



**CITY OF STURGIS**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2015



**Ketel Thorstenson, LLP**

Certified Public Accountants/Business & Personal Consultants

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**CITY OF STURGIS**

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## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Sturgis  
Sturgis, South Dakota

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF STURGIS** (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2015, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, budgetary comparison information on pages 46 through 49, pension information on pages 50 through 51, and notes to required supplementary information on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Report on Other Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The combining nonmajor fund financial statements and schedule of rally activities on pages 53 through 55 are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule of rally activities on page 55 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP  
Certified Public Accountants

October 7, 2016

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2015**

This section of the City of Sturgis' annual financial report presents management's discussion and analysis of the City's financial performance during the fiscal year ended on December 31, 2015. 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 \$762,608 more than the \$9,991,698 governmental program expenditures. This includes any transfers in/out. The overall change in net position in governmental activities increased two percent compared to last year. The increase is due to an increase in sales tax; temporary vendor licensing; and licensing and permits for construction. Sales tax in the General and Capital Improvement Funds were up 14% over budget and 20% over 2014 and the gross receipts sales tax was up 18% over budget and 20% over 2014. The City has seen an increase in construction of homes and businesses during 2015. Tourism, sales tax and vendor fees are up due to the 75<sup>th</sup> Motorcycle Rally.
- In the City's business-type activities, revenues exceeded expenses by \$429,704, which includes transfers and any activity due to the disposal of fixed assets. The increase is due to a 4% increase in the Wastewater Fund and 3% increase in the Sanitation Fund. The Liquor Fund had a 21% revenue increase over 2014 due to the 75<sup>th</sup> Motorcycle Rally. The Ambulance Fund also had a decrease of revenue of 5.5% over 2014. Expenses were up in the Liquor Fund, Wastewater Fund, and Sanitation Fund and down in the Water Fund and Ambulance Fund.

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

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

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services like public safety were financed in the short-term, as well as what remains for future spending.
- Proprietary fund statements offer short-term and long-term financial information about the activities that the City operates like businesses. The City has five proprietary funds – the Liquor Fund, Water Fund, Wastewater Fund, Sanitation Fund and Ambulance Fund.

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

**CITY OF STURGIS**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2015**

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

**Government-wide Statements**

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

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2015**

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

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

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

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

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

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

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

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

The City has two kinds of funds:

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

**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2015**

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

**Net Position**

The City's combined net position increased three percent between fiscal year 2014 and 2015. (See Table A-1).

| <b>Table A-1 Summarized Statement of Net Position</b> |                                |                      |                                 |                      |                      |                      |
|---|--------------------------------|----------------------|---------------------------------|----------------------|----------------------|----------------------|
|   | <b>Governmental Activities</b> |                      | <b>Business-Type Activities</b> |                      | <b>Total</b>         |                      |
|   | <b><u>2015</u></b>             | <b><u>2014</u></b>   | <b><u>2015</u></b>              | <b><u>2014</u></b>   | <b><u>2015</u></b>   | <b><u>2014</u></b>   |
| Current and Other Assets                              | \$ 6,582,421                   | \$ 7,207,731         | \$ 3,418,132                    | \$ 3,487,987         | \$ 10,000,553        | \$ 10,695,718        |
| Capital Assets  | 35,888,589                     | 34,127,471           | 22,898,348                      | 22,553,492           | 58,786,937           | 56,680,963           |
| <b>Total Assets</b>                                   | <b>\$ 42,471,010</b>           | <b>\$ 41,335,202</b> | <b>\$ 26,316,480</b>            | <b>\$ 26,041,479</b> | <b>\$ 68,787,490</b> | <b>\$ 67,376,681</b> |
| Pension Related Deferred                              |                                |                      |                                 |                      |                      |                      |
| Outflows  | \$ 1,203,087                   | \$ -                 | \$ 648,992                      | \$ -                 | \$ 1,852,079         | \$ -                 |
| Long-Term Debt  | \$ 4,714,961                   | \$ 5,060,496         | \$ 7,196,516                    | \$ 7,632,372         | \$ 11,911,477        | \$ 12,692,868        |
| Other Liabilities                                     | 790,673                        | 642,703              | 477,834                         | 504,574              | 1,268,507            | 1,147,277            |
| <b>Total Liabilities</b>                              | <b>5,505,634</b>               | <b>5,703,199</b>     | <b>7,674,350</b>                | <b>8,136,946</b>     | <b>13,179,984</b>    | <b>13,840,145</b>    |
| Pension Related Deferred                              |                                |                      |                                 |                      |                      |                      |
| Inflows   | \$ 1,018,525                   | \$ -                 | \$ 549,432                      | \$ -                 | \$ 1,567,957         | \$ -                 |
| <i>Net Position:</i>                                  |                                |                      |                                 |                      |                      |                      |
| Net Investment in Capital Assets                      | 31,382,410                     | 29,454,385           | 15,808,351                      | 15,000,034           | 47,190,761           | 44,454,419           |
| Restricted  | 3,797,712                      | 3,495,114            | 494,339                         | 17,099               | 4,292,051            | 3,512,213            |
| Unrestricted  | 1,969,816                      | 2,682,504            | 2,439,000                       | 2,887,400            | 4,408,816            | 5,569,904            |
| <b>Total Net Position</b>                             | <b>\$ 37,149,938</b>           | <b>\$ 35,632,003</b> | <b>\$ 18,741,690</b>            | <b>\$ 17,904,533</b> | <b>\$ 55,891,628</b> | <b>\$ 53,536,536</b> |
| Beginning Net Position                                | \$ 35,632,003                  | \$ 34,545,907        | \$ 17,904,533                   | \$ 17,132,472        | \$ 53,536,536        | \$ 51,678,379        |
| Change in Accounting Principle                        | 755,327                        | -                    | 407,453                         | -                    | 1,162,780            | -                    |
| <b>Increase in Net Position</b>                       | <b>\$ 762,608</b>              | <b>\$ 1,086,096</b>  | <b>\$ 429,704</b>               | <b>\$ 772,061</b>    | <b>\$ 1,192,312</b>  | <b>\$ 1,858,157</b>  |
| Percentage of Increase in Net Position                | 2%                             | 3%                   | 2%                              | 5%                   | 2%                   | 4%                   |

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

**CITY OF STURGIS**

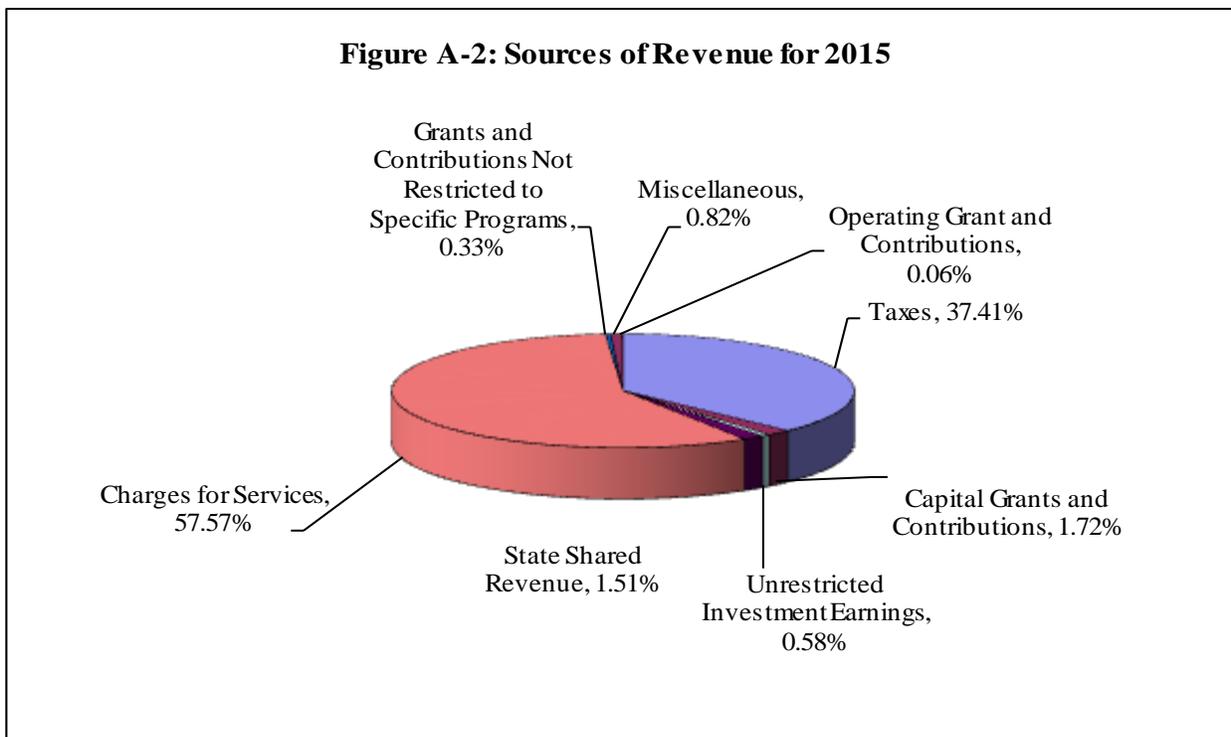
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2015**

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

**Changes in Net Position**

The City's revenues totaled \$18,550,979 (See Table A-2). Well over half of the City's revenue comes from charges for services and taxes, with 58 cents of every dollar raised coming from charges for services (primarily liquor and water operations) and 37 cents of every dollar raised coming from some type of tax (See Figure A-2). Of the City's total revenue, 2 percent comes from state and federal grants for capital purposes, and the rest comes from operating grants, contributions, state shared revenue, interest and miscellaneous.

The total cost of all programs and services was \$17,358,667 (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).

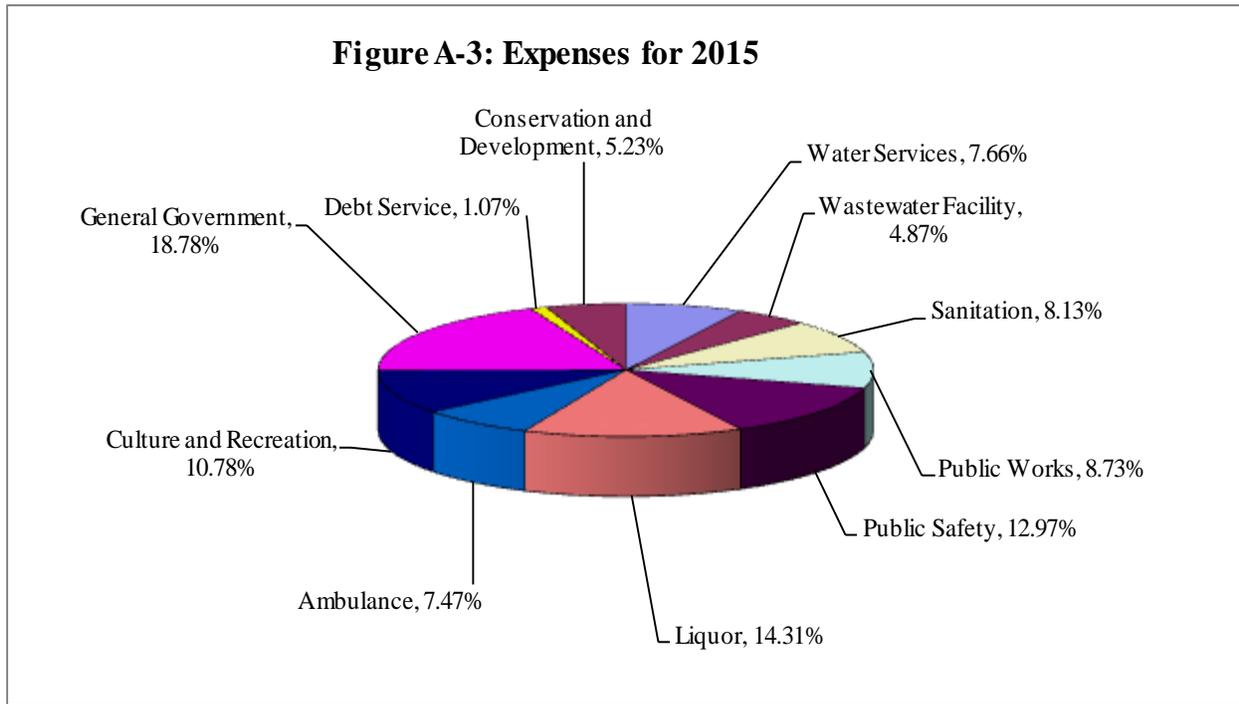


**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2015**

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

**Changes in Net Position (Continued)**



**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2015**

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

**Changes in Net Position (Concluded)**

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

| <b>Table A-2</b>                              |                                |               |                                   |               |                      |               |
|---|--------------------------------|---------------|-----------------------------------|---------------|----------------------|---------------|
| <b>Changes in Net Position</b>                |                                |               |                                   |               |                      |               |
|   | <b>Governmental Activities</b> |               | <b>Business - Type Activities</b> |               | <b>Total</b>         |               |
|   | <b>2015</b>                    | 2014          | <b>2015</b>                       | 2014          | <b>2015</b>          | 2014          |
| <b>Revenues</b>                               |                                |               |                                   |               |                      |               |
| Program Revenues                              |                                |               |                                   |               |                      |               |
| Charges for Services                          | <b>\$ 2,952,394</b>            | \$ 2,221,319  | <b>\$ 7,726,666</b>               | \$ 7,247,549  | <b>\$ 10,679,060</b> | \$ 9,468,868  |
| Operating Grants and Contributions            | <b>10,294</b>                  | 51,710        | -                                 | -             | <b>10,294</b>        | 51,710        |
| Capital Grants and Contributions              | <b>319,260</b>                 | 671,532       | -                                 | 297,938       | <b>319,260</b>       | 969,470       |
| General Revenues                              |                                |               |                                   |               |                      |               |
| Taxes   | <b>6,941,564</b>               | 6,260,953     | -                                 | -             | <b>6,941,564</b>     | 6,260,953     |
| State Shared Revenue                          | <b>279,336</b>                 | 267,047       | -                                 | -             | <b>279,336</b>       | 267,047       |
| Grants and Contributions not Program Specific | <b>61,911</b>                  | 25,940        | -                                 | -             | <b>61,911</b>        | 25,940        |
| Unrestricted Investment Earnings              | <b>87,506</b>                  | 56,219        | <b>20,122</b>                     | 11,200        | <b>107,628</b>       | 67,419        |
| Miscellaneous                                 | <b>128,585</b>                 | 85,329        | <b>23,341</b>                     | 39,602        | <b>151,926</b>       | 124,931       |
| <b>Total Revenues</b>                         | <b>10,780,850</b>              | 9,640,049     | <b>7,770,129</b>                  | 7,596,289     | <b>18,550,979</b>    | 17,236,338    |
| <b>Expenses</b>                               |                                |               |                                   |               |                      |               |
| General Government                            | <b>3,260,401</b>               | 2,603,835     | -                                 | -             | <b>3,260,401</b>     | 2,603,835     |
| Public Safety                                 | <b>2,251,644</b>               | 2,147,240     | -                                 | -             | <b>2,251,644</b>     | 2,147,240     |
| Public Works                                  | <b>1,515,176</b>               | 1,458,161     | -                                 | -             | <b>1,515,176</b>     | 1,458,161     |
| Culture and Recreation                        | <b>1,871,247</b>               | 1,976,044     | -                                 | -             | <b>1,871,247</b>     | 1,976,044     |
| Conservation and Development                  | <b>907,206</b>                 | 389,996       | -                                 | -             | <b>907,206</b>       | 389,996       |
| Debt Service                                  | <b>186,024</b>                 | 167,815       | -                                 | -             | <b>186,024</b>       | 167,815       |
| Liquor  | -                              | -             | <b>2,484,605</b>                  | 2,080,997     | <b>2,484,605</b>     | 2,080,997     |
| Water Services                                | -                              | -             | <b>1,328,879</b>                  | 1,312,136     | <b>1,328,879</b>     | 1,312,136     |
| Wastewater Services                           | -                              | -             | <b>845,564</b>                    | 783,160       | <b>845,564</b>       | 783,160       |
| Sanitation Services                           | -                              | -             | <b>1,410,807</b>                  | 1,130,734     | <b>1,410,807</b>     | 1,130,734     |
| Ambulance                                     | -                              | -             | <b>1,297,114</b>                  | 1,328,063     | <b>1,297,114</b>     | 1,328,063     |
| <b>Total Expenses</b>                         | <b>9,991,698</b>               | 8,743,091     | <b>7,366,969</b>                  | 6,635,090     | <b>17,358,667</b>    | 15,378,181    |
| Excess Before Transfers                       | <b>789,152</b>                 | 896,958       | <b>403,160</b>                    | 961,199       | <b>1,192,312</b>     | 1,858,157     |
| Transfers                                     | <b>(26,544)</b>                | 189,138       | <b>26,544</b>                     | (189,138)     | -                    | -             |
| <b>Increase in Net Position</b>               | <b>762,608</b>                 | 1,086,096     | <b>429,704</b>                    | 772,061       | <b>1,192,312</b>     | 1,858,157     |
| Change in Accounting Principle                | <b>755,327</b>                 | -             | <b>407,453</b>                    | -             | <b>1,162,780</b>     | -             |
| <b>Ending Net Position</b>                    | <b>\$ 37,149,938</b>           | \$ 35,632,003 | <b>\$ 18,741,690</b>              | \$ 17,904,533 | <b>\$ 55,891,628</b> | \$ 53,536,536 |

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2015**

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

##### **Governmental Activities**

Total revenues of the governmental activities for the City increased by 12 percent compared to the prior year, while total expenses increased by 14 percent. The primary reason was due to an overall increase in several different revenue sources, which included sales tax, licensing and permitting and Rally revenue. Contractor licenses and building permits were up 58% over 2014. Vendor licensing was up 29% over 2014. General government, which includes the Rally revenue, was up 15% over budget. The City is seeing growth in tourism, construction and economic development. One factor for the increase in expenses was that we closed the streets two days early for the 75th Motorcycle Rally. This was also a year where there were 27 pay periods instead of 26.

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

Operating revenues of the City's business-type activities increased by approximately 2 percent compared to the prior year, while expenses increased approximately 11 percent. The overall increase in revenues is due to the increase in fees, the economic growth, and usage of services. There was a 21% increase in liquor revenue compared to 2014. The use of the rubble site continues to grow. The ambulance continues to have more runs, but more of charges are being written off as the payee (Insurance, Medicare and Medicaid) are not paying the entire charge. The increase in expenses was mainly caused by the 75th Motorcycle Rally and the increase in ambulance calls, which increased wages and supplies.

#### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

#### **BUDGETARY HIGHLIGHTS**

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

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

**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2015**

**CAPITAL ASSET ADMINISTRATION**

By the end of 2015, the City had invested \$58,786,937 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 \$2,105,974, primarily due to the completion of the Harley-Davidson Rally Point, two water line projects, a sewer line rehab project and a park project.

|                                   | Governmental<br>Activities |                      | Business-type<br>Activities |                      |
|-----------------------------------|----------------------------|----------------------|-----------------------------|----------------------|
|                                   | 2015                       | 2014                 | 2015                        | 2014                 |
| Land                              | \$ 2,793,024               | \$ 2,184,497         | \$ 738,681                  | \$ 738,681           |
| Construction Work in Progress     | 585,476                    | 1,044,026            | 20,937                      | 9,053                |
| Buildings                         | 8,404,421                  | 8,650,909            | 1,571,659                   | 1,632,295            |
| Improvements Other Than Buildings | 22,125,424                 | 20,382,231           | 19,290,341                  | 18,966,711           |
| Machinery and Equipment           | 1,980,244                  | 1,865,808            | 1,276,730                   | 1,206,752            |
| <b>Total Capital Assets</b>       | <b>\$ 35,888,589</b>       | <b>\$ 34,127,471</b> | <b>\$ 22,898,348</b>        | <b>\$ 22,553,492</b> |

**LONG-TERM DEBT**

At year-end the City had \$11,911,477 in Sales Tax Revenue Bonds, Contract Payable, General Obligation Bonds and other long-term obligations. This is a decrease of \$781,391 as shown on Table A-4 below.

|   | Governmental<br>Activities |                     | Business-type<br>Activities |                     |
|---|----------------------------|---------------------|-----------------------------|---------------------|
|   | 2015                       | 2014                | 2015                        | 2014                |
| Compensated Absences                          | \$ 208,782                 | \$ 204,980          | \$ 84,147                   | \$ 75,727           |
| Tax Increment Financing Obligations           | 57,583                     | 188,289             | -                           | -                   |
| Marcotte Property                             | -                          | 182,430             | -                           | -                   |
| 2nd Street Plaza                              | 1,128,596                  | 679,797             | -                           | -                   |
| Sales Tax Revenue Bonds                       | 3,320,000                  | 3,805,000           | 6,337,369                   | 6,541,645           |
| General Obligation Bonds                      | -                          | -                   | 775,000                     | 1,015,000           |
| <b>Total Outstanding Debt and Obligations</b> | <b>\$ 4,714,961</b>        | <b>\$ 5,060,496</b> | <b>\$ 7,196,516</b>         | <b>\$ 7,632,372</b> |

During the current year, the City had additional draws on its HD Rally Point loan. The City made scheduled payments throughout the year on its debt balances, including paying off the balance owed on the Marcotte Property.

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2015**

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

The City's current economic position has remained strong and is growing. There was an increase in total property valuation of \$8,323,136 or 3%. The City requested a 2% reduction in property tax for the year of 2015 payable in 2016. The growth factor for 2014 taxes payable in 2015 was 0.488%. The growth factor for 2015 taxes payable in 2016 was 0.660%.

The second largest portion of revenue within the general fund is retail sales tax. In 2015, the City experienced an increase of 20% compared to 2014. The increase was due to increased Construction, additional traffic before and after the annual motorcycle rally and the 75<sup>th</sup> Sturgis Motorcycle Rally.

The adopted 2016 general fund expenditures budget increased by 8%, due to wage increases and general operation expenses increasing. The City has continued to keep some general fund reserves and other operating funds reserves but with several projects being done each year this reserve has been ever changing.

The City's business-type activities, sanitation fees will increase by 5% and wastewater fees will increase by 3% in 2016. There will be no increase to the water fund in 2016. The ambulance fund continues to anticipate higher revenue due to the high demand for ambulance service in the area but anticipates more write-offs due to the fact that Medicare and Medicaid are paying less.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

## CITY OF STURGIS

STATEMENT OF NET POSITION  
DECEMBER 31, 2015

|  | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                |
|--|----------------------------|-----------------------------|----------------------|
| <b>Assets</b>  |                            |                             |                      |
| Cash and Cash Equivalents (Note 2)   | \$ 4,092,592               | \$ 1,400,205                | \$ 5,492,797         |
| Receivables, Net   | 865,475                    | 484,495                     | 1,349,970            |
| Notes Receivable (Note 10)   | 215,828                    | -                           | 215,828              |
| Internal Balances (Note 6)   | (780,353)                  | 780,353                     | -                    |
| Inventories  | 1,485                      | 328,431                     | 329,916              |
| Other Assets   | 84,495                     | 29,633                      | 114,128              |
| Investment Real Estate Held for Sale (Note 5)                                | 608,100                    | -                           | 608,100              |
| Net Pension Asset (Note 8)   | 685,113                    | 369,576                     | 1,054,689            |
| Restricted Assets:   |                            |                             |                      |
| Cash with Fiscal Agent (Note 5)  | 673,842                    | 25,439                      | 699,281              |
| Deposits (Note 9)  | 135,844                    | -                           | 135,844              |
| Capital Assets (Note 4)  |                            |                             |                      |
| Land and Construction Work in Progress                                       | 3,378,500                  | 759,618                     | 4,138,118            |
| Other Capital Assets, Net of Depreciation                                    | 32,510,089                 | 22,138,730                  | 54,648,819           |
| <b>Total Assets</b>  | <b>42,471,010</b>          | <b>26,316,480</b>           | <b>68,787,490</b>    |
| <b>Deferred Outflows of Resources</b>  |                            |                             |                      |
| Pension Related Deferred Outflows of Resources (Note 8)                      | 1,203,087                  | 648,992                     | 1,852,079            |
| <b>Total Assets and Deferred Outflows of Resources</b>                       | <b>\$ 43,674,097</b>       | <b>\$ 26,965,472</b>        | <b>\$ 70,639,569</b> |
| <b>Liabilities</b>   |                            |                             |                      |
| Accounts Payable   | \$ 681,651                 | \$ 223,544                  | \$ 905,195           |
| Other Current Liabilities  | 109,022                    | 254,290                     | 363,312              |
| Noncurrent Liabilities (Note 5):   |                            |                             |                      |
| Due Within One Year  | 810,069                    | 458,622                     | 1,268,691            |
| Due in More Than One Year  | 3,904,892                  | 6,737,894                   | 10,642,786           |
| <b>Total Liabilities</b>   | <b>5,505,634</b>           | <b>7,674,350</b>            | <b>13,179,984</b>    |
| <b>Deferred Inflows of Resources</b>   |                            |                             |                      |
| Pension Related Deferred Inflows of Resources (Note 8)                       | 1,018,525                  | 549,432                     | 1,567,957            |
| <b>Net Position</b>  |                            |                             |                      |
| Net Investment in Capital Assets   | 31,382,410                 | 15,808,351                  | 47,190,761           |
| Restricted for:  |                            |                             |                      |
| Debt Service   | 625,765                    | 25,203                      | 650,968              |
| SDPAA (Note 9)   | 135,844                    | -                           | 135,844              |
| Revolving Loans  | 743,986                    | -                           | 743,986              |
| BID Tax  | 680,530                    | -                           | 680,530              |
| Library Purposes   | 245,278                    | -                           | 245,278              |
| SDRS Pension (Note 8)  | 869,675                    | 469,136                     | 1,338,811            |
| Permanently Restricted Purposes:   |                            |                             |                      |
| Expendable   | 119,099                    | -                           | 119,099              |
| Nonexpendable  | 377,535                    | -                           | 377,535              |
| Unrestricted   | 1,969,816                  | 2,439,000                   | 4,408,816            |
| <b>Total Net Position</b>  | <b>37,149,938</b>          | <b>18,741,690</b>           | <b>55,891,628</b>    |
| <b>Total Liabilities, Deferred Inflows of Resources<br/>and Net Position</b> | <b>\$ 43,674,097</b>       | <b>\$ 26,965,472</b>        | <b>\$ 70,639,569</b> |

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

CITY OF STURGIS

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015

|   | ----- Program Revenues ----- |                         |  |  | Net (Expense) Revenue and  |                             | Total                |
|---|------------------------------|-------------------------|--|--|----------------------------|-----------------------------|----------------------|
|   | Expenses                     | Charges<br>for Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities | Business-Type<br>Activities |                      |
| <b>Functions/Programs</b>                                       |                              |                         |  |  |                            |                             |                      |
| Primary Government  |                              |                         |  |  |                            |                             |                      |
| Governmental Activities:  |                              |                         |  |  |                            |                             |                      |
| General Government  | \$ 3,260,401                 | \$ 2,612,885            | \$ -                                     | \$ -                                   | \$ (647,516)               | \$ -                        | \$ (647,516)         |
| Public Safety   | 2,251,644                    | 43,139                  | 10,294                                   | 122,400                                | (2,075,811)                | -                           | (2,075,811)          |
| Public Works  | 1,515,176                    | 23,071                  | -  | -                                      | (1,492,105)                | -                           | (1,492,105)          |
| Health and Welfare  | -                            | 1,928                   | -  | -                                      | 1,928                      | -                           | 1,928                |
| Culture and Recreation  | 1,871,247                    | 271,371                 | -  | 151,000                                | (1,448,876)                | -                           | (1,448,876)          |
| Conservation and Development                                    | 907,206                      | -                       | -  | 45,860                                 | (861,346)                  | -                           | (861,346)            |
| Interest on Long-Term Debt                                      | 186,024                      | -                       | -  | -                                      | (186,024)                  | -                           | (186,024)            |
| <b>Total Governmental Activities</b>                            | <b>9,991,698</b>             | <b>2,952,394</b>        | <b>10,294</b>                            | <b>319,260</b>                         | <b>(6,709,750)</b>         | <b>-</b>                    | <b>(6,709,750)</b>   |
| Business-Type Activities:                                       |                              |                         |  |  |                            |                             |                      |
| Liquor  | 2,484,605                    | 2,581,052               | -  | -                                      | -                          | 96,447                      | 96,447               |
| Water   | 1,328,879                    | 1,710,026               | -  | -                                      | -                          | 381,147                     | 381,147              |
| Wastewater  | 845,564                      | 1,180,591               | -  | -                                      | -                          | 335,027                     | 335,027              |
| Sanitation  | 1,410,807                    | 1,312,286               | -  | -                                      | -                          | (98,521)                    | (98,521)             |
| Ambulance   | 1,297,114                    | 942,711                 | -  | -                                      | -                          | (354,403)                   | (354,403)            |
| <b>Total Business-Type Activities</b>                           | <b>7,366,969</b>             | <b>7,726,666</b>        | <b>-</b>                                 | <b>-</b>                               | <b>-</b>                   | <b>359,697</b>              | <b>359,697</b>       |
| <b>Total Primary Government</b>                                 | <b>\$ 17,358,667</b>         | <b>\$ 10,679,060</b>    | <b>\$ 10,294</b>                         | <b>\$ 319,260</b>                      | <b>(6,709,750)</b>         | <b>359,697</b>              | <b>(6,350,053)</b>   |
| General Revenues:   |                              |                         |  |  |                            |                             |                      |
| Taxes:  |                              |                         |  |  |                            |                             |                      |
| Property Taxes  |                              |                         |  |  | 2,946,908                  | -                           | 2,946,908            |
| Sales Taxes   |                              |                         |  |  | 3,994,656                  | -                           | 3,994,656            |
| State Shared Revenue  |                              |                         |  |  | 279,336                    | -                           | 279,336              |
| Grants and Contributions Not Restricted<br>to Specific Programs |                              |                         |  |  | 61,911                     | -                           | 61,911               |
| Unrestricted Investment Earnings                                |                              |                         |  |  | 87,506                     | 20,122                      | 107,628              |
| Miscellaneous Revenue   |                              |                         |  |  | 128,585                    | 23,341                      | 151,926              |
| Transfers   |                              |                         |  |  | (26,544)                   | 26,544                      | -                    |
| <b>Total General Revenues and Transfers</b>                     |                              |                         |  |  | <b>7,472,358</b>           | <b>70,007</b>               | <b>7,542,365</b>     |
| <b>Change in Net Position</b>                                   |                              |                         |  |  | <b>762,608</b>             | <b>429,704</b>              | <b>1,192,312</b>     |
| Net Position, Beginning   |                              |                         |  |  | 35,632,003                 | 17,904,533                  | 53,536,536           |
| Change in Accounting Principle (Note 12)                        |                              |                         |  |  | 755,327                    | 407,453                     | 1,162,780            |
| Net Position, Beginning, as Restated                            |                              |                         |  |  | 36,387,330                 | 18,311,986                  | 54,699,316           |
| <b>Net Position, Ending</b>                                     |                              |                         |  |  | <b>\$ 37,149,938</b>       | <b>\$ 18,741,690</b>        | <b>\$ 55,891,628</b> |

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

CITY OF STURGIS

BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2015

|   | <b>General<br/>Fund</b> | <b>Capital<br/>Improvement<br/>Fund</b> | <b>Revolving<br/>Loan<br/>Fund</b> |
|---|-------------------------|---|------------------------------------|
| <b>Assets</b>   |                         |   |                                    |
| 101 Cash (Note 2)   | \$ -                    | \$ 17,724                               | \$ 16,507                          |
| 105 Savings Certificates (Note 2)   | 1,164,003               | 590,126                                 | 437,125                            |
| 106 Restricted Cash with Fiscal Agent (Note 5)                            | -                       | 673,842                                 | -                                  |
| 108 Property Taxes Receivable   | 101,813                 | -                                       | -                                  |
| 108 Sales Tax Receivable  | 143,105                 | 95,404                                  | -                                  |
| 115 Accounts Receivable, Net  | 74,589                  | -                                       | 65,900                             |
| 121 Special Assessments Receivable  | 1,790                   | -                                       | -                                  |
| 128 Notes Receivable (Note 10)  | -                       | 11,429                                  | 204,399                            |
| 131 Due from Other Funds (Note 6)   | -                       | -                                       | 20,055                             |
| 132 Due from Federal/State Government (Note 11)                           | 305,406                 | 28,000                                  | -                                  |
| 133 Advance to Other Funds (Note 6)                                       | 1,304,081               | -                                       | 559,870                            |
| 142 Inventory of Supplies Purchased for Resale                            | 1,485                   | -                                       | -                                  |
| 151 Investment Held for Sale (Note 5)                                     | -                       | -                                       | -                                  |
| 154.1 Restricted Deposits (Note 9)  | 135,844                 | -                                       | -                                  |
| 155 Prepaid Expense   | 84,495                  | -                                       | -                                  |
| <b>Total Assets</b>   | <b>\$ 3,316,611</b>     | <b>\$ 1,416,525</b>                     | <b>\$ 1,303,856</b>                |
| <b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>       |                         |   |                                    |
| <i>Liabilities</i>  |                         |   |                                    |
| 202 Accounts Payable  | \$ 113,063              | \$ 150,523                              | \$ -                               |
| 208 Due to Other Funds (Note 6)   | 92,881                  | -                                       | -                                  |
| 216 Accrued Wages Payable   | 68,195                  | -                                       | -                                  |
| 217 Accrued Taxes Payable   | 1,454                   | -                                       | -                                  |
| 236 Advance from Other Funds (Note 6)                                     | -                       | 810,000                                 | -                                  |
| <b>Total Liabilities</b>  | <b>275,593</b>          | <b>960,523</b>                          | <b>-</b>                           |
| <i>Deferred Inflows of Resources</i>                                      |                         |   |                                    |
| 245 Unavailable Revenue - Property Taxes                                  | 75,239                  | -                                       | -                                  |
| 246 Unavailable Revenue - Special Assessments                             | -                       | -                                       | -                                  |
| 247 Other Deferred Inflows of Resources -<br>Grant Revenue                | 265,608                 | -                                       | -                                  |
| <b>Total Deferred Inflows of Resources</b>                                | <b>340,847</b>          | <b>-</b>                                | <b>-</b>                           |
| <i>Fund Balances (Note 1j)</i>  |                         |   |                                    |
| 263 Nonspendable  | 1,525,905               | -                                       | 559,870                            |
| 264 Restricted  | -                       | 625,765                                 | 743,986                            |
| 265 Committed   | 119,454                 | -                                       | -                                  |
| 266 Assigned  | 102,412                 | -                                       | -                                  |
| 267 Unassigned  | 952,400                 | (169,763)                               | -                                  |
| <b>Total Fund Balances</b>  | <b>2,700,171</b>        | <b>456,002</b>                          | <b>1,303,856</b>                   |
| <b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b> | <b>\$ 3,316,611</b>     | <b>\$ 1,416,525</b>                     | <b>\$ 1,303,856</b>                |

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

| <u>TIF</u><br><u>Funds</u> | <u>Other</u><br><u>Governmental</u><br><u>Funds</u> | <u>Total</u><br><u>Governmental</u><br><u>Funds</u> |
|----------------------------|---|---|
| \$ 1,072,135               | \$ 367,437  | \$ 1,473,803  |
| -                          | 427,535   | 2,618,789   |
| -                          | -   | 673,842   |
| -                          | -   | 101,813   |
| -                          | 19,387  | 257,896   |
| 3,867                      | 2,108   | 146,464   |
| -                          | 24,106  | 25,896  |
| -                          | -   | 215,828   |
| 629,863                    | -   | 649,918   |
| -                          | -   | 333,406   |
| -                          | -   | 1,863,951   |
| -                          | -   | 1,485   |
| -                          | 608,100   | 608,100   |
| -                          | -   | 135,844   |
| -                          | -   | 84,495  |
| <b>\$ 1,705,865</b>        | <b>\$ 1,448,673</b>                                 | <b>\$ 9,191,530</b>                                 |

|                  |              |                  |
|------------------|--------------|------------------|
| \$ 417,783       | \$ 282       | \$ 681,651       |
| 50,421           | 2,480        | 145,782          |
| -                | -            | 68,195           |
| -                | 17           | 1,471            |
| 2,338,440        | -            | 3,148,440        |
| <b>2,806,644</b> | <b>2,779</b> | <b>4,045,539</b> |

|   |        |         |
|---|--------|---------|
| - | -      | 75,239  |
| - | 24,106 | 24,106  |
| - | -      | 265,608 |
| - | 24,106 | 364,953 |

|                    |                  |                  |
|--------------------|------------------|------------------|
| -                  | 377,535          | 2,463,310        |
| -                  | 1,044,907        | 2,414,658        |
| -                  | -                | 119,454          |
| -                  | -                | 102,412          |
| (1,100,779)        | (654)            | (318,796)        |
| <b>(1,100,779)</b> | <b>1,421,788</b> | <b>4,781,038</b> |

|                     |                     |                     |
|---------------------|---------------------|---------------------|
| <b>\$ 1,705,865</b> | <b>\$ 1,448,673</b> | <b>\$ 9,191,530</b> |
|---------------------|---------------------|---------------------|

**CITY OF STURGIS**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO GOVERNMENT-WIDE STATEMENT OF NET POSITION  
DECEMBER 31, 2015**

Total Fund Balances - Governmental Funds \$ 4,781,038

Amounts reported for governmental activities in the Statement  
of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and  
therefore are not reported in the funds. 35,888,589

Net pension asset reported in governmental activities is not an available financial  
resource and therefore is not reported in the funds. 685,113

Pension related deferred outflows are components of pension asset and therefore are  
not reported in the funds. 1,203,087

Pension related deferred inflows are components of pension asset and therefore are  
not reported in the funds. (1,018,525)

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. (4,714,961)

Accrued interest on long-term debt is not due and payable in the current period and  
therefore is not reported in the funds. (39,356)

Assets such as delinquent taxes receivable, special assessments, and grants are not  
available to pay for current period expenditures and therefore are deferred in the  
funds. 364,953

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**Total Net Position - Governmental Funds \$ 37,149,938**

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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, 2015**

|  | <u>General<br/>Fund</u>                             | <u>Capital<br/>Improvement<br/>Fund</u> | <u>Revolving<br/>Loan<br/>Fund</u> | <u>TIF<br/>Funds</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |                   |
|--|---|---|------------------------------------|----------------------|---|---|-------------------|
| <b>Revenue</b>                         |   |   |                                    |                      |   |   |                   |
| <i>Taxes:</i>                          |   |   |                                    |                      |   |   |                   |
| 311                                    | General Property Taxes (Note 3)                     | \$2,760,347                             | \$ -                               | \$ -                 | \$ 165,996                              | \$ -                                    | \$ 2,926,343      |
| 313                                    | General Sales and Use Taxes                         | 2,178,649                               | 1,452,433                          | -                    | -                                       | 363,574                                 | 3,994,656         |
| 315                                    | Amusement Taxes                                     | 240                                     | -                                  | -                    | -                                       | -                                       | 240               |
| 319                                    | Penalties and Interest<br>on Delinquent Taxes       | 8,843                                   | -                                  | -                    | -                                       | 122                                     | 8,965             |
| 320                                    | Licenses and Permits                                | 830,528                                 | -                                  | -                    | -                                       | -                                       | 830,528           |
| <i>Intergovernmental Revenue:</i>      |   |   |                                    |                      |   |   |                   |
| 331                                    | Federal Grants                                      | 5,564                                   | -                                  | -                    | -                                       | -                                       | 5,564             |
| 334                                    | State Grants  | 4,730                                   | 28,000                             | -                    | -                                       | -                                       | 32,730            |
| 335                                    | Bank Franchise Tax                                  | 12,053                                  | -                                  | -                    | -                                       | -                                       | 12,053            |
| 335                                    | Liquor Tax Reversion                                | 41,335                                  | -                                  | -                    | -                                       | -                                       | 41,335            |
| 335                                    | Motor Vehicle Licenses                              | 80,353                                  | -                                  | -                    | -                                       | -                                       | 80,353            |
| 335.1                                  | Local Government Highway<br>and Bridge Fund         | 145,595                                 | -                                  | -                    | -                                       | -                                       | 145,595           |
| 338                                    | County Highway and<br>Bridge Reserve Tax            | 5,855                                   | -                                  | -                    | -                                       | -                                       | 5,855             |
| 338                                    | Port of Entry                                       | 12,479                                  | -                                  | -                    | -                                       | -                                       | 12,479            |
| 339                                    | Other   | 4,737                                   | -                                  | -                    | -                                       | -                                       | 4,737             |
| <i>Charges for Goods and Services:</i> |   |   |                                    |                      |   |   |                   |
| 341                                    | General Government                                  | 1,558,042                               | 187,375                            | -                    | -                                       | 36,940                                  | 1,782,357         |
| 342                                    | Public Safety                                       | 33,013                                  | -                                  | -                    | -                                       | -                                       | 33,013            |
| 345                                    | Health  | 1,928                                   | -                                  | -                    | -                                       | -                                       | 1,928             |
| 346                                    | Culture and Recreation                              | 271,371                                 | -                                  | -                    | -                                       | -                                       | 271,371           |
| 349                                    | Other   | 5,933                                   | -                                  | -                    | -                                       | -                                       | 5,933             |
| <i>Fines and Forfeits:</i>             |   |   |                                    |                      |   |   |                   |
| 351                                    | Court Fines and Costs                               | 10,126                                  | -                                  | -                    | -                                       | -                                       | 10,126            |
| <i>Miscellaneous Revenue:</i>          |   |   |                                    |                      |   |   |                   |
| 361                                    | Investment Earnings                                 | 73,066                                  | -                                  | 9,276                | -                                       | 5,164                                   | 87,506            |
| 363                                    | Special Assessments                                 | -                                       | -                                  | -                    | -                                       | 23,544                                  | 23,544            |
| 362                                    | Rentals/Airport Hangar Lease                        | 29,889                                  | -                                  | -                    | -                                       | -                                       | 29,889            |
| 367                                    | Contributions and Donations<br>from Private Sources | 22,151                                  | 39,760                             | -                    | -                                       | -                                       | 61,911            |
| 369                                    | Other   | 11,780                                  | -                                  | -                    | -                                       | 14,126                                  | 25,906            |
| <b>Total Revenue</b>                   |   | <b>8,108,607</b>                        | <b>1,707,568</b>                   | <b>9,276</b>         | <b>165,996</b>                          | <b>443,470</b>                          | <b>10,434,917</b> |

**CITY OF STURGIS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
(CONTINUED)**

**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED DECEMBER 31, 2015**

|   | <u>General<br/>Fund</u>                              | <u>Capital<br/>Improvement<br/>Fund</u> | <u>Revolving<br/>Loan<br/>Fund</u> | <u>TIF<br/>Funds</u>  | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|--|---|------------------------------------|-----------------------|---|---|
| <b>Expenditures</b>                         |  |   |                                    |                       |   |   |
| <i>General Government:</i>                  |  |   |                                    |                       |   |   |
| 411   | Legislative  | 224,060                                 | -                                  | -                     | -                                       | 224,060                                 |
| 414   | Financial Administration                             | 1,131,826                               | -                                  | -                     | -                                       | 1,131,826                               |
| 419   | Other  | 1,723,777                               | 27,983                             | -                     | 84,210                                  | 1,835,970                               |
| <i>Public Safety:</i>                       |  |   |                                    |                       |   |   |
| 421   | Police   | 1,890,510                               | -                                  | -                     | -                                       | 1,890,510                               |
| 422   | Fire   | 147,984                                 | 20,833                             | -                     | -                                       | 168,817                                 |
| <i>Public Works:</i>                        |  |   |                                    |                       |   |   |
| 431   | Highway and Streets                                  | 807,098                                 | 41,472                             | -                     | 27,200                                  | 875,770                                 |
| 435   | Airport  | 45,018                                  | -                                  | -                     | -                                       | 45,018                                  |
| 437   | Cemeteries   | 86,271                                  | -                                  | -                     | -                                       | 86,271                                  |
| <i>Culture and Recreation:</i>              |  |   |                                    |                       |   |   |
| 451   | Recreation   | 700,266                                 | 47,033                             | -                     | -                                       | 747,299                                 |
| 452   | Parks  | 540,596                                 | -                                  | -                     | -                                       | 540,596                                 |
| 455   | Library  | 336,860                                 | 3,488                              | -                     | -                                       | 340,348                                 |
| 456   | Auditorium   | 24,083                                  | -                                  | -                     | -                                       | 24,083                                  |
| 460   | Conservation and Development                         | -                                       | -                                  | -                     | 647,162                                 | 260,044                                 |
| 470   | Debt Service   | -                                       | 699,715                            | -                     | 156,958                                 | 1,039,103                               |
| 485   | Capital Outlay                                       | 41,719                                  | 2,326,010                          | -                     | 510,493                                 | 2,878,222                               |
| <b>Total Expenditures</b>                   |  |   |                                    |                       |   |   |
|   | 7,700,068  | 3,166,534                               | -                                  | 1,341,813             | 526,684                                 | 12,735,099                              |
| <b>Excess of Revenue Over (Under)</b>       |  |   |                                    |                       |   |   |
| <b>Expenditures</b>                         |  |   |                                    |                       |   |   |
|   | 408,539  | (1,458,966)                             | 9,276                              | (1,175,817)           | (83,214)                                | (2,300,182)                             |
| <b>Other Financing Sources (Uses)</b>       |  |   |                                    |                       |   |   |
| 391   | Transfers In (Note 7)                                | 50,000                                  | 37,500                             | 22,903                | -                                       | 133,030                                 |
| 391   | Compensation for Loss or<br>Damage to Capital Assets | 13,037                                  | 317,878                            | -                     | -                                       | 330,915                                 |
| 391.20                                      | Long-Term Debt Issued                                | -                                       | 500,416                            | -                     | -                                       | 500,416                                 |
| 511   | Transfers Out (Note 7)                               | (136,947)                               | (133,030)                          | -                     | -                                       | (269,977)                               |
| <b>Total Other Financing Sources (Uses)</b> |  |   |                                    |                       |   |   |
|   | (73,910)   | 722,764                                 | 22,903                             | -                     | 133,030                                 | 804,787                                 |
| <b>Net Change in Fund Balances</b>          |  |   |                                    |                       |   |   |
|   | 334,629  | (736,202)                               | 32,179                             | (1,175,817)           | 49,816                                  | (1,495,395)                             |
| Fund Balance, December 31, 2014             |  |   |                                    |                       |   |   |
|   | 2,365,542  | 1,192,204                               | 1,271,677                          | 75,038                | 1,371,972                               | 6,276,433                               |
| <b>Fund Balance, December 31, 2015</b>      |  |   |                                    |                       |   |   |
|   | <b>\$ 2,700,171</b>                                  | <b>\$ 456,002</b>                       | <b>\$ 1,303,856</b>                | <b>\$ (1,100,779)</b> | <b>\$ 1,421,788</b>                     | <b>\$ 4,781,038</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, 2015**

Net Change in Fund Balances - Total Government Funds \$ (1,495,395)

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. 1,779,776

Capital assets contributed to the City are included in the Statement of Activities as capital outlay expenditures and capitalized in the Statement of Net Position. 245,400

The governmental funds reflect proceeds from capital asset sales, if any, while the Statement of Activities reports a loss on sale or disposal of capital assets. (264,058)

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. 33,676

Repayment of bond principal, tax increment financing, and long-term debt are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 849,753

Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term debt in the Statement of Net Position. (500,416)

Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures. (3,802)

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. 3,326

Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds. 189,122

Pension expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. (74,774)

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Change in Net Position of Governmental Activities **\$ 762,608**

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

**CITY OF STURGIS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2015**

| <b>Assets and Deferred Outflows of Resources</b>                    | <b>Liquor<br/>Fund</b> | <b>Water<br/>Fund</b> | <b>Wastewater<br/>Fund</b> | <b>Sanitation<br/>Fund</b> | <b>Ambulance<br/>Fund</b> | <b>Total<br/>Proprietary<br/>Funds</b> |
|---|------------------------|-----------------------|----------------------------|----------------------------|---------------------------|--|
| <b>Current Assets</b>   |                        |                       |                            |                            |                           |  |
| 101 Cash (Note 2)   | \$ 2,780               | \$ 955,324            | \$ 146,252                 | \$ 295,849                 | \$ -                      | \$ 1,400,205                           |
| 107 Restricted Cash (Note 5)  | 20,490                 | 4,949                 | -                          | -                          | -                         | 25,439                                 |
| 115 Accounts Receivable, Net  | 29,846                 | 144,798               | 106,694                    | 67,298                     | 135,859                   | 484,495                                |
| 131 Due from Other Funds (Note 6)                                   | -                      | 50,421                | -                          | 139,795                    | -                         | 190,216                                |
| 142 Inventory of Supplies Purchased<br>for Resale                   | 328,431                | -                     | -                          | -                          | -                         | 328,431                                |
| 155 Prepaid Expenses  | 2,394                  | 4,558                 | 1,949                      | 3,899                      | 16,833                    | 29,633                                 |
| <b>Total Current Assets</b>   | <b>383,941</b>         | <b>1,160,050</b>      | <b>254,895</b>             | <b>506,841</b>             | <b>152,692</b>            | <b>2,458,419</b>                       |
| <b>Noncurrent Assets</b>  |                        |                       |                            |                            |                           |  |
| 133 Advance to TIF Funds (Note 6)                                   | -                      | 1,444,359             | -                          | -                          | -                         | 1,444,359                              |
| 189 Net Pension Asset (Note 8)                                      | 23,814                 | 48,028                | 63,161                     | 82,674                     | 151,899                   | 369,576                                |
| <b>Capital Assets (Note 4)</b>                                      |                        |                       |                            |                            |                           |  |
| 160 Land  | 6,500                  | 1,800                 | 646,214                    | 84,167                     | -                         | 738,681                                |
| 162 Buildings   | 826,042                | 181,183               | 445,257                    | 310,994                    | 359,809                   | 2,123,285                              |
| 163 Accumulated Depreciation - Buildings                            | (125,158)              | (66,380)              | (188,127)                  | (89,804)                   | (82,157)                  | (551,626)                              |
| 164 Improvements Other Than Buildings                               | -                      | 16,624,504            | 11,109,310                 | 22,789                     | -                         | 27,756,603                             |
| 165 Accumulated Depreciation -<br>Improvements Other Than Buildings | -                      | (4,854,138)           | (3,594,678)                | (17,446)                   | -                         | (8,466,262)                            |
| 166 Machinery and Equipment   | 57,208                 | 809,203               | 694,834                    | 2,416,772                  | 948,408                   | 4,926,425                              |
| 167 Accumulated Depreciation -<br>Machinery and Equipment           | (37,028)               | (606,485)             | (582,397)                  | (1,934,308)                | (489,477)                 | (3,649,695)                            |
| 168 Construction in Progress  | -                      | -                     | 20,937                     | -                          | -                         | 20,937                                 |
| <b>Total Noncurrent Assets</b>                                      | <b>751,378</b>         | <b>13,582,074</b>     | <b>8,614,511</b>           | <b>875,838</b>             | <b>888,482</b>            | <b>24,712,283</b>                      |
| <b>Total Assets</b>   | <b>1,135,319</b>       | <b>14,742,124</b>     | <b>8,869,406</b>           | <b>1,382,679</b>           | <b>1,041,174</b>          | <b>27,170,702</b>                      |
| <b>Deferred Outflows of Resources</b>                               |                        |                       |                            |                            |                           |  |
| 196 Pension Related Deferred<br>Outflows (Note 8)                   | 41,820                 | 84,340                | 110,913                    | 145,179                    | 266,740                   | 648,992                                |
| <b>Total Assets and Deferred Outflows<br/>of Resources</b>          | <b>\$ 1,177,139</b>    | <b>\$ 14,826,464</b>  | <b>\$ 8,980,319</b>        | <b>\$ 1,527,858</b>        | <b>\$ 1,307,914</b>       | <b>\$ 27,819,694</b>                   |

| <b>Liabilities, Deferred Inflows of Resources,<br/>and Net Position</b>      | <b>Liquor<br/>Fund</b> | <b>Water<br/>Fund</b> | <b>Wastewater<br/>Fund</b> | <b>Sanitation<br/>Fund</b> | <b>Ambulance<br/>Fund</b> | <b>Total<br/>Proprietary<br/>Funds</b> |
|--|------------------------|-----------------------|----------------------------|----------------------------|---------------------------|--|
| <b>Current Liabilities</b>   |                        |                       |                            |                            |                           |  |
| 202 Accounts Payable   | \$ 112,852             | \$ 7,287              | \$ 63,616                  | \$ 34,529                  | \$ 5,260                  | \$ 223,544                             |
| 208 Due to Other Funds (Note 6)  | 243,359                | -                     | 53,191                     | -                          | 399,802                   | 696,352                                |
| 215 Accrued Interest Payable   | 13,560                 | 20,371                | 2,612                      | -                          | -                         | 36,543                                 |
| 216 Accrued Wages Payable  | 3,446                  | 7,098                 | 8,730                      | 13,111                     | 16,287                    | 48,672                                 |
| 217 Accrued Taxes Payable  | 13,858                 | 77                    | -                          | -                          | -                         | 13,935                                 |
| 220 Customer Deposits  | 1,050                  | 154,090               | -                          | -                          | -                         | 155,140                                |
| 226 Bonds Payable - Current (Note 5)   | 10,415                 | 195,140               | 168,920                    | -                          | -                         | 374,475                                |
| 233 Accrued Leave Payable (Note 5)   | 1,131                  | 25,305                | 22,478                     | 23,765                     | 11,468                    | 84,147                                 |
| <b>Total Current Liabilities</b>   | <b>399,671</b>         | <b>409,368</b>        | <b>319,547</b>             | <b>71,405</b>              | <b>432,817</b>            | <b>1,632,808</b>                       |
| <b>Long-Term Liabilities</b>   |                        |                       |                            |                            |                           |  |
| 231 Bonds Payable (Note 5)   | 739,521                | 5,247,991             | 750,382                    | -                          | -                         | 6,737,894                              |
| 242 Advance from Revolving Loan<br>Fund (Note 6)                             | -                      | -                     | 157,870                    | -                          | -                         | 157,870                                |
| <b>Total Long-Term Liabilities</b>   | <b>739,521</b>         | <b>5,247,991</b>      | <b>908,252</b>             | <b>-</b>                   | <b>-</b>                  | <b>6,895,764</b>                       |
| <b>Total Liabilities</b>   | <b>1,139,192</b>       | <b>5,657,359</b>      | <b>1,227,799</b>           | <b>71,405</b>              | <b>432,817</b>            | <b>8,528,572</b>                       |
| <b>Deferred Inflows of Resources</b>   |                        |                       |                            |                            |                           |  |
| 248 Pension Related Deferred<br>Inflows (Note 8)                             | 35,404                 | 71,402                | 93,898                     | 122,908                    | 225,820                   | 549,432                                |
| <b>Net Position</b>  |                        |                       |                            |                            |                           |  |
| 253.10 Net Investment in Capital Assets                                      | -                      | 6,646,556             | 7,632,048                  | 793,164                    | 736,583                   | 15,808,351                             |
| 253.21 Restricted for Revenue Bond<br>Debt Service (Note 5)                  | 20,490                 | 4,713                 | -                          | -                          | -                         | 25,203                                 |
| 253.29 Restricted for SDRS Pension<br>Purposes (Note 8)                      | 30,230                 | 60,966                | 80,176                     | 104,945                    | 192,819                   | 469,136                                |
| 253.9 Unrestricted (Deficit)   | (48,177)               | 2,385,468             | (53,602)                   | 435,436                    | (280,125)                 | 2,439,000                              |
| <b>Total Net Position</b>  | <b>2,543</b>           | <b>9,097,703</b>      | <b>7,658,622</b>           | <b>1,333,545</b>           | <b>649,277</b>            | <b>18,741,690</b>                      |
| <b>Total Liabilities, Deferred Inflows of<br/>Resources and Net Position</b> | <b>\$ 1,177,139</b>    | <b>\$ 14,826,464</b>  | <b>\$ 8,980,319</b>        | <b>\$ 1,527,858</b>        | <b>\$ 1,307,914</b>       | <b>\$ 27,819,694</b>                   |

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

**CITY OF STURGIS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2015**

|   | <u>Liquor<br/>Fund</u> | <u>Water<br/>Fund</u> | <u>Wastewater<br/>Fund</u> | <u>Sanitation<br/>Fund</u> | <u>Ambulance<br/>Fund</u> | <u>Total<br/>Proprietary<br/>Funds</u> |
|---|------------------------|-----------------------|----------------------------|----------------------------|---------------------------|--|
| <b>Total Operating Revenue</b>                              |                        |                       |                            |                            |                           |  |
| 380 Charges for Goods<br>and Services (Note 5)              | \$ 2,581,052           | \$ 1,710,026          | \$ 1,180,591               | \$ 1,312,286               | \$ 942,711                | \$ 7,726,666                           |
| <b>Operating Expenses</b>                                   |                        |                       |                            |                            |                           |  |
| 410 Personal Services                                       | 210,848                | 413,491               | 287,330                    | 495,054                    | 990,885                   | 2,397,608                              |
| 420 Other Current Expense                                   | 203,730                | 375,514               | 266,238                    | 798,823                    | 216,172                   | 1,860,477                              |
| 426.2 Materials<br>(Cost of Goods Sold)                     | 2,010,053              | -                     | -                          | -                          | -                         | 2,010,053                              |
| 457 Depreciation (Note 4)                                   | 29,745                 | 367,990               | 255,838                    | 116,930                    | 90,057                    | 860,560                                |
| <b>Total Operating Expenses</b>                             | <b>2,454,376</b>       | <b>1,156,995</b>      | <b>809,406</b>             | <b>1,410,807</b>           | <b>1,297,114</b>          | <b>7,128,698</b>                       |
| <b>Operating Income (Loss)</b>                              | 126,676                | 553,031               | 371,185                    | (98,521)                   | (354,403)                 | 597,968                                |
| <b>Nonoperating Revenue (Expense)</b>                       |                        |                       |                            |                            |                           |  |
| 361 Investment Earnings (Note 2)                            | 10,103                 | 10,019                | -                          | -                          | -                         | 20,122                                 |
| 369 Other   | 1,318                  | 2,459                 | -                          | 11,266                     | 7,965                     | 23,008                                 |
| 391.40 Compensation for Loss or<br>Damage to Capital Assets | -                      | -                     | -                          | -                          | 333                       | 333                                    |
| 442 Interest Expense  | (30,229)               | (171,884)             | (36,158)                   | -                          | -                         | (238,271)                              |
| <b>Total Nonoperating<br/>Revenue (Expense)</b>             | <b>(18,808)</b>        | <b>(159,406)</b>      | <b>(36,158)</b>            | <b>11,266</b>              | <b>8,298</b>              | <b>(194,808)</b>                       |
| <b>Income (Loss) before Transfers</b>                       | 107,868                | 393,625               | 335,027                    | (87,255)                   | (346,105)                 | 403,160                                |
| 391.10 Transfers In (Note 7)                                | -                      | -                     | -                          | 165,109                    | -                         | 165,109                                |
| 511 Transfers Out (Note 7)                                  | (1,545)                | (27,736)              | (109,284)                  | -                          | -                         | (138,565)                              |
| <b>Total Transfers</b>                                      | <b>(1,545)</b>         | <b>(27,736)</b>       | <b>(109,284)</b>           | <b>165,109</b>             | <b>-</b>                  | <b>26,544</b>                          |
| <b>Change in Net Position</b>                               | 106,323                | 365,889               | 225,743                    | 77,854                     | (346,105)                 | 429,704                                |
| Net Position (Deficit),<br>December 31, 2014                | (130,035)              | 8,678,863             | 7,363,245                  | 1,164,544                  | 827,916                   | 17,904,533                             |
| Change in Accounting<br>Principle (Note 12)                 | 26,255                 | 52,951                | 69,634                     | 91,147                     | 167,466                   | 407,453                                |
| Net Position (Deficit),<br>December 31, 2014, as Restated   | (103,780)              | 8,731,814             | 7,432,879                  | 1,255,691                  | 995,382                   | 18,311,986                             |
| <b>Net Position, December 31, 2015</b>                      | <b>\$ 2,543</b>        | <b>\$ 9,097,703</b>   | <b>\$ 7,658,622</b>        | <b>\$ 1,333,545</b>        | <b>\$ 649,277</b>         | <b>\$ 18,741,690</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, 2015**

|  | <b>Liquor<br/>Fund</b> | <b>Water<br/>Fund</b> | <b>Wastewater<br/>Fund</b> |
|--|------------------------|-----------------------|----------------------------|
| <b>Cash Flows from Operating Activities</b>  |                        |                       |                            |
| Receipts from Customers  | \$ 2,574,944           | \$ 1,704,755          | \$ 1,176,234               |
| Payments to Suppliers  | (2,222,234)            | (407,066)             | (211,816)                  |
| Payments to Employees  | (216,658)              | (429,351)             | (295,532)                  |
| <b>Net Cash Flows Provided by (Used in) Operating Activities</b>                                 | <b>136,052</b>         | <b>868,338</b>        | <b>668,886</b>             |
| <b>Cash Flows from Noncapital Financing Activities</b>   |                        |                       |                            |
| Transfers In   | -                      | -                     | -                          |
| Transfers Out  | (1,545)                | (27,736)              | (109,284)                  |
| Internal Activity - Receipts from (Payments to) Other Funds                                      | (99,458)               | (955,362)             | (186,939)                  |
| Cash Receipts from Notes Receivable  | -                      | -                     | 12,500                     |
| <b>Net Cash Flows Provided by (Used in) Noncapital Financing Activities</b>                      | <b>(101,003)</b>       | <b>(983,098)</b>      | <b>(283,723)</b>           |
| <b>Cash Flows from Capital and Related Financing Activities</b>                                  |                        |                       |                            |
| Purchases of Capital Assets  | -                      | (586,269)             | (339,854)                  |
| Compensation for Loss or Damage to Capital Assets  | -                      | -                     | -                          |
| Principal Paid on Debt   | (10,560)               | (197,408)             | (236,308)                  |
| Interest Paid  | (30,420)               | (172,409)             | (36,621)                   |
| Other Receipts   | 1,318                  | 2,459                 | -                          |
| <b>Net Cash Flows Used in Capital and Related Financing Activities</b>                           | <b>(39,662)</b>        | <b>(953,627)</b>      | <b>(612,783)</b>           |
| <b>Cash Flows Provided by Investing Activities</b>   |                        |                       |                            |
| Cash Received from Investment Earnings   | 10,103                 | 10,019                | -                          |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>  | <b>5,490</b>           | <b>(1,058,368)</b>    | <b>(227,620)</b>           |
| <b>Cash and Cash Equivalents, January 1, 2015</b>  | <b>17,780</b>          | <b>2,018,641</b>      | <b>373,872</b>             |
| <b>Cash and Cash Equivalents, December 31, 2015</b>  | <b>\$ 23,270</b>       | <b>\$ 960,273</b>     | <b>\$ 146,252</b>          |
| <b>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities</b> |                        |                       |                            |
| Operating Income   | \$ 126,676             | \$ 553,031            | \$ 371,185                 |
| <i>Adjustments to Reconcile Operating Income to Net Cash</i>                                     |                        |                       |                            |
| <i>Flows Provided by (Used in) Operating Activities:</i>   |                        |                       |                            |
| Depreciation Expense   | 29,745                 | 367,990               | 255,838                    |
| Change in Assets and Liabilities:  |                        |                       |                            |
| Accounts Receivable  | (6,633)                | (11,511)              | (4,357)                    |
| Inventory of Supplies Purchased for Resale   | (3,167)                | -                     | -                          |
| Prepaid Expenses   | (1,235)                | (1,419)               | (294)                      |
| Pension Asset  | 16,182                 | 32,635                | 42,916                     |
| Pension Related Deferred Outflows  | (9,239)                | (18,631)              | (24,501)                   |
| Accounts Payable   | (4,099)                | (30,158)              | 54,716                     |
| Accrued Wages Payable  | (1,854)                | (5,288)               | (1,321)                    |
| Accrued Taxes Payable  | 50                     | 25                    | -                          |
| Customer Deposits  | 525                    | 6,240                 | -                          |
| Accrued Leave Payable  | 19                     | (2,557)               | 3,661                      |
| Pension Related Deferred Inflows   | (10,918)               | (22,019)              | (28,957)                   |
| <b>Net Cash Flows Provided by (Used in) Operating Activities</b>                                 | <b>\$ 136,052</b>      | <b>\$ 868,338</b>     | <b>\$ 668,886</b>          |

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

| <u>Sanitation<br/>Fund</u> | <u>Ambulance<br/>Fund</u> | <u>Total<br/>Proprietary<br/>Funds</u> |
|----------------------------|---------------------------|--|
| \$ 1,320,989               | \$ 1,080,106              | \$ 7,857,028                           |
| (805,965)                  | (247,646)                 | (3,894,727)                            |
| (505,099)                  | (1,031,628)               | (2,478,268)                            |
| 9,925                      | (199,168)                 | 1,484,033                              |
| 165,109                    | -                         | 165,109                                |
| -                          | -                         | (138,565)                              |
| (139,795)                  | 203,201                   | (1,178,353)                            |
| -                          | -                         | 12,500                                 |
| 25,314                     | 203,201                   | (1,139,309)                            |
| (266,962)                  | (12,331)                  | (1,205,416)                            |
| -                          | 333                       | 333                                    |
| -                          | -                         | (444,276)                              |
| -                          | -                         | (239,450)                              |
| 11,266                     | 7,965                     | 23,008                                 |
| (255,696)                  | (4,033)                   | (1,865,801)                            |
| -                          | -                         | 20,122                                 |
| (220,457)                  | -                         | (1,500,955)                            |
| 516,306                    | -                         | 2,926,599                              |
| <b>\$ 295,849</b>          | <b>\$ -</b>               | <b>\$ 1,425,644</b>                    |
| \$ (98,521)                | \$ (354,403)              | \$ 597,968                             |
| 116,930                    | 90,057                    | 860,560                                |
| 8,703                      | 137,395                   | 123,597                                |
| -                          | -                         | (3,167)                                |
| (412)                      | (12,741)                  | (16,101)                               |
| 56,176                     | 103,213                   | 251,122                                |
| (32,070)                   | (58,923)                  | (143,364)                              |
| (6,730)                    | (18,733)                  | (5,004)                                |
| (1,504)                    | (17,430)                  | (27,397)                               |
| -                          | -                         | 75                                     |
| -                          | -                         | 6,765                                  |
| 5,257                      | 2,040                     | 8,420                                  |
| (37,904)                   | (69,643)                  | (169,441)                              |
| <b>\$ 9,925</b>            | <b>\$ (199,168)</b>       | <b>\$ 1,484,033</b>                    |

## CITY OF STURGIS

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

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

##### Reporting Entity

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

##### Basis of Presentation

###### *Government-wide Financial Statements:*

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

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

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

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities and deferred inflows and outflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities and deferred inflows and outflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

## CITY OF STURGIS

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015

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

##### Basis of Presentation (Continued)

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

##### Governmental Funds:

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

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

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

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

Debt Service Funds - debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The City has the following debt service fund:

TIF Debt Service Fund – TIF funds are Tax Increment Financing Districts allowed by SDCL 11-9-24 to account for the proceeds of incremental property taxes, restricted for the payment of principal and interest on debt issued to finance a public improvement. Separate accounts are maintained for TIF Districts #9, #10, #11, #12, and #13 revenues and expenditures. This fund is a major fund.

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

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

##### Proprietary Funds:

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

## CITY OF STURGIS

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015

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

##### **Basis of Presentation (Concluded)**

##### Proprietary Funds (Continued):

Proprietary Funds include:

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

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

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

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

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

##### **Measurement Focus and Basis of Accounting**

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

##### *Measurement Focus:*

##### Government-wide Financial Statements:

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

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

##### Fund Financial Statements:

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

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

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

*Basis of Accounting:*

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the City does not exceed one bill-paying cycle, and for the City, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2015 are sales tax revenues and intergovernmental revenue.

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

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

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

**Interfund Eliminations and Reclassifications**

Government-wide Financial Statements:

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

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

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

**Interfund Eliminations and Reclassifications (Continued)**

Fund Financial Statements:

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

**Capital Assets**

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

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

Government-wide Financial Statements:

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

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

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

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

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

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

## **CITY OF STURGIS**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015**

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

##### **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.

##### **Long-Term Liabilities**

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

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

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

##### **Program Revenues**

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

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

##### **Proprietary Funds Revenue and Expense Classifications**

In the proprietary funds' Statement of 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.

##### **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, 2015

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

##### Equity Classifications

###### Government-wide Financial Statements:

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

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

###### Fund Financial Statements:

The City classifies governmental fund balance as follows:

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

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

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The City has two committed fund balances for the year ended December 31, 2015. The Brick Fund and Capital Improvement Fund were created through ordinances passed by the City Council, the highest decision making authority. The City Council would have to pass ordinances to remove the commitments.

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

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

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

**Equity Classifications (Continued)**

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

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

As of December 31, 2015, the City had the following governmental fund classifications:

|  | <b>General<br/>Fund</b> | <b>Capital<br/>Improvement<br/>Fund</b> | <b>Revolving<br/>Loan<br/>Fund</b> | <b>TIF<br/>Funds</b>  | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|-------------------------|---|------------------------------------|-----------------------|---|---|
| <b>263 Nonspendable:</b>                         |                         |   |                                    |                       |   |   |
| 263.01 Nonspendable - Inventory                  | \$ 1,485                | \$ -                                    | \$ -                               | \$ -                  | \$ -                                    | \$ 1,485                                |
| 263.02 Nonspendable - Prepaid Expenses           | 84,495                  | -                                       | -                                  | -                     | -                                       | 84,495                                  |
| 263.04 Nonspendable - Advances                   | 1,304,081               | -                                       | 559,870                            | -                     | -                                       | 1,863,951                               |
| 263.49 Nonspendable - SDPAA Reserve<br>(Note 9)  | 135,844                 | -                                       | -                                  | -                     | -                                       | 135,844                                 |
| 263.51 Nonspendable - Perpetual Care<br>Cemetery | -                       | -                                       | -                                  | -                     | 50,000                                  | 50,000                                  |
| 263.99 Nonspendable - Library Trust              | -                       | -                                       | -                                  | -                     | 327,535                                 | 327,535                                 |
|  | <u>1,525,905</u>        | <u>-</u>                                | <u>559,870</u>                     | <u>-</u>              | <u>377,535</u>                          | <u>2,463,310</u>                        |
| <b>264 Restricted:</b>                           |                         |   |                                    |                       |   |   |
| 264.01 Restricted - Debt Service                 | -                       | 625,765                                 | -                                  | -                     | -                                       | 625,765                                 |
| 264.03 Restricted - Perpetual<br>Care Cemetery   | -                       | -                                       | -                                  | -                     | 119,099                                 | 119,099                                 |
| 264.04 Restricted - BBB Tax                      | -                       | -                                       | -                                  | -                     | 680,530                                 | 680,530                                 |
| 264.05 Restricted - Library Purposes             | -                       | -                                       | -                                  | -                     | 245,278                                 | 245,278                                 |
| 264.97 Restricted - Revolving Loan               | -                       | -                                       | 743,986                            | -                     | -                                       | 743,986                                 |
|  | <u>-</u>                | <u>625,765</u>                          | <u>743,986</u>                     | <u>-</u>              | <u>1,044,907</u>                        | <u>2,414,658</u>                        |
| <b>265 Committed</b>                             |                         |   |                                    |                       |   |   |
| 265.97 Committed - Brick Fund                    | 119,454                 | -                                       | -                                  | -                     | -                                       | 119,454                                 |
| <b>266 Assigned</b>                              |                         |   |                                    |                       |   |   |
| 266.01 Assigned - Subsequent Year's<br>Budget    | 102,412                 | -                                       | -                                  | -                     | -                                       | 102,412                                 |
| <b>267 Unassigned</b>                            |                         |   |                                    |                       |   |   |
|  | 952,400                 | (169,763)                               | -                                  | (1,100,779)           | (654)                                   | (318,796)                               |
| <b>Total Fund Balances</b>                       | <u>\$2,700,171</u>      | <u>\$ 456,002</u>                       | <u>\$ 1,303,856</u>                | <u>\$ (1,100,779)</u> | <u>\$ 1,421,788</u>                     | <u>\$ 4,781,038</u>                     |

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

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

**Inventory of Supplies Purchased for Resale**

Inventory consists of inventory held for resale, which is recorded at the lower of cost or market, using the first-in, first-out method. Inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

**Compensated Absences**

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

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

**Deferred Inflows and Deferred Outflows of Resources**

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

In addition to liabilities, the statement of net position and governmental funds balance sheet report a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows of resources consist primarily of property taxes, special assessments and federal grant funds in the governmental fund balance sheet and pension activity in the government wide statement of net position.

**Receivables and Payables**

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year. Included in accounts receivable at December 31, 2015 is an allowance for doubtful accounts totaling \$10,000 for the general fund. Included in utility accounts receivable at December 31, 2015 are allowances for doubtful accounts totaling approximately \$3,000, \$4,000, \$4,000 and \$859,000 for the water, wastewater, sanitation and ambulance funds, respectively.

**Emerging Accounting Standards**

In February 2015, GASB issued Statements No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement according to a three level hierarchy for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value investments. Management has not yet determined the impact of this Statement on the financial statements. This statement is effective for the City's year ending December 31, 2016.

## **CITY OF STURGIS**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015**

#### **(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, 2015, the City's cash and investments consisted of checking, savings, money market accounts, and certificates of deposit.

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

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

*Interest Rate Risk:*

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

*Credit Risk:*

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

*Custodial Credit Risk:*

Custodial credit risk is the risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City will minimize custodial credit risk for deposits by requiring the financial institution to submit a copy of their collateralization report to the finance officer to determine whether the financial institution is in compliance with SDCL 4-6A and 51A-10-9. As of December 31, 2015, the City's deposits in financial institutions collateralized by securities held by the pledging financial institution were as follows:

|  | <u>Bank Balance</u> |
|--|---------------------|
| Insured - FDIC   | \$ 517,929          |
| Uninsured, collateralized in accordance with SDCL 4-6A-3 | 4,970,980           |
| <b>Total Deposits</b>                                    | <b>\$ 5,488,909</b> |

*Concentration Risk:*

The City will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. More than five percent of the City's certificates of deposit are in: American Express (9.9 percent), Capital One Bank (12.3 percent), GE Capital (25.1 percent), Goldman Sachs (24.6 percent), and Discover Bank (24.6 percent).

**(3) Property Taxes**

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

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

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

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

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

**(4) Changes in Capital Assets**

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

|   | Balance<br>12/31/2014 | Additions           | Transfers/<br>Deletions | Balance<br>12/31/2015 |
|---|-----------------------|---------------------|-------------------------|-----------------------|
| <i>Governmental Activities:</i>   |                       |                     |                         |                       |
| Capital Assets, not being Depreciated:                                      |                       |                     |                         |                       |
| Land  | \$ 2,184,497          | \$ -                | \$ 608,527              | \$ 2,793,024          |
| Construction Work in Progress   | 1,044,026             | 2,099,735           | (2,558,285)             | 585,476               |
| <b>Total Capital Assets, not being Depreciated</b>                          | <b>3,228,523</b>      | <b>2,099,735</b>    | <b>(1,949,758)</b>      | <b>3,378,500</b>      |
| Capital Assets, being Depreciated:  |                       |                     |                         |                       |
| Buildings   | 12,768,659            | 29,196              | -                       | 12,797,855            |
| Improvements Other Than Buildings   | 27,906,378            | 676,744             | 1,685,700               | 30,268,822            |
| Machinery and Equipment   | 4,342,582             | 317,947             | (46,674)                | 4,613,855             |
| <b>Total Capital Assets, being Depreciated</b>                              | <b>45,017,619</b>     | <b>1,023,887</b>    | <b>1,639,026</b>        | <b>47,680,532</b>     |
| Less Accumulated Depreciation for:  |                       |                     |                         |                       |
| Buildings   | 4,117,750             | 275,684             | -                       | 4,393,434             |
| Improvements Other Than Buildings   | 7,524,147             | 619,251             | -                       | 8,143,398             |
| Machinery and Equipment   | 2,476,774             | 203,511             | (46,674)                | 2,633,611             |
| <b>Total Accumulated Depreciation</b>                                       | <b>14,118,671</b>     | <b>1,098,446</b>    | <b>(46,674)</b>         | <b>15,170,443</b>     |
| <b>Total Governmental Activities Capital Assets, being Depreciated, Net</b> | <b>30,898,948</b>     | <b>(74,559)</b>     | <b>1,685,700</b>        | <b>32,510,089</b>     |
| <b>Total Governmental Capital Assets, Net</b>                               | <b>\$ 34,127,471</b>  | <b>\$ 2,025,176</b> | <b>\$ (264,058)</b>     | <b>\$ 35,888,589</b>  |

Depreciation expense was charged to functions as follows:

|  |                     |
|--|---------------------|
| Public Works                                     | \$ 515,778          |
| Culture and Recreation                           | 249,914             |
| General Government                               | 98,394              |
| Public Safety                                    | 234,360             |
| <b>Total Depreciation Expense - Governmental</b> | <b>\$ 1,098,446</b> |

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

**(4) Changes in Capital Assets (Continued)**

|  | Balance<br>12/31/2014 | Additions         | Transfers/<br>Deletions | Balance<br>12/31/2015 |
|--|-----------------------|-------------------|-------------------------|-----------------------|
| <i>Business-Type Activities:</i>   |                       |                   |                         |                       |
| Capital Assets, not being Depreciated:                                       |                       |                   |                         |                       |
| Land   | \$ 738,681            | \$ -              | \$ -                    | \$ 738,681            |
| Construction Work in Progress  | 9,053                 | 283,615           | 271,731                 | 20,937                |
| <b>Total Capital Assets, not being Depreciated</b>                           | <b>747,734</b>        | <b>283,615</b>    | <b>271,731</b>          | <b>759,618</b>        |
| Capital Assets, being Depreciated:   |                       |                   |                         |                       |
| Buildings  | 2,123,285             | -                 | -                       | 2,123,285             |
| Improvements Other Than Buildings  | 26,880,385            | 604,487           | (271,731)               | 27,756,603            |
| Machinery and Equipment  | 4,609,111             | 317,314           | -                       | 4,926,425             |
| <b>Total Capital Assets, being Depreciated</b>                               | <b>33,612,781</b>     | <b>921,801</b>    | <b>(271,731)</b>        | <b>34,806,313</b>     |
| Less Accumulated Depreciation for:   |                       |                   |                         |                       |
| Buildings  | 490,990               | 60,636            | -                       | 551,626               |
| Improvements Other Than Buildings  | 7,913,674             | 552,588           | -                       | 8,466,262             |
| Machinery and Equipment  | 3,402,359             | 247,336           | -                       | 3,649,695             |
| <b>Total Accumulated Depreciation</b>  | <b>11,807,023</b>     | <b>860,560</b>    | <b>-</b>                | <b>12,667,583</b>     |
| <b>Total Business-Type Activities Capital Assets, being Depreciated, Net</b> | <b>21,805,758</b>     | <b>61,241</b>     | <b>(271,731)</b>        | <b>22,138,730</b>     |
| <b>Total Business-Type Capital Assets, Net</b>                               | <b>\$ 22,553,492</b>  | <b>\$ 344,856</b> | <b>\$ -</b>             | <b>\$ 22,898,348</b>  |

Depreciation expense was charged to functions as follows:

|   |                   |
|---|-------------------|
| Ambulance   | \$ 90,057         |
| Wastewater  | 255,838           |
| Water   | 367,990           |
| Sanitary  | 116,930           |
| Liquor  | 29,745            |
| <b>Total Depreciation Expense - Business-Type</b> | <b>\$ 860,560</b> |

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

**(5) Long-Term Debt**

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

|                                       | Balance<br>12/31/2014 | Additions         | Deletions          | Balance<br>12/31/2015 | Due Within<br>One Year |
|---------------------------------------|-----------------------|-------------------|--------------------|-----------------------|------------------------|
| <b>Primary Government:</b>            |                       |                   |                    |                       |                        |
| <b>Governmental Activities:</b>       |                       |                   |                    |                       |                        |
| 2008 Revenue Bonds                    | \$ 3,805,000          | \$ -              | \$ 485,000         | \$ 3,320,000          | \$ 500,000             |
| Tax Increment Financing Obligations   | 188,289               | -                 | 130,706            | 57,583                | 57,583                 |
| Marcotte Property                     | 182,430               | -                 | 182,430            | -                     | -                      |
| 2nd Street Plaza                      | 679,797               | 500,416           | 51,617             | 1,128,596             | 43,704                 |
| Compensated Absences                  | 204,980               | 221,360           | 217,558            | 208,782               | 208,782                |
| <b>Total Governmental Activities</b>  | <b>5,060,496</b>      | <b>721,776</b>    | <b>1,067,311</b>   | <b>4,714,961</b>      | <b>810,069</b>         |
| <b>Business-Type Activities:</b>      |                       |                   |                    |                       |                        |
| 2010 GO Crossover Refunding Bonds     | 1,015,000             | -                 | 240,000            | 775,000               | 175,000                |
| 2010 Sales Tax Revenue Bond           | 760,496               | -                 | 10,560             | 749,936               | 10,415                 |
| 2009 Drinking Water Revenue Bond      | 356,485               | -                 | 53,732             | 302,753               | 54,972                 |
| 2009 Clean Water Revenue Bond         | 252,260               | -                 | 22,708             | 229,552               | 13,170                 |
| 2011 Drinking Water Revenue Bond      | 3,192,929             | -                 | 40,058             | 3,152,871             | 41,358                 |
| 2012 Drinking Water Revenue Bond      | 1,979,475             | -                 | 77,218             | 1,902,257             | 79,560                 |
| Compensated Absences                  | 75,727                | 95,816            | 87,396             | 84,147                | 84,147                 |
| <b>Total Business-Type Activities</b> | <b>7,632,372</b>      | <b>95,816</b>     | <b>531,672</b>     | <b>7,196,516</b>      | <b>458,622</b>         |
| <b>Total Primary Government</b>       | <b>\$12,692,868</b>   | <b>\$ 817,592</b> | <b>\$1,598,983</b> | <b>\$ 11,911,477</b>  | <b>\$1,268,691</b>     |

The City has restricted reserves of \$625,765, \$20,490, and \$4,713 at December 31, 2015, 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<br><u>Fund</u> | Wastewater<br><u>Fund</u> |
|-------------------------------------|----------------------|---------------------------|
| Current Year Principal and Interest | \$ 369,292           | \$ 272,466                |
| Pledged Revenue                     | 1,710,026            | 1,180,591                 |

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

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

Debt payable at December 31, 2015, is comprised of the following:

*General Obligation*

General Obligation Crossover Refunding Bonds, Series 2010A for \$2,210,000, matures in June 2021, interest at 2.25 to 3.65 percent, due in semi-annual installments of \$30,000 to \$155,000. Financed through Water and Wastewater Funds. \$ 775,000

*Revenue Bonds*

Sales Tax Refunding Bonds, 2008 Series for \$6,470,000, mature in March 2020, interest at 3.30 to 3.80 percent, due in variable annual installments. Financed through the Capital Improvement Fund. 3,320,000

Sales Tax Revenue Bonds, Series 2010 (Build America Bonds - Direct Pay), for \$811,000, mature in July 2050, interest at a fixed 4.00 percent, due in annual installments of \$40,980. Sales tax revenues pledged and financed through the Liquor Fund. The City will receive a credit from the Federal government for 35 percent of the interest paid on the bonds. 749,936

Drinking Water Revenue Borrower Bond, 2009 Series for \$547,576, mature in January 2021, interest at a fixed 2.25 percent, due in quarterly installments of \$15,325. Water revenues pledged and financed through the Water Fund. 302,753

Clean Water Revenue Borrower Bond, 2009 Series for \$298,617, mature in October 2030, interest at a fixed 3.00 percent, due in quarterly installments of \$4,977. Wastewater revenues pledged and financed through the Wastewater Fund. 229,552

Drinking Water Revenue Borrower Bond, 2011 Series for \$3,200,000, matures in September 2054, interest at a fixed 3.25 percent due in monthly installments of \$11,936. Water revenues pledged and financed through the Water Fund. 3,152,871

Drinking Water Revenue Borrower Bond, Series 2012 for \$2,035,893, mature in July 2034, interest at a fixed 3.00 percent, due in quarterly installments of \$33,935. Water revenues pledged and financed through the Water Fund. 1,902,257

*Note Payable*

Note Payable to First Interstate Bank, matures with a balloon payment in 2019, interest at a fixed 3.75 percent, due in monthly installments of \$7,116. Financed through Capital Improvement Fund. 1,128,596

*Tax Increment Financing Obligations*

TIF #9 for \$406,001, including interest not to exceed 10 percent per annum, due in varying installments within 30 days of property tax collections from the County. Financed through TIF Debt Service Funds. 57,583

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**Total Bonds, Contract Payable, and TIF Obligations 11,618,548**

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CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015

(5) Long-Term Debt (Continued)

Compensated Absences:

|                                   |                |
|-----------------------------------|----------------|
| General Fund                      | 208,782        |
| Liquor Fund                       | 1,131          |
| Water Fund                        | 25,305         |
| Wastewater Fund                   | 22,478         |
| Sanitation Fund                   | 23,765         |
| Ambulance Fund                    | 11,468         |
| <b>Total Compensated Absences</b> | <b>292,929</b> |

**Total Long-Term Debt** **\$ 11,911,477**

The annual requirements to amortize long-term debt outstanding as of December 31, 2015, except for compensated absences are as follows:

|              | General Obligation |                   | Revenue Bonds       |                     | TIF Obligations |                  |
|--------------|--------------------|-------------------|---------------------|---------------------|-----------------|------------------|
|              | <u>Interest</u>    | <u>Principal</u>  | <u>Interest</u>     | <u>Principal</u>    | <u>Interest</u> | <u>Principal</u> |
| 2016         | \$ 22,991          | \$ 175,000        | \$ 314,171          | \$ 699,475          | \$ 1,833        | \$ 57,583        |
| 2017         | 18,337             | 165,000           | 290,722             | 725,305             | -               | -                |
| 2018         | 13,574             | 130,000           | 265,877             | 751,330             | -               | -                |
| 2019         | 9,219              | 135,000           | 239,683             | 772,536             | -               | -                |
| 2020         | 68,734             | 140,000           | 200,128             | 1,428,929           | -               | -                |
| 2021-2025    | 548                | 30,000            | 798,530             | 916,098             | -               | -                |
| 2026-2030    | -                  | -                 | 645,349             | 1,038,075           | -               | -                |
| 2031-2035    | -                  | -                 | 481,105             | 881,107             | -               | -                |
| 2036-2040    | -                  | -                 | 372,732             | 548,328             | -               | -                |
| 2041-2045    | -                  | -                 | 270,496             | 650,564             | -               | -                |
| 2046-2050    | -                  | -                 | 149,003             | 743,354             | -               | -                |
| 2051-2054    | -                  | -                 | 31,798              | 502,268             | -               | -                |
| <b>Total</b> | <b>\$ 133,403</b>  | <b>\$ 775,000</b> | <b>\$ 4,059,594</b> | <b>\$ 9,657,369</b> | <b>\$ 1,833</b> | <b>\$ 57,583</b> |

| Note Payable      |                     | Total               |                      |
|-------------------|---------------------|---------------------|----------------------|
| <u>Interest</u>   | <u>Principal</u>    | <u>Interest</u>     | <u>Principal</u>     |
| \$ 41,463         | \$ 43,704           | \$ 380,458          | \$ 975,762           |
| 39,905            | 45,492              | 348,964             | 935,797              |
| 38,169            | 47,228              | 317,620             | 928,558              |
| 24,416            | 992,172             | 273,318             | 1,899,708            |
| -                 | -                   | 268,862             | 1,568,929            |
| -                 | -                   | 799,078             | 946,098              |
| -                 | -                   | 645,349             | 1,038,075            |
| -                 | -                   | 481,105             | 881,107              |
| -                 | -                   | 372,732             | 548,328              |
| -                 | -                   | 270,496             | 650,564              |
| -                 | -                   | 149,003             | 743,354              |
| -                 | -                   | 31,798              | 502,268              |
| <b>\$ 143,953</b> | <b>\$ 1,128,596</b> | <b>\$ 4,338,783</b> | <b>\$ 11,618,548</b> |

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

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

Tax Increment Financing Obligations

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

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

During the year ended December 31, 2015, property tax revenues were \$143,872 for TIF #9. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$12,482 for the year ended December 31, 2015.

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

Interfund receivable and payable balances at December 31, 2015, are as follows:

| Fund   | Interfund<br>Receivables | Interfund<br>Payables |
|--|--------------------------|-----------------------|
| <i>Major Funds:</i>                                    |                          |                       |
| TIF Funds  | \$ 629,863               | \$ 50,421             |
| Sanitation Fund  | 139,795                  | -                     |
| Ambulance Fund   | -                        | 399,802               |
| Water Fund   | 50,421                   | -                     |
| Wastewater Fund  | -                        | 53,191                |
| Liquor Fund  | -                        | 243,359               |
| General Fund   | -                        | 92,881                |
| Revolving Loan Fund                                    | 22,055                   | -                     |
| <i>Nonmajor Fund:</i>                                  |                          |                       |
| BID Fund   | -                        | 2,480                 |
| <b>Total Interfund Receivable and Payable Balances</b> | <b>\$ 842,134</b>        | <b>\$ 842,134</b>     |

The TIF Funds and Sanitation Fund loaned monies to the Ambulance Fund, Wastewater Fund, Liquor Fund, General Fund, and BID Fund for operations. The balances will be repaid within the next year.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

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

Interfund advances balances at December 31, 2015, are as follows:

| Fund   | Interfund<br>Advance To | Interfund<br>Advance From |
|--|-------------------------|---------------------------|
| <i>Major Funds:</i>                                    |                         |                           |
| General Fund   | \$ 1,304,081            | \$ -                      |
| Revolving Loan Fund                                    | 557,870                 | -                         |
| Water Fund   | 1,444,359               | -                         |
| TIF Funds  | -                       | 2,338,440                 |
| Wastewater Fund  | -                       | 157,870                   |
| Capital Improvements Fund                              | -                       | 810,000                   |
| <b>Total Interfund Receivable and Payable Balances</b> | <b>\$ 3,306,310</b>     | <b>\$ 3,306,310</b>       |

The Wastewater Fund continued making payments to the Revolving Loan Fund for assistance in lagoon repairs and will be repaid through 2024. The General Fund and Revolving Loan Fund advanced monies to the Capital Improvement Fund to assist with costs for HD Rally Point. The balance will be repaid through 2025. The General Fund and Water Fund advanced monies to the TIF Funds to assist in funding for TIF #11. The balance will be repaid through 2033 and bears interest at 4.00 percent. The General Fund advanced monies to the TIF Funds to assist in funding for TIF #13. The balance will be repaid through 2025 and bears interest at 5.00 percent.

**(7) Interfund Transfers**

|                        | Transfers<br>In   | Transfers<br>Out  |
|------------------------|-------------------|-------------------|
| <i>Major Funds:</i>    |                   |                   |
| General Fund           | \$ 50,000         | \$ 136,947        |
| Wastewater Fund        | -                 | 109,284           |
| Sanitation Fund        | 165,109           | -                 |
| Capital Improvements   | 37,500            | 133,030           |
| Revolving Loan Fund    | 22,903            | -                 |
| Water Fund             | -                 | 27,736            |
| Liquor Fund            | -                 | 1,545             |
| <i>Nonmajor Funds:</i> |                   |                   |
| BID Fund               | 20,000            | -                 |
| Special Sales Tax Fund | 113,030           | -                 |
| <b>Total Transfers</b> | <b>\$ 408,542</b> | <b>\$ 408,542</b> |

Transfers between the funds were made to cover general operational costs of the City, to make the final debt payment on the Marcotte property, to repair the community center roof and the lagoon, to purchase equipment in the sanitation fund, to fund the HD Rally Point brick project, and to transfer interest income to the General Fund in accordance with the City's policy.

**(8) Pension Plan**

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

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

Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more - 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
  - 90.0% to 99.9% funded - 2.1% minimum and 2.8% maximum COLA
  - 80.0% to 90.0% funded - 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% - 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014, and 2013 were **\$328,185**, \$284,199, and \$243,369, respectively, equal to the required contributions each year.

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

At June 30, 2015, SDRS is 104.1 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the City as of June 30, 2015 are as follows:

|   | Governmental<br>Activities | Business-Type<br>Activities | Total               |
|---|----------------------------|-----------------------------|---------------------|
| Proportionate Share of Net Position Restricted for Pension Benefits | \$ 17,407,800              | \$ 9,390,443                | \$ 26,798,243       |
| Less: Proportionate Share of Total Pension Liability                | (16,722,687)               | (9,020,867)                 | (25,743,554)        |
| <b>Proportionate Share of Net Pension Asset</b>                     | <b>\$ 685,113</b>          | <b>\$ 369,576</b>           | <b>\$ 1,054,689</b> |

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

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

At December 31, 2015, the City reported an asset of \$1,054,689 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the City's proportion was 0.24867220 percent, which is an increase of .003 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$115,109. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|---|-----------------------------------|----------------------------------|
| Difference between Expected and Actual Experience   | \$ 215,953                        | \$ -                             |
| Changes in Assumption   | 836,303                           | -                                |
| Net Difference between Projected and Actual Earnings on<br>Pension Plan Investments                         | 644,292                           | 1,556,215                        |
| Changes in Proportion and Difference between City<br>Contributions and Proportionate Share of Contributions | -                                 | 11,742                           |
| City Contributions Subsequent to the Measurement Date   | 155,531                           | -                                |
| <b>Total</b>  | <b>\$ 1,852,079</b>               | <b>\$ 1,567,957</b>              |

Deferred outflow of resources includes \$155,531 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

|      |                   |
|------|-------------------|
| 2016 | \$ 38,234         |
| 2017 | 49,976            |
| 2018 | (134,449)         |
| 2019 | 174,830           |
|      | <b>\$ 128,591</b> |

Actuarial Assumptions:

The total pension asset in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Inflation                 | 3.25 percent  |
| Salary Increases          | 5.83 percent at entry to 3.87 percent after 30 years of service                               |
| Investment Rate of Return | 7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense |

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015**

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Global Equity      | 61.0%                    | 4.5%  |
| Fixed Income       | 27.0%                    | 1.8%  |
| Real Estate        | 10.0%                    | 5.2%  |
| Cash               | 2.0%                     | 0.8%  |
|                    | <u>100.0%</u>            |   |

Discount Rate:

The discount rate used to measure the total pension asset was 7.25 percent through 2016 and 7.50 percent thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of Asset to Changes in the Discount Rate:

The following presents the City's proportionate share of net pension asset calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the District's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50 percent) or 1-percentage point higher (8.25/8.50 percent) than the current rate:

|   | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|---|--------------------|------------------------------|--------------------|
| City's Proportionate Share of the Net Pension Asset | \$ (2,654,643)     | \$ 1,054,689                 | \$ 4,079,331       |

Pension Plan Fiduciary Net Position:

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

**(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, 2015, the City managed its risks as follows:

Employee Health Insurance:

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

## CITY OF STURGIS

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015

#### (9) Risk Management (Continued)

##### 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 SDPAA 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, 2015, the City has a fully vested balance in the cumulative reserve fund of \$135,844. Access to this balance is restricted by SDPAA.

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

##### Property and Building Insurance:

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

##### Worker's Compensation:

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

##### Unemployment Benefits:

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2015**

**(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, 2015:

Governmental:

| <u>Loan</u>     | <u>Collateral</u>                 | <u>Rate</u> | <u>Maturity</u>  | <u>Balance</u> |
|-----------------|-----------------------------------|-------------|------------------|----------------|
| Jenter          | None                              | 0%          | May 2018         | \$ 9,879       |
| Klar            | None                              | 0%          | January 1, 2017  | 1,550          |
| Knuckle Brewery | Real Estate                       | 3%          | August 5, 2024   | 22,083         |
| Sturgis ATV     | Real Estate                       | 3%          | August 5, 2024   | 22,074         |
| Jake's Garage   | Real Estate                       | 3%          | December 5, 2024 | 22,823         |
| Dakota Hardware | Real Estate, Inventory, Equipment | 2%          | November 1, 2024 | 90,254         |
| Baldwin         | Real Estate                       | 3%          | February 5, 2025 | 23,429         |
| Dominos         | Real Estate                       | 3%          | June 1, 2025     | 23,736         |
|                 |                                   |             |                  | \$ 215,828     |

**(11) Due from Other Governments**

The following represent receivables due from other governments at December 31, 2015:

Due from State Government:

|  |               |
|--|---------------|
| Local Government Highway and Bridge    | \$ 29,172     |
| Alcohol Reversion                      | 10,626        |
| State Grant - Starline Park            | 28,000        |
| Disaster Recovery for FEMA             | 31,248        |
| <b>Total Due from State Government</b> | <b>99,046</b> |

Due from Federal Government:

|   |                   |
|---|-------------------|
| Disaster Recovery for FEMA              | 234,360           |
| <b>Total Due from Other Governments</b> | <b>\$ 333,406</b> |

**(12) Change in Accounting Principle**

In 2015, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset totaling \$1,771,339, deferred outflows of resources totaling \$1,442,950, and deferred inflows of resources totaling (\$2,051,509) at December 31, 2014. The result was an increase of net position of \$1,162,780 at December 31, 2014. See Note 8.

**(13) Deficit Nonmajor Fund Balance**

The City has an accumulated deficit fund balance of \$654 in the BID Fund as of December 31, 2015. This deficit is the result of a timing difference between the years in which business improvement expenditures occurred, while the revenue will not be received until the subsequent year. This deficit does not indicate that the City is facing financial difficulty and is a permitted practice under generally accepted accounting principles.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF STURGIS**

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|   | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual -<br/>Budgetary Basis</u> | <u>Variance</u> |
|---|----------------------------|-------------------------|-------------------------------------|-----------------|
| <b>Revenue</b>                                    |                            |                         |                                     |                 |
| <i>Taxes:</i>                                     |                            |                         |                                     |                 |
| 311 General Property Taxes                        | \$ 2,770,625               | \$ 2,770,625            | \$ 2,760,347                        | \$ (10,278)     |
| 313 General Sales and Use Taxes                   | 1,896,000                  | 1,896,000               | 2,178,649                           | 282,649         |
| 315 Amusement Taxes                               | 900                        | 900                     | 240                                 | (660)           |
| 319 Penalties and Interest on Delinquent Taxes    | 14,000                     | 14,000                  | 8,843                               | (5,157)         |
| 320 Licenses and Permits                          | 566,900                    | 566,900                 | 830,528                             | 263,628         |
| <i>Intergovernmental Revenue:</i>                 |                            |                         |                                     |                 |
| 331 Federal Grants                                | -                          | -                       | 5,564                               | 5,564           |
| 334 State Grants                                  | -                          | -                       | 4,730                               | 4,730           |
| 335 Bank Franchise Tax                            | 8,000                      | 8,000                   | 12,053                              | 4,053           |
| 335 Liquor Tax Reversion                          | 45,000                     | 45,000                  | 41,335                              | (3,665)         |
| 335 Motor Vehicle Licenses                        | 70,000                     | 70,000                  | 80,353                              | 10,353          |
| 335.1 Local Government Highway and Bridge Fund    | 120,000                    | 120,000                 | 145,595                             | 25,595          |
| 338 County Highway and Bridge Reserve Tax (25%)   | 5,855                      | 5,855                   | 5,855                               | -               |
| 338 Port of Entry                                 | 12,500                     | 12,500                  | 12,479                              | (21)            |
| 339 County Payments in Lieu of Taxes              | 2,800                      | 2,800                   | 4,737                               | 1,937           |
| <i>Charges for Goods and Services:</i>            |                            |                         |                                     |                 |
| 341 General Government                            | 1,357,700                  | 1,357,700               | 1,558,042                           | 200,342         |
| 342 Public Safety                                 | 32,735                     | 32,735                  | 33,013                              | 278             |
| 345 Health  | 400                        | 400                     | 1,928                               | 1,528           |
| 346 Culture and Recreation                        | 272,500                    | 272,500                 | 271,371                             | (1,129)         |
| 349 Other   | -                          | -                       | 5,933                               | 5,933           |
| <i>Fines and Forfeits:</i>                        |                            |                         |                                     |                 |
| 351 Court Fines and Costs                         | 6,000                      | 6,000                   | 10,126                              | 4,126           |
| <i>Miscellaneous Revenue:</i>                     |                            |                         |                                     |                 |
| 361 Earnings on Deposits and Investments          | 40,000                     | 40,000                  | 73,066                              | 33,066          |
| 362 Rentals/Airport Hangar Lease                  | 35,000                     | 35,000                  | 29,889                              | (5,111)         |
| 367 Contributions and Donations - Private Sources | 6,500                      | 6,500                   | 22,151                              | 15,651          |
| 369 Other   | 1,000                      | 1,000                   | 11,780                              | 10,780          |
| <b>Total Revenue</b>                              | <b>7,264,415</b>           | <b>7,264,415</b>        | <b>8,108,607</b>                    | <b>844,192</b>  |

CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

|   | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual -<br/>Budgetary Basis</u> | <u>Variance</u>   |
|---|----------------------------|-------------------------|-------------------------------------|-------------------|
| <b>Expenditures</b>   |                            |                         |                                     |                   |
| <i>General Government:</i>                                  |                            |                         |                                     |                   |
| 411 Legislative   | 262,730                    | 236,430                 | 224,060                             | 12,370            |
| 414 Financial Administration                                | 1,113,533                  | 1,142,810               | 1,131,826                           | 10,984            |
| 419 Other   | 1,106,032                  | 1,769,113               | 1,723,777                           | 45,336            |
| <i>Public Safety:</i>                                       |                            |                         |                                     |                   |
| 421 Police  | 1,925,313                  | 1,933,526               | 1,890,510                           | 43,016            |
| 422 Fire  | 147,986                    | 147,986                 | 147,984                             | 2                 |
| <i>Public Works:</i>  |                            |                         |                                     |                   |
| 431 Highway and Streets                                     | 811,090                    | 867,134                 | 807,098                             | 60,036            |
| 435 Airport   | 45,158                     | 45,158                  | 45,018                              | 140               |
| 437 Cemeteries  | 125,486                    | 125,486                 | 86,271                              | 39,215            |
| <i>Culture and Recreation:</i>                              |                            |                         |                                     |                   |
| 451 Recreation  | 726,088                    | 738,088                 | 700,266                             | 37,822            |
| 452 Parks   | 657,419                    | 682,242                 | 540,596                             | 141,646           |
| 455 Library   | 353,099                    | 353,099                 | 336,860                             | 16,239            |
| 456 Auditorium  | 31,248                     | 31,248                  | 24,083                              | 7,165             |
| 485 Capital Outlay  | 253,779                    | 253,779                 | 41,719                              | 212,060           |
| <b>Total Expenditures</b>                                   | <b>7,558,961</b>           | <b>8,326,099</b>        | <b>7,700,068</b>                    | <b>626,031</b>    |
| <b>Excess of Revenue Over (Under) Expenditures</b>          | <b>(294,546)</b>           | <b>(1,061,684)</b>      | <b>408,539</b>                      | <b>1,470,223</b>  |
| <b>Other Financing Sources (Uses)</b>                       |                            |                         |                                     |                   |
| 391.01 Transfers In   | 216,333                    | 787,911                 | 50,000                              | (737,911)         |
| 391.04 Compensation for Loss or<br>Damage to Capital Assets | -                          | -                       | 13,037                              | 13,037            |
| 511 Transfers Out   | (12,000)                   | (12,000)                | (136,947)                           | (124,947)         |
| <b>Total Other Financing Sources</b>                        | <b>204,333</b>             | <b>775,911</b>          | <b>(73,910)</b>                     | <b>(849,821)</b>  |
| Net Change in Fund Balance                                  | (90,213)                   | (285,773)               | 334,629                             | 620,402           |
| Fund Balance, December 31, 2014                             | 2,365,542                  | 2,365,542               | 2,365,542                           | -                 |
| <b>Fund Balance, December 31, 2015</b>                      | <b>\$ 2,275,329</b>        | <b>\$ 2,079,769</b>     | <b>\$ 2,700,171</b>                 | <b>\$ 620,402</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, 2015**

|   | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual -<br/>Budgetary Basis</u> | <u>Variance</u>     |
|---|----------------------------|-------------------------|-------------------------------------|---------------------|
| <b>Revenue</b>  |                            |                         |                                     |                     |
| <i>Taxes:</i>   |                            |                         |                                     |                     |
| 313 General Sales and Use Taxes                             | \$ 1,264,000               | \$ 1,264,000            | \$ 1,452,433                        | \$ 188,433          |
| <i>Intergovernmental Revenue:</i>                           |                            |                         |                                     |                     |
| 334 State Grants  | -                          | -                       | 28,000                              | 28,000              |
| <i>Miscellaneous Revenue:</i>                               |                            |                         |                                     |                     |
| 341 Rally Property Leases                                   | 100,000                    | 100,000                 | 187,375                             | 87,375              |
| 367 Contributions and Donations                             | -                          | -                       | 39,760                              | 39,760              |
| <b>Total Revenue</b>  | <b>1,364,000</b>           | <b>1,364,000</b>        | <b>1,707,568</b>                    | <b>343,568</b>      |
| <b>Expenditures</b>   |                            |                         |                                     |                     |
| <i>General Government:</i>                                  |                            |                         |                                     |                     |
| 419 Other   | -                          | 27,718                  | 27,983                              | (265)               |
| <i>Public Safety:</i>                                       |                            |                         |                                     |                     |
| 422 Fire  | 21,000                     | 21,000                  | 20,833                              | 167                 |
| <i>Public Works:</i>  |                            |                         |                                     |                     |
| 431 Highway and Streets                                     | -                          | 22,728                  | 41,472                              | (18,744)            |
| 437 Cemetery  | -                          | 3,478                   | -                                   | 3,478               |
| <i>Culture and Recreation:</i>                              |                            |                         |                                     |                     |
| 451 Recreation  | -                          | 47,033                  | 47,033                              | -                   |
| 456 Library   | -                          | 3,488                   | 3,488                               | -                   |
| 470 Debt Service  | 614,318                    | 699,718                 | 699,715                             | 3                   |
| 900 Capital Outlay  | 650,248                    | 2,350,903               | 2,326,010                           | 24,893              |
| <b>Total Expenditures</b>                                   | <b>1,285,566</b>           | <b>3,176,066</b>        | <b>3,166,534</b>                    | <b>9,532</b>        |
| <b>Excess of Revenue Over (Under) Expenditures</b>          | <b>78,434</b>              | <b>(1,812,066)</b>      | <b>(1,458,966)</b>                  | <b>353,100</b>      |
| <b>Other Financing Sources (Uses)</b>                       |                            |                         |                                     |                     |
| 391.01 Transfers In   | 34,596                     | 34,596                  | 37,500                              | 2,904               |
| 391.04 Compensation for Loss or Damage to<br>Capital Assets | -                          | -                       | 317,878                             | 317,878             |
| 391.20 Long-Term Debt Issued                                | -                          | -                       | 500,416                             | 500,416             |
| 511 Transfers Out   | (113,030)                  | (113,030)               | (133,030)                           | (20,000)            |
| <b>Total Other Financing Sources (Uses)</b>                 | <b>(78,434)</b>            | <b>(78,434)</b>         | <b>722,764</b>                      | <b>801,198</b>      |
| <b>Net Change in Fund Balance</b>                           | <b>-</b>                   | <b>(1,890,500)</b>      | <b>(736,202)</b>                    | <b>1,154,298</b>    |
| Fund Balance, December 31, 2014                             | 1,192,204                  | 1,192,204               | 1,192,204                           | -                   |
| <b>Fund Balance, December 31, 2015</b>                      | <b>\$ 1,192,204</b>        | <b>\$ (698,296)</b>     | <b>\$ 456,002</b>                   | <b>\$ 1,154,298</b> |

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

**CITY OF STURGIS**

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
 REVOLVING LOAN FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2015**

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual -<br/>Budgetary Basis</u> | <u>Variance</u>  |
|--|----------------------------|-------------------------|-------------------------------------|------------------|
| <b>Revenue</b>                                     |                            |                         |                                     |                  |
| <i>Miscellaneous Revenue:</i>                      |                            |                         |                                     |                  |
| 361 Investment Earnings                            | \$ 16,500                  | \$ 16,500               | \$ 9,276                            | \$ (7,224)       |
| <b>Total Revenue</b>                               | <b>16,500</b>              | <b>16,500</b>           | <b>9,276</b>                        | <b>(7,224)</b>   |
| <b>Expenditures</b>                                |                            |                         |                                     |                  |
| 419 Other  | 75,000                     | 75,000                  | -                                   | 75,000           |
| <b>Excess of Expenditures Over (Under) Revenue</b> | <b>(58,500)</b>            | <b>(58,500)</b>         | <b>9,276</b>                        | <b>67,776</b>    |
| <b>Other Financing Sources</b>                     |                            |                         |                                     |                  |
| 391 Transfers In                                   | 22,903                     | 22,903                  | 22,903                              | -                |
| <b>Net Change in Fund Balance</b>                  | <b>(35,597)</b>            | <b>(35,597)</b>         | <b>32,179</b>                       | <b>67,776</b>    |
| Fund Balance, December 31, 2014                    | 1,271,677                  | 1,271,677               | 1,271,677                           | -                |
| <b>Fund Balance, December 31, 2015</b>             | <b>\$ 1,236,080</b>        | <b>\$ 1,236,080</b>     | <b>\$ 1,303,856</b>                 | <b>\$ 67,776</b> |

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

**CITY OF STURGIS**

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET  
DECEMBER 31, 2015**

|   | <u>2015</u>  |
|---|--------------|
| City's Proportion of the Net Pension Asset  | 0.24867220%  |
| City's Proportionate Share of Net Pension   | \$ 1,054,689 |
| City's Covered-Employee Payroll   | \$ 4,346,273 |
| City's Proportionate Share of the Net<br>Pension Asset as a Percentage of its<br>Covered-Employee Payroll | 24.27%       |
| Plan Fiduciary Net Position as a Percentage<br>of the Total Pension Asset                                 | 104.10%      |

**CITY OF STURGIS**

**SCHEDULE OF THE CITY'S CONTRIBUTIONS  
DECEMBER 31, 2015**

|   | <u>2015</u>    |
|---|----------------|
| Contractually Required Contribution                                     | \$ 291,141     |
| Contributions in Relation to the Contractually<br>Required Contribution | <u>291,141</u> |
| Contribution Deficiency (Excess)  | <u>\$ -</u>    |
| City's Covered-Employee Payroll   | \$ 4,686,344   |
| Contributions as a Percentage of Covered-<br>Employee Payroll           | 6.2%           |

**CITY OF STURGIS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2015**

**(1) Budgets and Budgetary Accounting**

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number 4.
3. A line item for contingencies may be included in the annual budget. Such line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, State statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2015.
7. Formal budgetary integration is employed as a management control device during the year for the general fund and major special revenue funds.
8. Budgets for the general fund and major special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States (USGAAP).

OTHER SUPPLEMENTARY INFORMATION

CITY OF STURGIS

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2015

|  | Special<br>Sales Tax<br>Fund | Library<br>Fund  | BID<br>Fund      | Alice W.<br>Dunn<br>Fund | Perpetual<br>Maintenance<br>Fund | Total Nonmajor<br>Governmental<br>Funds |
|--|------------------------------|------------------|------------------|--------------------------|----------------------------------|---|
| <b>Assets</b>  |                              |                  |                  |                          |                                  |   |
| 104 Interest Bearing Accounts  | \$ 53,043                    | \$ 70,992        | \$ -             | \$ 74,286                | \$ 169,116                       | \$ 367,437                              |
| 105 Savings Certificates   | -                            | -                | -                | 427,535                  | -                                | 427,535                                 |
| 108 Sales Tax Receivable   | 19,387                       | -                | -                | -                        | -                                | 19,387                                  |
| 115 Accounts Receivable  | -                            | -                | 2,108            | -                        | -                                | 2,108                                   |
| 121 Special Assessments Receivable   | -                            | -                | 24,106           | -                        | -                                | 24,106                                  |
| 151 Investment Held for Sale   | 608,100                      | -                | -                | -                        | -                                | 608,100                                 |
| <b>Total Assets</b>  | <b>\$ 680,530</b>            | <b>\$ 70,992</b> | <b>\$ 26,214</b> | <b>\$ 501,821</b>        | <b>\$ 169,116</b>                | <b>\$ 1,448,673</b>                     |
| <b>Liabilities, Deferred Inflows of Resources,<br/>and Fund Balances</b>       |                              |                  |                  |                          |                                  |   |
| <i>Liabilities</i>   |                              |                  |                  |                          |                                  |   |
| 208 Due to Other Funds   | \$ -                         | \$ -             | \$ 2,480         | \$ -                     | \$ -                             | \$ 2,480                                |
| 216 Accounts Payable   | -                            | -                | 282              | -                        | -                                | 282                                     |
| 217 Accrued Taxes Payable  | -                            | -                | -                | -                        | 17                               | 17                                      |
| <b>Total Liabilities</b>   | <b>-</b>                     | <b>-</b>         | <b>2,762</b>     | <b>-</b>                 | <b>17</b>                        | <b>2,779</b>                            |
| <i>Deferred Inflows of Resources</i>   |                              |                  |                  |                          |                                  |   |
| 246 Unavailable Revenue -<br>Special Assessments                               | -                            | -                | 24,106           | -                        | -                                | 24,106                                  |
| <i>Fund Balances</i>   |                              |                  |                  |                          |                                  |   |
| 263.51 Nonspendable -<br>Perpetual Care Cemetery                               | -                            | -                | -                | -                        | 50,000                           | 50,000                                  |
| 263.99 Nonspendable - Library Trust  | -                            | -                | -                | 327,535                  | -                                | 327,535                                 |
| 264.03 Restricted -<br>Perpetual Care Cemetery                                 | -                            | -                | -                | -                        | 119,099                          | 119,099                                 |
| 264.04 Restricted - BBB Tax  | 680,530                      | -                | -                | -                        | -                                | 680,530                                 |
| 264.05 Restricted - Library Purposes   | -                            | 70,992           | -                | 174,286                  | -                                | 245,278                                 |
| 267 Unassigned   | -                            | -                | (654)            | -                        | -                                | (654)                                   |
| <b>Total Fund Balances</b>   | <b>680,530</b>               | <b>70,992</b>    | <b>(654)</b>     | <b>501,821</b>           | <b>169,099</b>                   | <b>1,421,788</b>                        |
| <b>Total Liabilities, Deferred Inflows of<br/>Resources, and Fund Balances</b> | <b>\$ 680,530</b>            | <b>\$ 70,992</b> | <b>\$ 26,214</b> | <b>\$ 501,821</b>        | <b>\$ 169,116</b>                | <b>\$ 1,448,673</b>                     |

**CITY OF STURGIS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|  | <b>Special<br/>Sales Tax<br/>Fund</b> | <b>Library<br/>Fund</b> | <b>BID<br/>Fund</b> | <b>Alice W.<br/>Dunn<br/>Fund</b> | <b>Perpetual<br/>Maintenance<br/>Fund</b> | <b>Total Nonmajor<br/>Governmental<br/>Funds</b> |
|--|---------------------------------------|-------------------------|---------------------|-----------------------------------|---|--|
| <b>Revenue:</b>  |                                       |                         |                     |                                   |   |  |
| 313 General Sales and Use Taxes                            | \$ 363,574                            | \$ -                    | \$ -                | \$ -                              | \$ -                                      | \$ 363,574                                       |
| 319 Penalties and Interest on<br>Delinquent Taxes          | -                                     | -                       | 122                 | -                                 | -   | 122  |
| 341 Charges for Goods and<br>Services - General Government | -                                     | -                       | 36,940              | -                                 | -   | 36,940   |
| 361 Investment Earnings                                    | -                                     | 28                      | -                   | 5,136                             | -   | 5,164  |
| 363 Special Assessments                                    | -                                     | -                       | 23,544              | -                                 | -   | 23,544   |
| 369 Other  | -                                     | 7,326                   | 2,950               | -                                 | 3,850                                     | 14,126   |
| <b>Total Revenue</b>                                       | <b>363,574</b>                        | <b>7,354</b>            | <b>63,556</b>       | <b>5,136</b>                      | <b>3,850</b>                              | <b>443,470</b>                                   |
| <b>Expenditures:</b>                                       |                                       |                         |                     |                                   |   |  |
| 419 General Government - Other                             | -                                     | -                       | 84,210              | -                                 | -   | 84,210   |
| 460 Conservation and<br>Development                        | 260,044                               | -                       | -                   | -                                 | -   | 260,044  |
| 470 Debt Service   | 182,430                               | -                       | -                   | -                                 | -   | 182,430  |
| <b>Total Expenditures</b>                                  | <b>442,474</b>                        | <b>-</b>                | <b>84,210</b>       | <b>-</b>                          | <b>-</b>                                  | <b>526,684</b>                                   |
| <b>Excess of Revenue Over (Under)<br/>Expenditures</b>     | <b>(78,900)</b>                       | <b>7,354</b>            | <b>(20,654)</b>     | <b>5,136</b>                      | <b>3,850</b>                              | <b>(83,214)</b>                                  |
| <b>Other Financing Sources</b>                             |                                       |                         |                     |                                   |   |  |
| 391 Transfers In   | 113,030                               | -                       | 20,000              | -                                 | -   | 133,030  |
| <b>Net Change in Fund Balances</b>                         | <b>34,130</b>                         | <b>7,354</b>            | <b>(654)</b>        | <b>5,136</b>                      | <b>3,850</b>                              | <b>49,816</b>                                    |
| Fund Balance, December 31, 2014                            | 646,400                               | 63,638                  | -                   | 496,685                           | 165,249                                   | 1,371,972  |
| <b>Fund Balance, December 31, 2015</b>                     | <b>\$ 680,530</b>                     | <b>\$ 70,992</b>        | <b>\$ (654)</b>     | <b>\$ 501,821</b>                 | <b>\$ 169,099</b>                         | <b>\$ 1,421,788</b>                              |

**CITY OF STURGIS**

**SCHEDULE OF RALLY ACTIVITIES (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Revenue**

*Taxes:*

|                          |            |
|--------------------------|------------|
| 313 Sales Tax            | \$ 891,283 |
| 320 Licenses and Permits | 551,280    |

*Charges for Goods and Services:*

|                            |           |
|----------------------------|-----------|
| 341 General Government     | 1,534,879 |
| 346 Culture & Recreation   | 15,350    |
| 344 Special Sanitation Fee | 223,744   |

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|                      |                  |
|----------------------|------------------|
| <b>Total Revenue</b> | <b>3,216,536</b> |
|----------------------|------------------|

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**Expenditures**

*General Government:*

|           |             |
|-----------|-------------|
| 419 Other | (1,575,056) |
|-----------|-------------|

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|                           |                    |
|---------------------------|--------------------|
| <b>Total Expenditures</b> | <b>(1,575,056)</b> |
|---------------------------|--------------------|

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|  |                     |
|--|---------------------|
| <b>Excess of Revenue over Expenditures</b> | <b>\$ 1,641,480</b> |
|--|---------------------|

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## OTHER REPORTS



# Ketel Thorstenson, LLP

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

City Council  
City of Sturgis  
Sturgis, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **CITY OF STURGIS** (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 7, 2016.

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

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as #2015-001, #2015-002, and #2015-003 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 as #2015-004, #2015-005, and #2015-006 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters reported in the Schedule of Findings as #2015-004 and #2015-006 that are required to be reported under *Government Auditing Standards*.

City Council

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**City's Response to Findings**

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

**Purpose of this Report**

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



KETEL THORSTENSON, LLP  
Certified Public Accountants

October 7, 2016

## CITY OF STURGIS

### SCHEDULE OF FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2015

#### A. Status of Prior Audit Findings and Recommendations

The City has accepted the risk associated with Finding #2014-001 regarding the preparation of the financial statements. The finding, originally issued years ago, will be repeated as Finding #2015-001 for the year ended December 31, 2015.

The City continues to improve on recording year-end adjustments; however, significant audit adjustments were necessary. The finding was originally issued years ago, and varies every year based on audit adjustments made. The finding is repeated as Finding #2015-002 for the year ended December 31, 2015 because three of the seven audit adjustments were items that had never been dealt with in the past and was not sure how to journalize them. The other three were adjustments that were just overlooked. The last adjustment was due to changes in our ambulance software.

Errors were noted during the inventory count in the current year, segregation of duties issues still exist, and price testing errors were also noted. This finding was originally issued in 2012 and is repeated as Finding #2015-003 for the year ended December 31, 2015 because we were in the process of changing POS software and had created a new position that would oversee and manage receiving of inventory, but the person had quit and we were in the process of hiring someone new.

The City has a budgetary overdraft in the current year. This finding was originally issued in 2007 and is repeated as Finding #2015-004 for the year ended December 31, 2015 because budget overdrafts are difficult items to control because of accruals.

The City was out of compliance with its debt reserve covenant for the year ended December 31, 2014. The City is in compliance with all debt reserve covenants in the current year, so Finding #2014-005 will not be repeated for the year ended December 31, 2015.

#### B. Current Year Audit Findings and Recommendations

##### MATERIAL WEAKNESSES

###### 2015-001 FINDING: Financial Statement Preparation

*Condition and Cause:* As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness 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.

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

*Response and Corrective Action Plan:* At this time, the City will accept the degree of risk that is associated with this condition. For future audits, Finance Officer Fay Bueno and the person in the newly formed position of Senior Accountant (4th quarter 2016) will continue to monitor the financial statements and determine if any modification can be done. The monitoring of the financial statements will be before, during and after the audit.

## CITY OF STURGIS

### SCHEDULE OF FINDINGS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

#### B. Current Year Audit Findings and Recommendations (Continued)

##### MATERIAL WEAKNESSES (CONTINUED)

###### 2015-002 FINDING: Audit Adjustments

*Condition and Cause:* During the course of our engagement, we proposed material audit adjustments that were approved and recorded. Adjustments included removing a duplicate payable, adjusting prepaid insurance and prepaid expenses, removing TIF #11 and TIF #13 from the Long Term Debt Fund as they are interfund loans, increasing interfund loans to remove negative cash, recording a receivable and deferral for frontage special assessment, adding TIF #13 to construction in progress, disposing of Exit 32 lots sold, adjusting HD Rally Point fixed asset, and adjusting the Ambulance Fund receivable and allowance. Additionally, we proposed several reclassification entries with no effect on net income. Furthermore, other entries were proposed as a part of the audit, but were not recorded due to the overall insignificance on the financial statements.

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

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

- a. Payables should not be recorded twice.
- b. Prepaid insurance and prepaid expenses should be adjusted at year end and checks with a subsequent year's date should not be sent out before year end.
- c. Interfund loans should not be recorded in the Long-Term Debt Fund.
- d. No fund should carry a negative cash balance at year-end.
- e. Special assessment receivables and deferrals should be recorded each year for the assessments that will be collected each subsequent year within the BID Fund.
- f. Capital assets should be reviewed to make sure all additions and disposals are properly reflected, including the activity within TIF Funds.
- g. The Ambulance Fund receivables should be analyzed for collectability and adjusted on a regular basis.

*Response and Corrective Action Plan:* The City will make every effort to make accurate accounting adjustments throughout the year. When recording a journal entry that is unfamiliar, Finance Officer Fay Bueno or the Senior Accountant will inquire as to how to make the correct entry. With the newly formed position of Senior Accountant (4<sup>th</sup> quarter of 2016) and Finance Officer Fay Bueno there will be more time to make sure that the accounting adjustments are correct. The completion of this will be done prior to the auditors receiving any of the audit paperwork.

###### 2015-003 FINDING: Liquor Store Internal Controls

*Condition and Cause:* There is an overall lack of segregation of duties involving the Liquor Store Manager's ability to order inventory, receive inventory, pick up inventory offsite, adjust inventory costs, and perform inventory counts. The gross margins calculated per the general ledger did not agree to those expected based on markup. Management is aware the gross margin does not meet expectations, but has not identified the problem. Additionally, inaccurate inventory listings were generated containing items on the listings not present in the store as well as the inability to generate reports showing exact items counted. This caused the inventory to need counted three times. Lastly, a sample of 60 items were selected for price testing. Within the sample, there were 40 items with more than a five percent variance between the average cost per the software and the invoice amount.

*Criteria and Effect:* A lack of segregation of duties could lead to misstatements to the financial statements and misappropriation of liquor inventory. Additionally, recalculated gross margins should more closely reflect those expected based on markup. Employees performing the count should be very detail-oriented and specific, in order to count each item correctly. This includes testing the items counted to ensure they are accurately uploaded in the system. With regard to price testing, the City should have access to the details that comprise how average cost is calculated for each item, including purchases and any manual adjustments.

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**B. Current Year Audit Findings and Recommendations (Continued)**

**MATERIAL WEAKNESSES (CONCLUDED)**

2015-003 FINDING: Liquor Store Internal Controls (Continued)

*Recommendation:* Individuals other than the Liquor Store Manager should be receiving inventory and performing inventory counts. A separate individual should review cost adjustments and gross margins for reasonableness. We recommend liquor store management use greater precaution when performing the inventory count and management have the ability to obtain average cost details for all items.

*Response and Corrective Action Plan:* The City continues to have full-time liquor store assistant manager, who receives inventory and adds it to the POS system. Our first assistant manager was hired in October 2014 and quit in August 2015. We hired our present assistant manager and inventory manager in February 2016. The City purchased a new POS System from LPA Retail Systems with the software Counterpoint. The system was put into place on May 1, 2016. We continue to work with LPA to connect their software to the accounting software that the Finance Office uses. We hope to be fully integrated by September 2016. This system provides many reports and has proved to provide us with the information needed to have an accurate inventory and sales. We have a team (three from Finance, one from Human Resource, the City Manager and one other staff from City Hall) that does the inventory count twice each year; once in July and once in January. The City Manager or someone from finance will be doing spot checks on inventory on a monthly basis and the assistant manager will be doing spot checks on inventory on a weekly basis.

**SIGNIFICANT DEFICIENCIES**

2015-004 FINDING: Budgetary Overdraft

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

| Fund                | Department                          | Overdraft |
|---------------------|-------------------------------------|-----------|
| Capital Improvement | General Government - Other          | \$ (265)  |
| Capital Improvement | Public Works - Highways and Streets | (18,744)  |

The City also budgeted for an overall deficit fund balance within the Capital Improvement Fund.

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

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

*Response and Corrective Action Plan:* The City will develop procedures to ensure budget overdrafts are supplemented. Starting in October of each year Finance Officer Fay Bueno and City Manager Daniel Ainslie will do a complete analysis of the budget in order to have time to do a supplement or move contingency funds to prevent overdrafts.

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS (CONCLUDED)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**B. Current Year Audit Findings and Recommendations (Concluded)**

**SIGNIFICANT DEFICIENCIES (CONTINUED)**

2015-005 FINDING: Internal Controls

*Condition and Cause:* The Finance Officer has access to the general ledger, prepares and posts journal entries, has access to the check stock, is a check signer, and reconciles the bank statement.

*Criteria and Effect:* Proper segregation of duties results in adequate internal control over the safeguard of assets and the reliability of financial records and reporting. Without proper segregation of duties, an intentional or unintentional error could go undetected resulting in a misappropriation of assets or inaccurate records.

*Recommendation:* The City Manager or Council Member should review processes or tasks completed by the Finance Officer to ensure accuracy.

*Response and Corrective Action Plan:* Finance Officer Fay Bueno will provide City Manager Daniel Ainslie with the reconciliation report, the bank statements and all manual journal entries made each month. The City Manager will review the papers. The newly formed position of Senior Accountant (4<sup>th</sup> quarter of 2016) will be able to help with the review of the General Ledger that is done by City Finance Officer Fay Bueno. The senior accountant will take over preparing the journal entries. We will make sure that all check stock is locked into a file cabinet and the only person that has a key is the person who prints the checks and one alternate. We will make sure that all signature stamps are kept locked in a safe place with only the person for whom the stamp belongs to has a key. The other option is to not keep the signature stamp at City Hall when not in use.

2015-006 FINDING: Publishing Wages:

*Condition and Cause:* The City did not publish the wage increase of an employee.

*Criteria and Effect:* According to South Dakota Codified Law 6-1-10, a complete listing of all the salaries of all officers and employees shall be published. Once any salary paid to an officer or employee has been added or whose salary has been increased, the change needs to be published within 30 days thereafter.

*Recommendation:* All wage increases should be formally approved in the Council minutes.

*Response and Corrective Action Plan:* Finance Officer Fay Bueno and Human Resource Manager Lisa Katzenstein will make every effort to make sure that all changes in employee wages are documented in the minutes. Bueno and Katzenstein will improve on the process that is already in place by the 4<sup>th</sup> quarter of 2016 that will ensure we have all the employee wage increases listed in the minutes.