General Fund, and used only for maintenance of the municipal cemetery, as required by SDCL 9-32-18.

*Interest Rate Risk:*

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk:*

State law limits eligible investments for the City as discussed above. The City has no investment policy that would further limit its investment choices.

*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 does not have a deposit policy for custodial credit risk. As of December 31, 2010, none of the City's deposits were exposed to custodial credit risk.

*Concentration Risk:*

The City places no limit on the amount that may be invested in any one issuer.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010**

**(3) Property Taxes**

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

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

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

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

**(4) Changes in Capital Assets**

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

	Balance 12/31/2009	Additions	Transfers/ Deletions	Balance 12/31/2010
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 1,994,225	\$ 190,272	\$ -	\$ 2,184,497
Construction Work in Progress	77,234	2,552,211	40,021	2,589,424
<b>Total Capital Assets, not being Depreciated</b>	<b>2,071,459</b>	<b>2,742,483</b>	<b>40,021</b>	<b>4,773,921</b>
Capital Assets, being Depreciated:				
Buildings	12,582,622	256,900	35,000	12,804,522
Improvements Other Than Buildings	22,409,208	729,081	-	23,138,289
Machinery and Equipment	3,277,009	647,496	-	3,924,505
<b>Total Capital Assets, being Depreciated</b>	<b>38,268,839</b>	<b>1,633,477</b>	<b>35,000</b>	<b>39,867,316</b>
Less Accumulated Depreciation for:				
Buildings	2,798,782	281,187	4,773	3,075,196
Improvements Other Than Buildings	4,684,488	507,792	-	5,192,280
Machinery and Equipment	1,889,519	214,212	-	2,103,731
<b>Total Accumulated Depreciation</b>	<b>9,372,789</b>	<b>1,003,191</b>	<b>4,773</b>	<b>10,371,207</b>
<b>Total Governmental Activities Capital Assets, being Depreciated, Net</b>	<b>28,896,050</b>	<b>630,286</b>	<b>30,227</b>	<b>29,496,109</b>
<b>Total Governmental Capital Assets, Net</b>	<b>\$ 30,967,509</b>	<b>\$ 3,372,769</b>	<b>\$ 70,248</b>	<b>\$ 34,270,030</b>

Depreciation expense was charged to functions as follows:

Public Works	\$ 481,139
Culture and Recreation	230,484
General Government	149,558
Public Safety	126,576
Health and Welfare	15,434
<b>Total Depreciation Expense - Governmental</b>	<b>\$ 1,003,191</b>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

(4) Changes in Capital Assets (Continued)

	Balance 12/31/2009	Additions	Deletions	Balance 12/31/2010
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 741,941	\$ -	\$ -	\$ 741,941
Construction Work in Progress	381,491	1,953,356	1,701,624	633,223
<b>Total Capital Assets, not being Depreciated</b>	<b>1,123,432</b>	<b>1,953,356</b>	<b>1,701,624</b>	<b>1,375,164</b>
Capital Assets, being Depreciated:				
Buildings	997,262	-	-	997,262
Improvements Other Than Buildings	18,530,834	1,690,059	-	20,220,893
Machinery and Equipment	2,880,417	387,959	-	3,268,376
<b>Total Capital Assets, being Depreciated</b>	<b>22,408,513</b>	<b>2,078,018</b>	<b>-</b>	<b>24,486,531</b>
Less Accumulated Depreciation for:				
Buildings	224,027	30,220	-	254,247
Improvements Other Than Buildings	5,691,239	409,515	-	6,100,754
Machinery and Equipment	2,090,808	201,527	-	2,292,335
<b>Total Accumulated Depreciation</b>	<b>8,006,074</b>	<b>641,262</b>	<b>-</b>	<b>8,647,336</b>
<b>Total Business-Type Activities Capital Assets, being Depreciated, Net</b>	<b>14,402,439</b>	<b>1,436,756</b>	<b>-</b>	<b>15,839,195</b>
<b>Total Business-Type Capital Assets, Net</b>	<b>\$ 15,525,871</b>	<b>\$ 3,390,112</b>	<b>\$ 1,701,624</b>	<b>\$ 17,214,359</b>

Depreciation expense was charged to functions as follows:

Wastewater	\$ 247,862
Water	241,029
Sanitary	145,915
Liquor	6,456
<b>Total Depreciation Expense - Business-Type</b>	<b>\$ 641,262</b>

**Construction Work in Progress:**

As of December 31, 2010, there are approximately \$66,000 of commitments associated with construction projects in progress. Completion of such projects will be funded through future revenue bonds.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

(5) Long-Term Debt

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

	Balance 12/31/2009	Additions	Deletions	Balance 12/31/2010	Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Revenue Bonds	\$ 6,025,000	\$ -	\$ 420,000	\$ 5,605,000	\$ 430,000
Tax Increment Financing Obligations	406,001	-	-	406,001	7,705
Compensated Absences	160,429	199,143	185,583	173,989	185,583
<b>Total Governmental Activities</b>	<b>6,591,430</b>	<b>199,143</b>	<b>605,583</b>	<b>6,184,990</b>	<b>623,288</b>
<b>Business-Type Activities:</b>					
2002 General Obligation Bonds	2,420,000	-	2,420,000	-	-
2010 GO Crossover Refunding Bonds	-	2,210,000	-	2,210,000	290,000
2010 Sales Tax Revenue Bond	-	361,391	-	361,391	10,077
2009 Drinking Water Revenue Bond	-	547,576	-	547,576	36,943
2009 Clean Water Revenue Bond	-	298,617	-	298,617	11,075
Compensated Absences	54,173	60,881	54,352	60,702	60,702
<b>Total Business-Type Activities</b>	<b>2,474,173</b>	<b>3,478,465</b>	<b>2,474,352</b>	<b>3,478,286</b>	<b>408,797</b>
<b>Total Primary Government</b>	<b>\$ 9,065,603</b>	<b>\$ 3,677,608</b>	<b>\$ 3,079,935</b>	<b>\$ 9,663,276</b>	<b>\$1,032,085</b>

The City has a bond reserve of \$692,622 at December 31, 2010, in accordance with debt covenants.

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

	Water Fund	Wastewater Fund
Current Year Principal and Interest	\$ 22,097	\$ 138,241
Pledged Revenue	1,118,688	935,126

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

(5) Long-Term Debt (Continued)

Debt payable at December 31, 2010, is comprised of the following:

*General Obligation*

General Obligation Crossover Refunding Bonds, Series 2010A for \$2,210,000, mature in June 2021, interest at 2.00 to 3.65 percent, due in semi-annual installments of \$30,000 to \$155,000. Financed through Water and Wastewater Funds. \$ 2,210,000

*Revenue Bonds*

Sales Tax Refunding Bonds, 2008 Series for \$6,470,000, mature in March 2020, interest at a fixed 2.50 to 3.80 percent, due in variable annual installments. Financed through the Capital Improvement Fund. 5,605,000

Sales Tax Revenue Bonds, Series 2010 (Build America Bonds - Direct Pay), with a maximum borrowing of \$811,000. As of December 31, 2010, advances totaled \$361,391. Payments begin in 2011, due in annual installments, including interest at 4.00 percent through July 2050. 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. 361,391

Drinking Water Revenue Borrower Bond, 2009 Series for \$547,576, mature in January 2021, interest at a fixed 2.25 percent. Payments begin in 2011, due in quarterly installments. Water revenues pledged and financed through the Water Fund. 547,576

Clean Water Revenue Borrower Bond, 2009 Series for \$298,617, mature in October 2030, interest at a fixed 3.00 percent. Payments begin in 2011, due in quarterly installments. Wastewater revenues pledged and financed through the Wastewater Fund. 298,617

*Tax Increment Financing Obligations*

TIF #9 for \$406,000, including interest not to exceed 10 percent per annum, due in varying installments within 30 days of property tax collections from the County. Financed through TIF Debt Service Funds. 406,001

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**Total Bonds and TIF Obligations** **9,428,585**

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*Compensated Absences:*

General Fund 173,989  
Liquor Fund 1,257  
Water Fund 24,763  
Wastewater Fund 17,173  
Sanitation Fund 17,509

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**Total Compensated Absences** **234,691**

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**Total Long-Term Debt** **\$ 9,663,276**

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CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

(5) Long-Term Debt (Concluded)

The annual requirements to amortize long-term debt outstanding as of December 31, 2010, except for compensated absences are as follows:

	General Obligation		Revenue Bonds		TIF Obligations		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2011	\$ 52,152	\$ 290,000	\$ 211,624	\$ 488,095	\$ 50,000	\$ -	\$ 313,776	\$ 778,095
2012	46,302	295,000	206,669	510,466	50,000	-	302,971	805,466
2013	40,402	300,000	191,300	522,108	50,000	-	281,702	822,108
2014	34,352	310,000	175,043	538,792	50,000	-	259,395	848,792
2015	28,184	240,000	157,792	555,520	35,586	-	221,562	795,520
2016-2020	68,734	745,000	478,906	3,700,146	79,506	406,001	627,146	4,851,147
2021-2025	549	30,000	81,281	124,260	-	-	81,830	154,260
2026-2030	-	-	61,848	128,368	-	-	61,848	128,368
2031-2035	-	-	46,411	44,256	-	-	46,411	44,256
2036-2040	-	-	36,631	54,036	-	-	36,631	54,036
2041-2045	-	-	24,689	65,978	-	-	24,689	65,978
2046-2050	-	-	10,109	80,559	-	-	10,109	80,559
<b>Total</b>	<b>\$ 270,675</b>	<b>\$ 2,210,000</b>	<b>\$ 1,682,303</b>	<b>\$ 6,812,584</b>	<b>\$315,092</b>	<b>\$ 406,001</b>	<b>\$ 2,268,070</b>	<b>\$ 9,428,585</b>

As of December 31, 2010, the City was acting as a fiscal agent for the following special assessment issues:

2002 \$161,762

The City is not liable directly or indirectly for the preceding special assessment.

(6) Individual Fund Interfund Receivable and Payable Balances

Interfund receivable and payable balances at December 31, 2010, are as follows:

Fund	Interfund Receivables	Interfund Payables
<i>Major Funds:</i>		
Sanitation Fund	\$ 60,000	\$ -
Liquor Fund	-	266,248
Water Fund	266,248	-
<i>Nonmajor Fund:</i>		
Parks Fund	-	60,000
<b>Total Interfund Receivable and Payable Balances</b>	<b>\$ 326,248</b>	<b>\$ 326,248</b>

The Sanitation Fund advanced monies to the Parks Fund to purchase Woodland Trailer Park land. The land was purchased in order to develop more park area for the community. The balance will be paid back over time.

The Water Fund loaned monies to the Liquor Fund for operations. The balance will be paid back within the next year.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

(7) Interfund Transfers

	Transfers In	Transfers Out
<i>Major Funds:</i>		
General Fund	\$ 571,773	\$ 570,677
Capital Improvements Fund	26,247	-
Liquor Fund	-	212,271
Wastewater Fund	-	147,601
Sanitation Fund	12,000	237,044
<i>Nonmajor Funds:</i>		
Parks Fund	558,677	-
UDAG Fund	-	285,568
Revolving Loan Fund	285,568	-
Citizens Corp Police Grant Fund	-	1,104
<b>Total Transfers</b>	<b>\$ 1,454,265</b>	<b>\$ 1,454,265</b>

Interfund transfers during the year ended December 31, 2010 are as follows:

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

(8) Retirement Plan -- South Dakota Retirement System

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

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute eight and nine percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2010, 2009, 2008, 2007, and 2006, were \$232,082, \$212,768, \$213,700, \$193,421, and \$184,123 respectively, equal to the required contributions each year.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010**

**(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, 2010, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

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

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

As of December 31, 2010, the City has a fully vested balance in the cumulative reserve fund of \$135,844. Access to this balance is restricted by SDPAA.

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

Property and Building Insurance:

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

Worker's Compensation:

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

Unemployment Benefits:

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2010**

**(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, 2010:

**Governmental:**

<u>Loan</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
Key City Shopping	Building	1.5%	October 2012	\$ 471,213
Jamison International	Inventory and Equipment	7.5%	September 2011	10,922
NIP Manufacturing	Land and Building	7.5%	September 2011	6,469
P & J Industries	Equipment	5%	November 2012	21,562
Western Door Company	Equipment	3%	September 2011	19,837
Independent Cycle	Personal Gurantee of President	5%	June 2015	93,368
				<u>\$ 623,371</u>

**Business -Type:**

<u>Loan</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
Mount Rodney RV Park, LLC	None	3%	September 2015	\$ 62,500

**(11) Contingent Liability**

The City has been named as defendant in a lawsuit filed in 2010 regarding a certificate of occupancy. The City and its legal counsel are vigorously defending its position and believe liability is doubtful. No accrual has been recorded in the accompanying financial statements. Any claim that the City may be responsible for is expected to be covered under insurance.

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF STURGIS

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2010

Revenue	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
<i>Taxes:</i>				
311 General Property Taxes	\$2,627,692	\$ 2,627,692	\$ 2,645,033	\$ 17,341
313 General Sales and Use Taxes	1,333,159	1,333,159	1,373,754	40,595
315 Amusement Taxes	-	-	864	864
319 Penalties and Interest on Delinquent Taxes	-	-	13,132	13,132
320 Licenses and Permits	408,289	408,289	388,418	(19,871)
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	268,086	268,086	100,421	(167,665)
335 Bank Franchise Tax	-	-	5,964	5,964
335 Liquor Tax Reversion	-	-	40,940	40,940
335 Motor Vehicle Licenses	-	-	49,296	49,296
335.1 Local Government Highway and Bridge Fund	-	-	94,865	94,865
338 County Highway and Bridge Reserve Tax (25%)	-	-	5,855	5,855
338 Port of Entry	-	-	12,338	12,338
339 Other	-	-	6,028	6,028
<i>Charges for Goods and Services:</i>				
341 General Government	1,011,832	1,011,832	799,247	(212,585)
342 Public Safety	1,200	1,200	38,757	37,557
343 Highways and Streets	1,645	1,645	685	(960)
345 Health	2,716	2,716	796	(1,920)
346 Culture and Recreation	361,198	361,198	324,434	(36,764)
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	4,627	4,627	3,316	(1,311)
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	20,376	20,376	1,794	(18,582)
362 Rentals	20,662	20,662	4,067	(16,595)
363 Special Assessments	9,655	9,655	5,265	(4,390)
367 Contributions and Donations - Private Sources	999	999	18,871	17,872
369 Other	3,006	3,006	36,333	33,327
<b>Total Revenue</b>	<b>6,075,142</b>	<b>6,075,142</b>	<b>5,970,473</b>	<b>(104,669)</b>

## CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<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	369,463	369,463	203,589	165,874
414	Financial Administration	898,877	898,877	887,092	11,785
419	Other	996,843	1,079,143	1,119,928	(40,785)
<i>Public Safety:</i>					
421	Police	1,820,519	1,820,519	1,652,580	167,939
422	Fire	164,921	164,921	157,682	7,239
<i>Public Works:</i>					
431	Highway and Streets	574,514	574,514	553,099	21,415
432	Sanitation	59,045	59,045	43,397	15,648
435	Airport	41,825	41,825	38,103	3,722
437	Cemeteries	107,159	107,159	66,593	40,566
<i>Health and Welfare:</i>					
441	Health	5,000	5,000	435	4,565
<i>Culture and Recreation:</i>					
451	Recreation	717,606	731,606	741,694	(10,088)
452	Parks	17,630	17,630	13,840	3,790
455	Library	359,939	359,939	335,094	24,845
456	Auditorium	32,910	32,910	27,632	5,278
460	Conservation and Development	216,201	216,201	197,913	18,288
<b>Total Expenditures</b>		<b>6,382,452</b>	<b>6,478,752</b>	<b>6,038,671</b>	<b>440,081</b>
<b>Excess of Revenue Over (Under) Expenditures</b>		<b>(307,310)</b>	<b>(403,610)</b>	<b>(68,198)</b>	<b>335,412</b>
<b>Other Financing Sources (Uses)</b>					
391.1	Transfers In	570,669	570,669	571,773	1,104
511	Transfers Out	(570,677)	(570,677)	(570,677)	-
391.4	Compensation for Loss or Damage to Capital Assets	16,621	16,621	13,678	(2,943)
<b>Total Other Financing Sources (Uses)</b>		<b>16,613</b>	<b>16,613</b>	<b>14,774</b>	<b>(1,839)</b>
<b>Net Change in Fund Balance</b>		<b>(290,697)</b>	<b>(386,997)</b>	<b>(53,424)</b>	<b>333,573</b>
<b>Fund Balance, December 31, 2009</b>		<b>390,653</b>	<b>390,653</b>	<b>390,653</b>	<b>-</b>
<b>Fund Balance, December 31, 2010</b>		<b>\$ 99,956</b>	<b>\$ 3,656</b>	<b>\$ 337,229</b>	<b>\$ 333,573</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, 2010**

	<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	\$ 1,312,408	\$ 1,312,408	\$ 1,373,754	\$ 61,346
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	2,600,000	2,133,039	(466,961)
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits	30,154	30,154	35,948	5,794
363 Special Assessments	-	-	16,051	16,051
<b>Total Revenue</b>	<b>1,342,562</b>	<b>3,942,562</b>	<b>3,558,792</b>	<b>(383,770)</b>
<b>Expenditures</b>				
<i>General Government:</i>				
411 Legislative	10,250	10,250	9,637	613
<i>Public Works:</i>				
431 Highway and Streets	360,397	360,397	461,160	(100,763)
435 Airport	750	2,600,750	2,552,474	48,276
<i>Culture and Recreation:</i>				
451 Recreation	103,000	180,608	256,208	(75,600)
452 Parks	244,410	244,410	216,083	28,327
455 Library	5,800	5,800	5,799	1
470 Debt Service	617,955	617,955	617,955	-
<b>Total Expenditures</b>	<b>1,342,562</b>	<b>4,020,170</b>	<b>4,119,316</b>	<b>(99,146)</b>
<b>Excess of Revenue Under Expenditures</b>	<b>-</b>	<b>(77,608)</b>	<b>(560,524)</b>	<b>(482,916)</b>
<b>Total Other Financing Sources</b>				
391.1 Transfers In	-	-	26,247	26,247
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>(77,608)</b>	<b>(534,277)</b>	<b>(456,669)</b>
<b>Fund Balance, December 31, 2009</b>	<b>1,519,856</b>	<b>1,519,856</b>	<b>1,519,856</b>	<b>-</b>
<b>Fund Balance, December 31, 2010</b>	<b>\$ 1,519,856</b>	<b>\$ 1,442,248</b>	<b>\$ 985,579</b>	<b>\$ (456,669)</b>

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

**CITY OF STURGIS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2010**

**(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 a 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, 2010.
7. Formal budgetary integration is employed as a management control device during the year for the general fund and major special revenue funds.
8. Budgets for the general fund and major special revenue funds are adopted on a basis consistent with the modified accrual basis of accounting.

**(2) GAAP Budgetary Accounting Basis Differences**

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

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF STURGIS**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2010**

	<u>Park Fund</u>	<u>Brick Fund</u>	<u>Ambulance Service Fund</u>	<u>Mayor's Ride Fund</u>
<b>Assets</b>				
104 Interest Bearing Accounts	\$ 150,428	\$ 20,773	\$ 331,780	\$ 3,841
105 Savings Certificates	-	-	-	-
108 Sales Tax Receivable	-	-	-	-
115 Accounts Receivable	-	-	402,431	-
116 Estimated Uncollectible Accounts Receivable	-	-	(366,917)	-
128 Notes Receivable	-	-	-	-
155 Prepaid Expense	3,394	-	2,618	-
<b>Total Assets</b>	<b>\$ 153,822</b>	<b>\$ 20,773</b>	<b>\$ 369,912</b>	<b>\$ 3,841</b>
<b>Liabilities and Fund Balances</b>				
<i>Liabilities</i>				
202 Accounts Payable	\$ 3,360	\$ 50	\$ 4,457	\$ -
216 Accrued Wages Payable	8,390	-	5,112	-
217 Accrued Taxes Payable	-	171	-	-
236 Advance to Other Funds	60,000	-	-	-
<b>Total Liabilities</b>	<b>71,750</b>	<b>221</b>	<b>9,569</b>	<b>-</b>
<i>Fund Balances</i>				
<i>Reserved Fund Balances</i>				
261.16 Reserved for Long-Term Notes Receivable	-	-	-	-
261.16 Reserved for Endowment	-	-	-	-
261.99 Reserved for Prepaid Expense	3,394	-	2,618	-
<i>Unreserved Fund Balances</i>				
262.01 Designated for Next Year's Appropriations	-	-	-	-
262.01 Designated for Library Long-Term	-	-	-	-
262.09 Undesignated	78,678	20,552	357,725	3,841
<b>Total Fund Balances</b>	<b>82,072</b>	<b>20,552</b>	<b>360,343</b>	<b>3,841</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 153,822</b>	<b>\$ 20,773</b>	<b>\$ 369,912</b>	<b>\$ 3,841</b>

<b>Special Sales Tax Fund</b>	<b>Special Sanitation Fund</b>	<b>Revolving Loan Fund</b>	<b>Library Fund</b>	<b>Water Shed Project Fund</b>	<b>UDAG Fund</b>
\$ 98,525	\$ 150,277	\$ 616,470	\$ 77,028	\$ 283,828	\$ 50,899
-	-	-	-	-	-
10,399	-	-	-	-	-
-	-	3,594	-	-	-
-	-	-	-	-	-
-	-	152,158	-	-	471,213
-	-	-	-	-	-
<b>\$ 108,924</b>	<b>\$ 150,277</b>	<b>\$ 772,222</b>	<b>\$ 77,028</b>	<b>\$ 283,828</b>	<b>\$ 522,112</b>

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

-	-	152,158	-	-	471,213
-	-	-	-	-	-
-	-	-	-	-	-
5,000	18,527	-	23,000	-	-
-	-	-	-	-	-
103,924	131,750	620,064	54,028	283,828	50,899
108,924	150,277	772,222	77,028	283,828	522,112
<b>\$ 108,924</b>	<b>\$ 150,277</b>	<b>\$ 772,222</b>	<b>\$ 77,028</b>	<b>\$ 283,828</b>	<b>\$ 522,112</b>

CITY OF STURGIS

COMBINING BALANCE SHEET (CONTINUED)  
 NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2010

	<u>TIF</u> <u>Funds</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Alice W.</u> <u>Dunn</u> <u>Fund</u>	<u>DARE</u> <u>Fund</u>
<b>Assets</b>				
104 Interest Bearing Accounts	\$ 30,493	\$ 181,292	\$ 27,288	\$ 3,671
105 Savings Certificates	-	-	427,535	-
108 Sales Tax Receivable	-	-	-	-
115 Accounts Receivable	-	-	-	-
116 Estimated Uncollectible Accounts Receivable	-	-	-	-
128 Notes Receivable	-	-	-	-
155 Prepaid Expense	-	-	-	-
<b>Total Assets</b>	<b>\$ 30,493</b>	<b>\$ 181,292</b>	<b>\$ 454,823</b>	<b>\$ 3,671</b>
<b>Liabilities and Fund Balances</b>				
<i>Liabilities</i>				
202 Accounts Payable	\$ -	\$ -	\$ -	\$ -
216 Accrued Wages Payable	-	-	-	-
217 Accrued Taxes Payable	-	-	-	-
236 Advance to Other Funds	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Fund Balances</i>				
<i>Reserved Fund Balances</i>				
261.16 Reserved for Long-Term Notes Receivable	-	-	-	-
261.16 Reserved for Endowment	-	-	327,535	-
261.99 Reserved for Prepaid Expense	-	-	-	-
<i>Unreserved Fund Balances</i>				
262.01 Designated for Next Year's Appropriations	-	-	-	2,500
261.99 Designated for Library Long-Term	-	-	100,000	-
262.09 Undesignated	30,493	181,292	27,288	1,171
<b>Total Fund Balances</b>	<b>30,493</b>	<b>181,292</b>	<b>454,823</b>	<b>3,671</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 30,493</b>	<b>\$ 181,292</b>	<b>\$ 454,823</b>	<b>\$ 3,671</b>

<b>Perpetual Maintenance Fund</b>	<b>Community Center Children's Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 147,398	\$ 1,579	\$ 2,175,570
-	-	427,535
-	-	10,399
-	-	406,025
-	-	(366,917)
-	-	623,371
-	-	6,012
<b>\$ 147,398</b>	<b>\$ 1,579</b>	<b>\$ 3,281,995</b>

\$ -	\$ -	\$ 7,867
-	-	13,502
5	-	176
-	-	60,000
<b>5</b>	<b>-</b>	<b>81,545</b>

-	-	623,371
50,000	-	377,535
-	-	6,012
-	-	49,027
-	-	100,000
97,393	1,579	2,044,505
<b>147,393</b>	<b>1,579</b>	<b>3,200,450</b>
<b>\$ 147,398</b>	<b>\$ 1,579</b>	<b>\$ 3,281,995</b>

CITY OF STURGIS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Park Fund</u>	<u>Brick Fund</u>	<u>Ambulance Service Fund</u>	<u>Mayor's Ride Fund</u>
<b>Revenue:</b>				
311 General Property Taxes	\$ -	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	-	-	-	-
331 Federal Grant	-	-	-	-
341 General Government	-	-	-	32,824
344 Sanitation	-	-	-	-
346 Culture and Recreation	112	-	-	-
347 Ambulance	-	-	480,355	-
349 Other	-	32,886	-	-
361 Earnings on Deposits and Investments	1,365	202	2,930	97
362 Rentals	300	-	-	-
367 Contributions and Donations - Private Sources	8,280	-	-	-
369 Other	-	-	4,315	-
<b>Total Revenue</b>	<b>10,057</b>	<b>33,088</b>	<b>487,600</b>	<b>32,921</b>
<b>Expenditures:</b>				
411 Legislative	-	-	-	34,492
419 Other	-	-	-	-
421 Police	-	-	-	-
432 Sanitation	-	-	-	-
437 Cemeteries	-	-	-	-
446 Ambulance	-	-	482,740	-
452 Parks	493,173	-	-	-
455 Library	-	-	-	-
459 Community Center	-	-	-	-
460 Conservation and Development	-	23,626	-	-
465 Economic Development	-	-	-	-
470 Debt Service	-	-	-	-
485 Capital Outlay	25,364	-	28,326	-
<b>Total Expenditures</b>	<b>518,537</b>	<b>23,626</b>	<b>511,066</b>	<b>34,492</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(508,480)</b>	<b>9,462</b>	<b>(23,466)</b>	<b>(1,571)</b>
<b>Other Financing Sources (Uses):</b>				
391.1 Transfers In	558,677	-	-	-
391.4 Compensation for Loss or Damage to Capital Assets	2,419	-	2,186	-
511 Transfers Out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>561,096</b>	<b>-</b>	<b>2,186</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>52,616</b>	<b>9,462</b>	<b>(21,280)</b>	<b>(1,571)</b>
<b>Fund Balance, December 31, 2009</b>	<b>29,456</b>	<b>11,090</b>	<b>381,623</b>	<b>5,412</b>
<b>Fund Balance, December 31, 2010</b>	<b>\$ 82,072</b>	<b>\$ 20,552</b>	<b>\$ 360,343</b>	<b>\$ 3,841</b>

<u>Special Sales Tax Fund</u>	<u>Bike Path Fund</u>	<u>Special Sanitation Fund</u>	<u>Revolving Loan Fund</u>	<u>Library Fund</u>	<u>Water Shed Project Fund</u>	<u>Citizens Corp Police Grant Fund</u>	<u>UDAG Fund</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
267,431	-	-	-	-	-	-	-
-	151,321	-	-	-	-	-	-
-	-	135,104	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
662	275	1,423	21,044	772	2,822	-	1,129
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
268,093	151,596	136,527	21,044	772	2,822	-	1,129
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	105,743	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	2,110	-	-	-
264,192	-	-	-	-	-	-	-
-	-	-	830	-	-	-	-
-	189,705	10,339	-	-	-	-	-
264,192	189,705	116,082	830	2,110	-	-	-
3,901	(38,109)	20,445	20,214	(1,338)	2,822	-	1,129
-	-	-	285,568	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(1,104)	(285,568)
-	-	-	285,568	-	-	(1,104)	(285,568)
3,901	(38,109)	20,445	305,782	(1,338)	2,822	(1,104)	(284,439)
105,023	38,109	129,832	466,440	78,366	281,006	1,104	806,551
<b>\$ 108,924</b>	<b>\$ -</b>	<b>\$ 150,277</b>	<b>\$ 772,222</b>	<b>\$ 77,028</b>	<b>\$ 283,828</b>	<b>\$ -</b>	<b>\$ 522,112</b>

**CITY OF STURGIS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES (CONTINUED)  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>TIF Funds</u>	<u>Capital Projects Fund</u>	<u>Community Projects Fund</u>	<u>Alice W. Dunn Fund</u>
<b>Revenue:</b>				
311 General Property Taxes	\$ 367,450	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	-	-	-	-
331 Federal Grant	-	-	-	-
341 General Government	-	-	-	-
344 Sanitation	-	-	-	-
346 Culture and Recreation	-	-	-	-
347 Ambulance	-	-	-	-
349 Other	-	-	-	-
361 Earnings on Deposits and Investments	-	2,210	205	15,803
362 Rentals	-	-	-	-
367 Contributions and Donations - Private Sources	-	-	-	-
369 Other	-	-	-	-
<b>Total Revenue</b>	<b>367,450</b>	<b>2,210</b>	<b>205</b>	<b>15,803</b>
<b>Expenditures:</b>				
411 Legislative	-	-	-	-
419 Other	-	7,493	2,709	-
421 Police	-	-	-	-
432 Sanitation	-	-	-	-
437 Cemeteries	-	-	-	-
446 Ambulance	-	-	-	-
452 Parks	-	-	-	-
455 Library	-	-	-	-
465 Community Center	-	-	-	-
460 Conservation and Development	-	-	-	-
465 Economic Development	-	-	-	-
470 Debt Service	414,771	-	-	-
485 Capital Outlay	-	57,223	22,894	-
<b>Total Expenditures</b>	<b>414,771</b>	<b>64,716</b>	<b>25,603</b>	<b>-</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(47,321)</b>	<b>(62,506)</b>	<b>(25,398)</b>	<b>15,803</b>
<b>Other Financing Sources (Uses):</b>				
391.1 Transfers In	-	-	-	-
391.4 Compensation for Loss or Damage to Capital Assets	-	-	-	-
511 Transfers Out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(47,321)</b>	<b>(62,506)</b>	<b>(25,398)</b>	<b>15,803</b>
<b>Fund Balance, December 31, 2009</b>	<b>77,814</b>	<b>243,798</b>	<b>25,398</b>	<b>439,020</b>
<b>Fund Balance, December 31, 2010</b>	<b>\$ 30,493</b>	<b>\$ 181,292</b>	<b>\$ -</b>	<b>\$ 454,823</b>

<u>DARE</u> <u>Fund</u>	<u>Perpetual</u> <u>Maintenance</u> <u>Fund</u>	<u>Community</u> <u>Center</u> <u>Children's</u> <u>Fund</u>	<u>Total Nonmajor</u> <u>Governmental</u> <u>Funds</u>
\$ -	\$ -	\$ -	\$ 367,450
-	-	-	267,431
-	-	-	151,321
-	-	-	32,824
-	-	-	135,104
-	-	-	112
-	-	-	480,355
-	-	-	32,886
367	-	16	51,322
-	-	-	300
-	-	500	8,780
-	2,940	-	7,255
<u>367</u>	<u>2,940</u>	<u>516</u>	<u>1,535,140</u>
-	-	-	34,492
-	-	-	10,202
2,464	-	-	2,464
-	-	-	105,743
-	232	-	232
-	-	-	482,740
-	-	-	493,173
-	-	-	2,110
-	-	770	770
-	-	-	287,818
-	-	-	830
-	-	-	414,771
-	-	-	333,851
<u>2,464</u>	<u>232</u>	<u>770</u>	<u>2,169,196</u>
(2,097)	2,708	(254)	(634,056)
-	-	-	844,245
-	-	-	4,605
-	-	-	(286,672)
-	-	-	562,178
<u>(2,097)</u>	<u>2,708</u>	<u>(254)</u>	<u>(71,878)</u>
5,768	144,685	1,833	3,272,328
<u>\$ 3,671</u>	<u>\$ 147,393</u>	<u>\$ 1,579</u>	<u>\$ 3,200,450</u>

CITY OF STURGIS

SCHEDULE OF RALLY ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010

**Revenue**

	<i>Taxes:</i>		
313	General Sales and Use Taxes	\$	334,891
320	Licenses and Permits		273,505
	<i>Charges for Goods and Services:</i>		
341	General Government		746,343
<b>Total Revenue</b>			<b>1,354,739</b>

**Expenditures**

	<i>General Government:</i>		
414	Financial Administration		19,819
419	Other		705,844
	<i>Public Safety:</i>		
421	Police		308,547
422	Fire		11,210
	<i>Public Works:</i>		
431	Highway and Streets		9,008
	<i>Culture and Recreation:</i>		
451	Recreation		28,020
452	Parks		13,840
<b>Total Expenditures</b>			<b>1,096,288</b>
<b>Excess of Revenue Over Expenditures</b>			<b>\$ 258,451</b>

**SINGLE AUDIT SECTION**

**CITY OF STURGIS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**Status of Prior Audit Findings and Recommendations:**

The City does not consider the additional costs of preparing its financial statements to be necessary, so Finding 10-1 will be repeated for the year ending December 31, 2010.

The City has made some effort to improve the segregation of duties, record year-end adjustments, and reduce the number of funds where feasible. Therefore, Findings 10-2, 10-3, and 10-4 will be repeated for the year ending December 31, 2010.

Administration is aware that the budgeting process needs to be more diligent in completing supplemental appropriations, when necessary. Finding 10-5 will be repeated for the year ending December 31, 2010.

We identified no instances in which the City did not publish wages. Thus, Finding 09-1 will not be repeated for the year ending December 31, 2010.

The City complied with Davis Bacon and Special Tests and Provisions for apron inspection documentation in the current year. Thus, Findings 09-2 and 09-3 will not be repeated for the year ending December 31, 2010.

## CITY OF STURGIS

### SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2010

#### A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Sturgis (the City).
2. Significant deficiencies and material weaknesses 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 financial statements of the City were disclosed during the audit.
4. Significant deficiencies and material weaknesses disclosed during the audit of the major federal award program are reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for the City expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for the City are reported in Part C of this schedule.
7. The program tested as a major program was the Airport Improvement Program (#20.106).
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The City was not considered a low-risk auditee under the criteria established in OMB Circular A-133.

#### B. FINDINGS – FINANCIAL STATEMENT AUDIT

##### SIGNIFICANT DEFICIENCIES – MATERIAL WEAKNESSES

###### 10-1 FINDING: Financial Statement Preparation

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

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

*Questioned Costs:* None

*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.

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

**SIGNIFICANT DEFICIENCIES – MATERIAL WEAKNESSES (CONTINUED)**

10-1 FINDING: Financial Statement Preparation (Continued)

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

10-2 FINDING: Audit Adjustments

*Condition:* During the course of our engagement, we proposed material audit adjustments. Adjustments included adjusting fund balance, negative cash balances, capital assets, debt balances, and the property tax receivable and deferral. Additionally, we posted several reclassification entries with no effect on net income. In addition, 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.

*Questioned Costs:* None

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

- a. Expenses and accounts payable should be reviewed annually to ensure all items which should be capitalized are properly included in capital asset accounts.
- b. Accounts receivable accounts should be reconciled to subsidiaries and evaluated for need of an allowance change at least annually.
- c. Debt balances should be reviewed annually and adjusted accordingly.

*Response/Corrective Action Plan:* The City will make every effort to make the proper accounting adjustments and will do this in a timely manner throughout the year. With the new software that the City has purchased, this should result a more accurate accounts payable/accounts receivable balance. The software has a checks and balances system that is reviewed each month before the month is closed out. The Finance Officer is responsible for the corrective action plan for this finding.

**SIGNIFICANT DEFICIENCIES – NOT MATERIAL WEAKNESSES**

10-3 FINDING: Segregation of Duties

*Condition:* Proper segregation of duties assures adequate internal control over safeguarding of assets and the reliability of financial records and reporting. Specifically, the water department and the finance office use two different software packages. This requires manual adjustments for the daily deposits from the water department. Differences may result between the two systems due to human error. We noted a variance between the general ledger accounts receivable balance for utilities versus the water department software subsidiaries, which could not be explained.

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

**SIGNIFICANT DEFICIENCIES – NOT MATERIAL WEAKNESSES (Continued)**

10-3 FINDING: Segregation of Duties (Continued)

*Criteria and Effect:* As a result of the above, an inadequate segregation of duties existed over the utility functions of the City.

*Questioned Costs:* None

*Recommendation:* The City purchased new software in 2011 to integrate the general ledger and utility operations. The general ledger accounts receivable balance should be reconciled to the water department software at least annually.

*Response/Corrective Action Plan:* The City is working on developing a system of maintaining records with more segregation of duties to ensure better internal controls. The new software will allow us to coordinate and yet separate the duties between the general ledger and the utility management program and allow us to be more accurate in our reporting. The Finance Officer is responsible for the corrective action plan for this finding.

10-4 FINDING: Number of Funds

*Condition:* GASB codification section 1300 states that governmental units should establish and maintain those funds required by law and sound financial administration. It also indicates that only the minimum number of funds consistent with legal and operating requirements should be established, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration. The City has a significant number of funds with limited activity.

*Criteria and Effect:* The excessive number of funds causes undue complexity and inefficiencies.

*Questioned Costs:* None

*Recommendation:* The City should review its funds to determine that each fund has a legal or operating requirement and close any unnecessary funds, as GASB 54, "Fund Balance Reporting and Governmental Fund Type Definitions," which becomes effective next year, limits special revenue funds.

*Response/Corrective Action Plan:* The City is reducing the number of funds to only those that are needed for legal or operating requirements. The Finance Officer is responsible for the corrective action plan for this finding.

10-5 FINDING: Budgetary Overdraft

*Condition:* The City has budgetary overdrafts in violation of South Dakota Codified Law 9-21-9, in the following departments:

<u>Fund</u>	<u>Department</u>	<u>Overdraft</u>
General	General Government - Other	\$ 40,785
General	Culture and Recreation - Recreation	10,088
Capital Improvement	Public Works - Highways/Streets	100,763
Capital Improvement	Culture and Recreation - Recreation	75,600

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

**SIGNIFICANT DEFICIENCIES – NOT MATERIAL WEAKNESSES (CONTINUED)**

10-5 FINDING: Budgetary Overdraft (Continued)

*Criteria and Effect:* The City did not follow state law.

*Questioned Costs:* None

*Recommendation:* The City in the future should complete supplemental appropriations for unbudgeted expenditures.

*Response/Corrective Action Plan:* The City will develop procedures to ensure budget overdrafts are supplemented. The Finance Officer is responsible for the corrective action plan for this finding.

10-6 FINDING: Cash Reconciliations

*Condition:* We noted that cash accounts were not properly reconciled. Specifically, we noted the following:

- a. On the December 2010 bank reconciliation, the general ledger balance did not agree to the reconciled balance by \$817.72.
- b. On the March 2010 bank reconciliation, the general ledger balance did not agree to the reconciled balance by \$160.27.

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

*Questioned Costs:* None

*Recommendation:* We recommend that the City reconcile all bank statements on a monthly basis to the general ledger. The City should investigate and correct any differences monthly.

*Response/Corrective Action Plan:* The City is reconciling on a monthly basis, but has had trouble reconciling the credit card/telecheck portion of the deposit. The new software has made the reconciling of the credit card/telechecks a little easier, but the City is still having trouble balancing the cash accounts. The City plans to continue to work with the new software through 2011 and see if they can make it work. If the new software is ineffective in the reconciliation process, the City plans to set up a new bank account for the credit cards and telechecks and will consequently have to do two reconciliations per month. The Finance Officer is responsible for the corrective action plan for this finding.

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

**SIGNIFICANT DEFICIENCIES – NOT MATERIAL WEAKNESSES (CONCLUDED)**

10-7 FINDING: Council Approval of Water Expenditures

*Condition:* While performing disbursement testing for the City, we noted two expenditures relating to the Water Department could not be found within the Water Board or the City Council minutes. This is in violation of South Dakota Codified Law 9-23-2, which requires approval for all expenditures prior to payments being made.

*Criteria and Effect:* The City did not follow state law.

*Questioned Costs:* None

*Recommendation:* The City is required by State law to ensure all expenditures are approved by the City Council and documented within the council minutes.

*Response/Corrective Action Plan:* Beginning in October of 2011, the process of approving the Municipal Utility bills will be a two step process. The bills will be approved by the Municipal Utility Board at their meeting, which is held on the second Wednesday of the month, and then the bills will be transferred to the Finance Office where they will be included in the list of bills to be approved by the City Council at their meeting on the third Monday of the month. The bills will be listed in both the MUB minutes and the City Council minutes. The Finance Officer is responsible for the corrective action plan for this finding.

10-8 FINDING: Revenue Recognition

*Condition:* Property tax revenue recorded for the year ending December 31, 2010 was approximately \$40,000 less than the property tax remittances received from the County. The issue appears to be the result of an erroneous journal entry that decreased revenue and receivables.

*Criteria and Effect:* Property tax revenue should agree to the remittances, as the City could be more susceptible to misappropriation of assets or improper financial reporting.

*Questioned Costs:* None

*Recommendation:* The City should adjust property tax revenue through the proper receivable and revenue accounts each year, to prevent potential material misstatements on the financial statements.

*Response/Corrective Action Plan:* When making journal entries, the City will make sure that the final outcome of the journal entry is correct. The City will compare the remittance schedule from the County to the City's financials to make sure the proper amounts are recorded. The Finance Officer is responsible for the corrective action plan for this finding.

**C. FINDINGS – COMPLIANCE AUDIT**

**SIGNIFICANT DEFICIENCY – MATERIAL WEAKNESS**

Finding #10-1 listed in Part B relates to the major federal award program of the City, the Airport Improvement Program (CFDA #20.106). The finding relates to the reporting compliance requirement.

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN  
(CONCLUDED)  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**C. FINDINGS – COMPLIANCE AUDIT (CONTINUED)**

**SIGNIFICANT DEFICIENCY – NOT A MATERIAL WEAKNESS**

**10-9 FINDING: Suspension and Debarment Compliance**

*Condition:* The City does not have controls in place to monitor whether contractors who are utilized for projects are on the *List of Parties Excluded from the Federal Procurement or Nonprocurement Programs*. This finding relates to the Suspension and Debarment compliance requirement.

*Criteria and Effect:* Failing to monitor the listing described above could result in non-compliance with a federal program.

*Questioned Costs:* None

*Recommendation:* The City should establish internal controls over compliance to verify that proper contractors are utilized and do not appear on the listing described above.

*Response/Corrective Action Plan:* The City will have both the Engineer of the project and our Community Development Coordinator check this list before awarding the bid to the contractor. This information will be documented in our records of the project.

CITY OF STURGIS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	CFDA Number	Amount
<i>U.S. Department of Transportation:</i>		
Pass-Through the S.D. Federal Aviation Administration		
Airport Improvement Program (Note 1)	20.106	\$ 1,987,039
Pass-Through the S.D. Federal Highway Administration		
ARRA - Highway Planning and Construction	20.205	146,000
Recreational Trails Program	20.219	151,321
<b>Subtotal U.S. Department of Transportation Pass-Through Funding</b>		<b>2,284,360</b>
<i>U.S. Department of Homeland Security Direct Programs:</i>		
Homeland Security Grant Program	97.067	11,578
SLOT Program	97.XXX	6,403
<b>Subtotal U.S. Department of Homeland Security Direct Funding</b>		<b>17,981</b>
<i>U.S. Department of Environmental Protection Agency:</i>		
Pass-Through the S.D. Environmental Protection Agency		
ARRA - Drinking Water State Revolving Fund	66.468	60,841
ARRA - Clean Water State Revolving Fund	66.458	218,283
<b>Subtotal U.S. Department of Environmental Protection Agency Pass-Through Funding</b>		<b>279,124</b>
<i>U.S. Department of Energy Direct Program:</i>		
ARRA -Energy Efficiency and Conservation Block Program (Note 3)	81.128	82,440
<i>U.S. General Services Administration:</i>		
Pass-Through the S.D. Federal Property Agency		
Donation of Surplus Personal Property	39.003	198,195
<b>Total</b>		<b>\$ 2,862,100</b>

Note 1: This program was tested as a major program.

Note 2: This schedule is presented on the modified accrual basis of accounting.

Note 3: The City provided federal awards to Black Hills Special Services as a subrecipient.

## **OTHER REPORTS**



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

City Council  
City of Sturgis  
Sturgis, South Dakota

We have audited the 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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 28, 2011. 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.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 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, Questioned Costs, and Corrective Action Plan as Findings #10-1 and #10-2 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, Questioned Costs, and Corrective Action Plan as Findings #10-3, 10-4, 10-6, and 10-8 to be significant deficiencies.

City Council

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as Findings #10-5 and 10-7.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing board and management of the City of Sturgis, federal awarding agencies and pass-through entities, the South Dakota Legislature, and state granting agencies, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Law 4-11-11 and OMB Circular A-133, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP  
Certified Public Accountants

September 28, 2011



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE  
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council  
City of Sturgis  
Sturgis, South Dakota

## Compliance

We have audited the compliance of the **CITY OF STURGIS** (the City) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that could have a direct and material effect on the City's major federal program for the year ended December 31, 2010. The City's major federal program is identified in the summary of audit results section of the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

## Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

City Council

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Our consideration of the 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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, Questioned Costs, and Corrective Action Plan as Finding #10-1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as Finding #10-9 to be a significant deficiency.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing board and management of the City of Sturgis, federal awarding agencies and pass-through entities, the South Dakota Legislature, and state granting agencies, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Law 4-11-11 and OMB Circular A-133, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP  
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September 28, 2011