

**CITY OF STURGIS**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2021**



**Ketel Thorstenson, LLP**

Certified Public Accountants/Business & Personal Consultants

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

# CITY OF STURGIS

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## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Sturgis  
Sturgis, South Dakota

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

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF STURGIS** (the City), as of and for the year ended December 31, 2021 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2021 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

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

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

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

City Council

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 16, budgetary comparison information on pages 54 through 56, pension information on pages 57 through 58, and notes to required supplementary information on pages 59 through 60 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of rally activities on page 66 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.

City Council

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2022, 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.

A handwritten signature in dark ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP  
Certified Public Accountants

June 14, 2022

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2021**

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, 2021. Please read it in conjunction with the City's financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$2,788,231 more than the \$12,624,569 governmental program expenditures. This includes any transfers in/out. The increase is due to general sales tax and gross receipts tax being up for the year. The Sturgis Motorcycle Rally revenue was also up during the year.
- In the City's business-type activities, revenues exceeded expenses by \$1,803,488 which includes transfers and any activity due to the disposal of capital assets. The increase is due to receiving state and federal grant money for the City's Wastewater Treatment project and the City's liquor store sales increased during the year.

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

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

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

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

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

**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**  
**DECEMBER 31, 2021**

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

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

**Figure A-1**

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

**Government-wide Statements**

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



## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2021**

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

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

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

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

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

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

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

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

The City has two kinds of funds:

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

**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**  
**DECEMBER 31, 2021**

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

**Net Position**

The City's combined net position increased seven percent between fiscal year 2020 and 2021. (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>2021</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>
Current and Other Assets	\$ 4,797,167	\$ 4,491,005	\$ 8,755,375	\$ 7,013,034	\$ 13,552,542	\$ 11,504,039
Capital Assets	54,237,029	50,633,753	42,851,548	35,717,809	97,088,577	86,351,562
<b>Total Assets</b>	<b>59,034,196</b>	<b>55,124,758</b>	<b>51,606,923</b>	<b>42,730,843</b>	<b>110,641,119</b>	<b>97,855,601</b>
Pension Related Deferred Outflows	-	87,400	-	52,607	-	140,007
Long-Term Debt	11,410,656	11,810,405	21,867,955	14,777,807	33,278,611	26,588,212
Other Liabilities	1,337,154	646,322	1,316,853	1,828,807	2,654,007	2,475,129
<b>Total Liabilities</b>	<b>12,747,810</b>	<b>12,456,727</b>	<b>23,184,808</b>	<b>16,606,614</b>	<b>35,932,618</b>	<b>29,063,341</b>
Pension Related Deferred Inflows	742,724	-	441,791	-	1,184,515	-
<i>Net Position:</i>						
Net Investment in Capital Assets	43,085,088	39,054,157	21,210,353	21,123,918	64,295,441	60,178,075
Restricted	3,578,658	3,333,536	425,756	240,582	4,004,414	3,574,118
Unrestricted	(1,120,084)	367,738	6,344,215	4,812,336	5,224,131	5,180,074
<b>Total Net Position</b>	<b>45,543,662</b>	<b>42,755,431</b>	<b>27,980,324</b>	<b>26,176,836</b>	<b>73,523,986</b>	<b>68,932,267</b>
Beginning Net Position	42,755,431	40,403,055	26,176,836	23,699,729	68,932,267	64,102,784
<b>Change in Net Position</b>	<b>\$ 2,788,231</b>	<b>\$ 2,352,376</b>	<b>\$ 1,803,488</b>	<b>\$ 2,477,107</b>	<b>\$ 4,591,719</b>	<b>\$ 4,829,483</b>
Percentage of Change in Net Position	7%	6%	7%	10%	7%	8%

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

## CITY OF STURGIS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2021

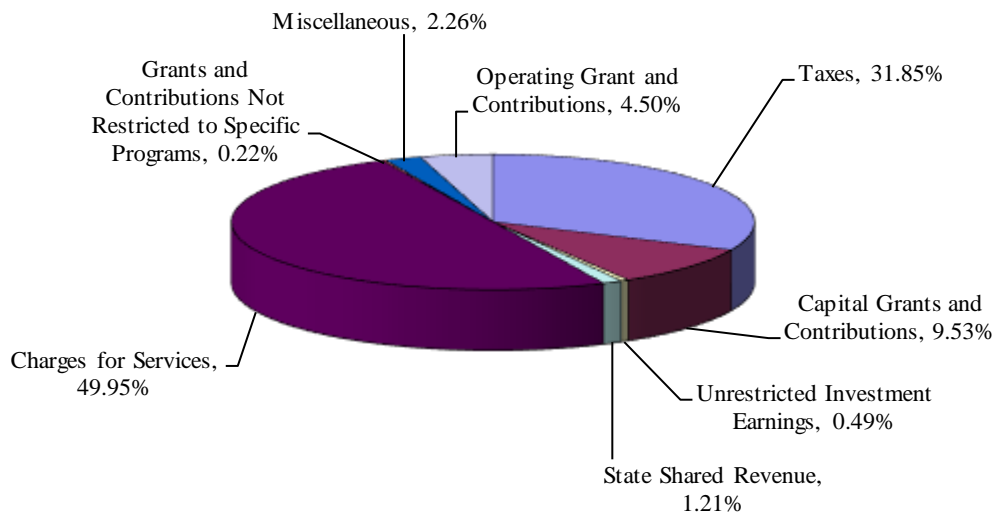
#### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

##### Changes in Net Position

The City's revenues totaled \$26,254,585 (See Table A-2). Nearly half of the City's revenue comes from charges for services and taxes, with 50 cents of every dollar raised coming from charges for services (primarily liquor and water operations) and 32 cents of every dollar raised coming from some type of tax (See Figure A-2). The other 18 percent of the City's total revenue comes from state and federal grants for capital purposes, operating grants, contributions, state shared revenue, interest and miscellaneous.

The total cost of all programs and services was \$21,662,866 (See Table A-2). The City's expenses cover a range of services, including road maintenance, parks and recreation services and utility system services. (See Figure A-3).

**Figure A-2: Revenues for 2021**

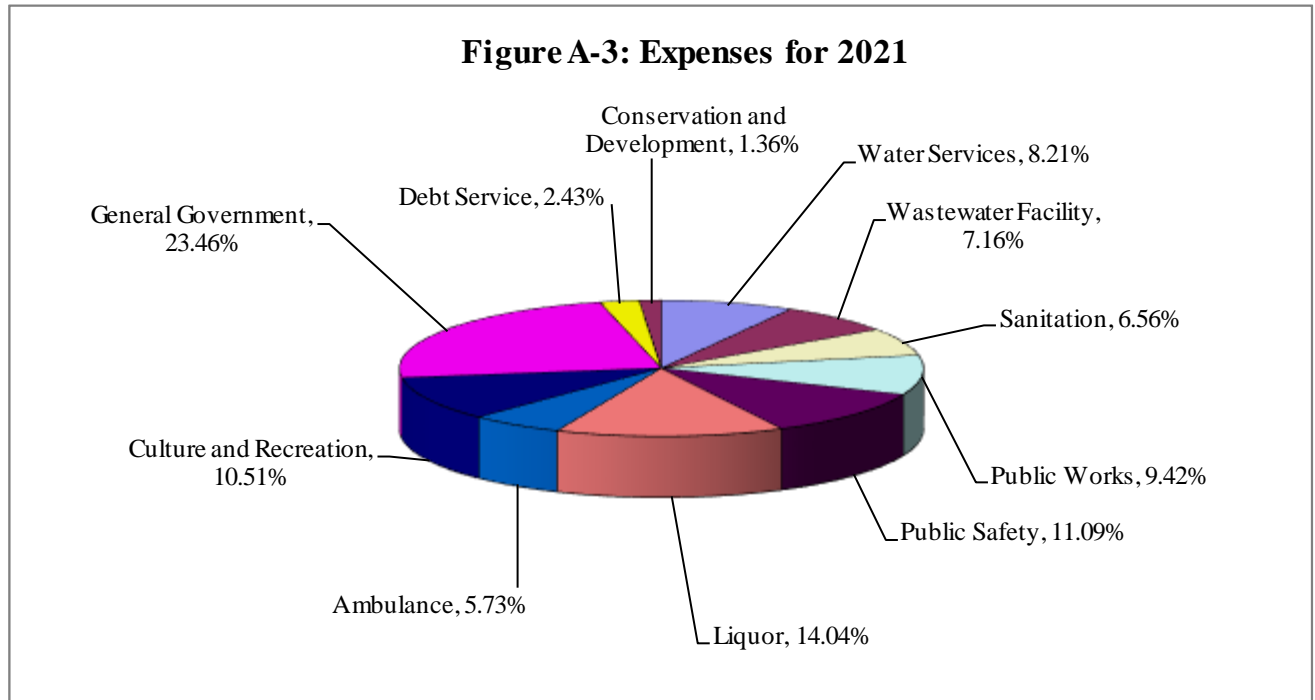


**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**  
**DECEMBER 31, 2021**

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

**Changes in Net Position (Continued)**



**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**  
**DECEMBER 31, 2021**

**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>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 3,268,292	\$ 2,746,158	\$ 9,845,674	\$ 9,343,858	\$ 13,113,966	\$ 12,090,016
Operating Grants and Contributions	99,227	1,784,945	1,081,096	-	1,180,323	1,784,945
Capital Grants and Contributions	1,515,053	1,620,520	985,694	724,292	2,500,747	2,344,812
General Revenues						
Taxes	8,362,255	7,427,891	-	-	8,362,255	7,427,891
State Shared Revenue	318,624	314,038	-	-	318,624	314,038
Grants and Contributions not Program Specific	56,235	88,760	-	-	56,235	88,760
Unrestricted Investment Earnings	119,709	122,539	9,410	9,574	129,119	132,113
Miscellaneous	332,890	275,521	260,426	221,894	593,316	497,415
<b>Total Revenues</b>	<b>14,072,285</b>	<b>14,380,372</b>	<b>12,182,300</b>	<b>10,299,618</b>	<b>26,254,585</b>	<b>24,679,990</b>
<b>Expenses</b>						
General Government	5,081,852	3,858,357	-	-	5,081,852	3,858,357
Public Safety	2,402,854	2,257,137	-	-	2,402,854	2,257,137
Public Works	2,040,943	2,007,732	-	-	2,040,943	2,007,732
Culture and Recreation	2,277,359	2,255,553	-	-	2,277,359	2,255,553
Conservation and Development	294,740	331,664	-	-	294,740	331,664
Debt Service	526,821	645,846	-	-	526,821	645,846
Liquor	-	-	3,041,960	2,946,230	3,041,960	2,946,230
Water Services	-	-	1,778,566	1,745,324	1,778,566	1,745,324
Wastewater Services	-	-	1,555,751	1,302,006	1,555,751	1,302,006
Sanitation Services	-	-	1,420,884	1,417,391	1,420,884	1,417,391
Ambulance	-	-	1,241,136	1,083,267	1,241,136	1,083,267
<b>Total Expenses</b>	<b>12,624,569</b>	<b>11,356,289</b>	<b>9,038,297</b>	<b>8,494,218</b>	<b>21,662,866</b>	<b>19,850,507</b>
Excess Before Transfers	1,447,716	3,024,083	3,144,003	1,805,400	4,591,719	4,829,483
Transfers	1,340,515	(671,707)	(1,340,515)	671,707	-	-
<b>Change in Net Position</b>	<b>2,788,231</b>	<b>2,352,376</b>	<b>1,803,488</b>	<b>2,477,107</b>	<b>4,591,719</b>	<b>4,829,483</b>
<b>Ending Net Position</b>	<b>\$ 45,543,662</b>	<b>\$ 42,755,431</b>	<b>\$ 27,980,324</b>	<b>\$ 26,176,836</b>	<b>\$ 73,523,986</b>	<b>\$ 68,932,267</b>

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2021**

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

##### **Governmental Activities**

Total revenues of the governmental activities for the City remained similar compared to the prior year, while total expenses increased 11 percent compared to the prior year. The overall revenue of the governmental activities for the City remained similar compared to the prior year, while total expenditures increased 10 percent compared to the prior year. The overall increase in revenues is due to an increase in Sturgis Motorcycle Rally sponsorships, leases, and sales tax. The City had an increase of visitors throughout the summer months and during the Sturgis Motorcycle Rally. Sales tax was up 16 percent from the prior year.

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

Operating revenues of the City's business-type activities increased by 18 percent compared to the prior year, while expenses increased by 6 percent. Operating revenues of the City's business-type activities increased by 5 percent compared to the prior year, while expenses increased by 6 percent. The overall increase in revenues is due to economic growth and State and Federal grants for the Wastewater Treatment project. Increase in expense is due to overall higher operating expenses.

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

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

#### **BUDGETARY HIGHLIGHTS**

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

- Move contingency money, grants, and insurance money to funds to prevent budget overruns
- Supplemental appropriations to increase the budget to prevent budget overruns

**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**  
**DECEMBER 31, 2021**

**CAPITAL ASSET ADMINISTRATION**

By the end of 2021, the City had invested \$97,088,577 in a broad range of capital assets, including buildings, and construction work in progress. (See Table A-3). This amount represents a net increase (including additions and deductions) of \$10,737,015, primarily due to the Wastewater Treatment Project and Airport T-Hangers project completed.

<b>Table A-3</b> <b>Capital Assets</b> <b>(net of depreciation)</b>				
	Governmental Activities		Business-type Activities	
	2021	2020	2021	2020
Land	\$ 2,923,815	\$ 2,923,815	\$ 738,681	\$ 738,681
Construction Work in Progress	3,924,451	1,222,199	16,757,627	9,413,245
Buildings	15,845,899	14,970,291	1,141,573	1,198,109
Improvements Other Than Buildings	29,246,829	29,333,208	23,336,872	23,588,093
Machinery and Equipment	2,296,035	2,184,240	876,795	779,681
Total Capital Assets	\$ 54,237,029	\$ 50,633,753	\$ 42,851,548	\$ 35,717,809

**LONG-TERM DEBT**

At year-end the City had \$33,278,611 in Revenue Bonds, Notes Payable, and other long-term obligations. This is an increase of \$6,690,399 as shown on Table A-4 below.

<b>Table A-4</b> <b>Outstanding Debt and Obligations</b>				
	Governmental Activities		Business-type Activities	
	2021	2020	2021	2020
Compensated Absences	\$ 258,715	\$ 230,809	\$ 137,320	\$ 93,363
Tax Increment Financing Obligations	1,690,424	1,867,624	-	-
Notes Payable	5,145,621	5,334,133	2,376,002	2,463,048
Revenue Bonds	4,315,896	4,377,839	19,354,633	12,221,396
Total Outstanding Debt and Obligations	\$ 11,410,656	\$ 11,810,405	\$ 21,867,955	\$ 14,777,807

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

## **CITY OF STURGIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONCLUDED) DECEMBER 31, 2021**

#### **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 \$40,594,240. The City requested a 0.0463 percent decrease in property tax for the year of 2021 payable in 2022. The growth factor of 2020 taxes payable in 2021 was 1.827 percent. The growth factor for 2021 taxes payable in 2022 was 2.200 percent.

The adopted 2022 general fund expenditures budget increased by 44 percent due to the addition of several Tax Increment Financing Districts, Capital Improvement projects and Equipment Replacement.

The City's business-type activities, sanitation, wastewater, and water base fees increased by 3 percent for 2022. The ambulance fund anticipates an increase in revenue for 2022 due to not receiving Ft. Meade monies in 2020 and 2021.

#### **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, 2021

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL
<b>Assets</b>					
Cash and Cash Equivalents (Note 2)	\$	4,586,865	\$	2,163,243	\$ 6,750,108
Receivables, Net		1,270,743		1,516,187	2,786,930
Notes Receivable (Note 10)		628,439		-	628,439
Internal Balances (Note 6)		(3,810,303)		3,810,303	-
Inventories		-		378,013	378,013
Other Assets		278,846		20,082	298,928
Investment Real Estate Held for Sale		608,100		-	608,100
Restricted Assets:					
Cash (Note 5)		85,680		184,212	269,892
Net Pension Asset (Note 8)		1,148,797		683,335	1,832,132
Capital Assets (Note 4)					
Land and Construction Work in Progress		6,848,266		17,496,308	24,344,574
Other Capital Assets, Net of Depreciation		47,388,763		25,355,240	72,744,003
<b>Total Assets</b>	<b>\$</b>	<b>59,034,196</b>	<b>\$</b>	<b>51,606,923</b>	<b>\$ 110,641,119</b>
<b>Liabilities</b>					
Accounts Payable	\$	1,156,438	\$	960,799	\$ 2,117,237
Other Current Liabilities		180,716		356,054	536,770
Noncurrent Liabilities (Note 5):					
Due Within One Year		771,072		386,363	1,157,435
Due in More Than One Year		10,639,584		21,481,592	32,121,176
<b>Total Liabilities</b>		12,747,810		23,184,808	35,932,618
<b>Deferred Inflows of Resources</b>					
Pension Related Deferred Inflows of Resources (Note 8)		742,724		441,791	1,184,515
<b>Net Position</b>					
Net Investment in Capital Assets		43,085,088		21,210,353	64,295,441
Restricted for:					
Debt Service		85,680		184,212	269,892
Revolving Loans		1,098,183		-	1,098,183
BID Tax		76,430		-	76,430
BBB Tax		775,440		-	775,440
Library Purposes		32,432		-	32,432
SDRS Pension (Note 8)		406,073		241,544	647,617
Hotel Occupancy		128,422		-	128,422
Equipment Replacement		448,322		-	448,322
Permanently Restricted Purposes:					
Expendable		150,141		-	150,141
Nonexpendable		377,535		-	377,535
Unrestricted		(1,120,084)		6,344,215	5,224,131
<b>Total Net Position</b>		45,543,662		27,980,324	73,523,986
<b>Total Liabilities, Net Position, and Deferred Inflows of Resources</b>	<b>\$</b>	<b>59,034,196</b>	<b>\$</b>	<b>51,606,923</b>	<b>\$ 110,641,119</b>

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

CITY OF STURGIS

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2021

	----- Program Revenues -----				Net (Expense) Revenue and ----- Changes in Net Position -----		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs</b>							
Primary Government							
Governmental Activities:							
General Government	\$ 5,081,852	\$ 2,930,650	\$ 22,876	\$ 799,186	\$ (1,329,140)	\$ -	\$ (1,329,140)
Public Safety	2,402,854	61,328	76,351	-	(2,265,175)	-	(2,265,175)
Public Works	2,040,943	22,593	-	294,665	(1,723,685)	-	(1,723,685)
Health and Welfare	-	5,650	-	-	5,650	-	5,650
Culture and Recreation	2,277,359	248,071	-	-	(2,029,288)	-	(2,029,288)
Conservation and Development	294,740	-	-	421,202	126,462	-	126,462
Interest on Long-Term Debt	526,821	-	-	-	(526,821)	-	(526,821)
<b>Total Governmental Activities</b>	<b>12,624,569</b>	<b>3,268,292</b>	<b>99,227</b>	<b>1,515,053</b>	<b>(7,741,997)</b>	<b>-</b>	<b>(7,741,997)</b>
Business-Type Activities:							
Liquor	3,041,960	3,392,962	-	-	-	351,002	351,002
Water	1,778,566	1,801,151	-	-	-	22,585	22,585
Wastewater	1,555,751	2,105,726	1,078,096	959,057	-	2,587,128	2,587,128
Sanitation	1,420,884	1,456,333	-	-	-	35,449	35,449
Ambulance	1,241,136	1,089,502	3,000	26,637	-	(121,997)	(121,997)
<b>Total Business-Type Activities</b>	<b>9,038,297</b>	<b>9,845,674</b>	<b>1,081,096</b>	<b>985,694</b>	<b>-</b>	<b>2,874,167</b>	<b>2,874,167</b>
<b>Total Primary Government</b>	<b>\$ 21,662,866</b>	<b>\$ 13,113,966</b>	<b>\$ 1,180,323</b>	<b>\$ 2,500,747</b>	<b>(7,741,997)</b>	<b>2,874,167</b>	<b>(4,867,830)</b>
General Revenues:							
Taxes:							
Property Taxes					3,376,272	-	3,376,272
Sales Taxes					4,985,983	-	4,985,983
State Shared Revenue					318,624	-	318,624
Grants and Contributions Not Restricted							
to Specific Programs					56,235	-	56,235
Unrestricted Investment Earnings					119,709	9,410	129,119
Miscellaneous Revenue					332,890	260,426	593,316
Transfers (Note 7)					1,340,515	(1,340,515)	-
<b>Total General Revenues and Transfers</b>					<b>10,530,228</b>	<b>(1,070,679)</b>	<b>9,459,549</b>
<b>Change in Net Position</b>					<b>2,788,231</b>	<b>1,803,488</b>	<b>4,591,719</b>
Net Position, Beginning							
					42,755,431	26,176,836	68,932,267
<b>Net Position, Ending</b>					<b>\$ 45,543,662</b>	<b>\$ 27,980,324</b>	<b>\$ 73,523,986</b>

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

**CITY OF STURGIS**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2021**

	<b>General Fund</b>	<b>Capital Improvement Fund</b>	<b>TIF Funds</b>
<b>Assets</b>			
101 Cash (Note 2)	\$ 1,247,718	\$ -	\$ 509,290
105 Savings Certificates (Note 2)	537,697	361,005	-
107 Restricted Cash (Note 5)	-	85,680	-
108 Property Taxes Receivable	101,789	-	1,204
108 Sales Tax Receivable	190,742	171,668	-
115 Accounts Receivable, Net	153,059	-	-
121 Special Assessments Receivable	-	12,146	-
128 Notes Receivable (Note 10)	-	-	132,317
132 Due from Federal/State Government	74,197	430,153	-
133 Advance to Other Funds (Note 6)	2,447,118	-	-
151 Investment Held for Sale	-	-	-
155 Prepaid Expense	260,998	17,848	-
<b>Total Assets</b>	<b>\$ 5,013,318</b>	<b>\$ 1,078,500</b>	<b>\$ 642,811</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
<i>Liabilities</i>			
202 Accounts Payable	\$ 246,511	\$ 79,769	\$ 822,865
208 Due to Other Funds (Note 6)	-	-	350,038
216 Accrued Wages Payable	150,322	-	-
217 Accrued Taxes Payable	3,265	-	-
236 Advance from Other Funds (Note 6)	-	600,000	5,497,383
<b>Total Liabilities</b>	<b>400,098</b>	<b>679,769</b>	<b>6,670,286</b>
<i>Deferred Inflows of Resources</i>			
245 Unavailable Revenue - Property Taxes	67,514	-	-
246 Unavailable Revenue - Special Assessments	-	12,146	-
<b>Total Deferred Inflows of Resources</b>	<b>67,514</b>	<b>12,146</b>	<b>-</b>
<i>Fund Balances (Deficits) (Note 1)</i>			
263 Nonspendable	2,708,116	17,848	132,317
264 Restricted	-	85,680	-
265 Committed	176,878	283,057	-
266 Assigned	135,463	-	-
267 Unassigned	1,525,249	-	(6,159,792)
<b>Total Fund Balances (Deficits)</b>	<b>4,545,706</b>	<b>386,585</b>	<b>(6,027,475)</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 5,013,318</b>	<b>\$ 1,078,500</b>	<b>\$ 642,811</b>

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

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 1,931,155	\$ 3,688,163
-	898,702
-	85,680
53	103,046
45,677	408,087
13,091	166,150
76,964	89,110
496,122	628,439
-	504,350
190,000	2,637,118
608,100	608,100
-	278,846
<b>\$ 3,361,162</b>	<b>\$ 10,095,791</b>

\$ 7,293	\$ 1,156,438
-	350,038
-	150,322
-	3,265
-	6,097,383
<b>7,293</b>	<b>7,757,446</b>

-	67,514
76,964	89,110
<b>76,964</b>	<b>156,624</b>

567,535	3,425,816
2,709,370	2,795,050
-	459,935
-	135,463
-	(4,634,543)
<b>3,276,905</b>	<b>2,181,721</b>

<b>\$ 3,361,162</b>	<b>\$ 10,095,791</b>
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**CITY OF STURGIS**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO GOVERNMENT-WIDE STATEMENT OF NET POSITION  
DECEMBER 31, 2021**

Total Fund Balances - Governmental Funds \$ 2,181,721

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. 54,237,029

Net pension asset reported in governmental activities is not an available financial  
resource and therefore is not reported in the funds. 1,148,797

Pension related deferred inflows are components of pension asset and therefore are  
not reported in the funds. (742,724)

Long-term liabilities, including bonds payable, tax increment financing obligations,  
and compensated absences are not due and payable in the current period and  
therefore not reported in the funds. (11,410,656)

Accrued interest on long-term debt is not due and payable in the current period and  
therefore is not reported in the funds. (27,129)

Assets such as delinquent taxes receivable and special assessments, are not available  
to pay for current period expenditures and therefore are deferred in the funds. 156,624

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Total Net Position - Governmental Activities \$ 45,543,662

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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, 2021

		<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>TIF Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenue</b>						
	<i>Taxes:</i>					
311	General Property Taxes (Note 3)	\$ 2,929,751	\$ -	\$ 336,885	\$ -	\$ 3,266,636
313	General Sales and Use Taxes	2,270,465	2,043,419	-	672,099	4,985,983
315	Amusement Taxes	-	-	-	83,784	83,784
319	Penalties and Interest on Delinquent Taxes	9,343	-	-	551	9,894
320	Licenses and Permits	686,310	-	-	-	686,310
	<i>Intergovernmental Revenue:</i>					
331	Federal Grants	229,866	618,547	-	-	848,413
334	State Grants	-	294,665	-	-	294,665
335	Bank Franchise Tax	16,920	-	-	-	16,920
335	Liquor Tax Reversion	48,524	-	-	-	48,524
335	Motor Vehicle Licenses	106,028	-	-	-	106,028
335.1	Local Government Highway and Bridge Fund	147,152	-	-	-	147,152
338	County Highway and Bridge Reserve Tax	5,855	-	-	-	5,855
338	Port of Entry	14,336	-	-	-	14,336
339	Other	2,402	-	-	-	2,402
	<i>Charges for Goods and Services:</i>					
341	General Government	2,071,089	100,000	-	73,251	2,244,340
342	Public Safety	57,466	-	-	-	57,466
345	Health	5,650	-	-	-	5,650
346	Culture and Recreation	248,071	-	-	-	248,071
349	Other	187,904	-	-	-	187,904
	<i>Fines and Forfeits:</i>					
351	Court Fines and Costs	3,862	-	-	-	3,862
	<i>Miscellaneous Revenue:</i>					
361	Investment Earnings	101,951	-	6,302	11,456	119,709
362	Rentals/Airport Hangar Lease	49,848	-	-	-	49,848
363	Special Assessments	-	348,263	-	24,563	372,826
367	Contributions and Donations from Private Sources	48,735	7,500	-	-	56,235
369	Other	59	-	-	23,635	23,694
<b>Total Revenue</b>		<b>9,241,587</b>	<b>3,412,394</b>	<b>343,187</b>	<b>889,339</b>	<b>13,886,507</b>

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>TIF Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Expenditures</b>					
<i>General Government:</i>					
411 Legislative	712,849	-	-	-	712,849
414 Financial Administration	1,196,537	-	-	-	1,196,537
419 Other	2,714,339	36,008	-	169,768	2,920,115
<i>Public Safety:</i>					
421 Police	2,219,525	-	-	-	2,219,525
422 Fire	171,844	16,471	-	-	188,315
<i>Public Works:</i>					
431 Highway and Streets	837,829	94,480	-	-	932,309
435 Airport	228,926	-	-	-	228,926
437 Cemeteries	101,307	-	-	-	101,307
<i>Culture and Recreation:</i>					
451 Recreation	866,111	1,270	-	77,494	944,875
452 Parks	592,332	33,205	-	-	625,537
455 Library	376,481	-	-	-	376,481
456 Auditorium	25,213	-	-	-	25,213
460 Conservation and Development	-	-	-	294,740	294,740
470 Debt Service	-	604,741	350,138	-	954,879
485 Capital Outlay	60,542	1,356,002	3,554,520	197,744	5,168,808
<b>Total Expenditures</b>	<b>10,103,835</b>	<b>2,142,177</b>	<b>3,904,658</b>	<b>739,746</b>	<b>16,890,416</b>
<b>Excess of Revenue Over (Under)</b>					
<b>Expenditures</b>	(862,248)	1,270,217	(3,561,471)	149,593	(3,003,909)
<b>Other Financing Sources (Uses)</b>					
391 Transfers In (Note 7)	425,004	1,280,000	-	38,000	1,743,004
391 Compensation for Loss or Damage to Capital Assets	33,081	-	-	-	33,081
391 Sale of Municipal Property	-	10,000	-	28,363	38,363
511 Transfers Out (Note 7)	(364,489)	-	-	(38,000)	(402,489)
<b>Total Other Financing Sources (Uses)</b>	<b>93,596</b>	<b>1,290,000</b>	<b>-</b>	<b>28,363</b>	<b>1,411,959</b>
<b>Net Change in Fund Balances (Deficit)</b>	<b>(768,652)</b>	<b>2,560,217</b>	<b>(3,561,471)</b>	<b>177,956</b>	<b>(1,591,950)</b>
Fund Balance (Deficit), December 31, 2020	5,314,358	(2,173,632)	(2,466,004)	3,098,949	3,773,671
<b>Fund Balance (Deficit), December 31, 2021</b>	<b>\$ 4,545,706</b>	<b>\$ 386,585</b>	<b>\$ (6,027,475)</b>	<b>\$ 3,276,905</b>	<b>\$ 2,181,721</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, 2021**

Net Change in Fund Balances - Total Government Funds \$ (1,591,950)

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

Governmental funds report capital outlays as expenditures. However, in the  
Statement of Activities the cost of those assets is allocated over their estimated lives  
and reported as depreciation expense.

Capital Asset Purchases Capitalized	5,168,808
Depreciation Expense	(1,615,532)
	<u>3,553,276</u>

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. 50,000

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. 64,334

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. 427,655

Governmental funds do not reflect the change in accrued leave, but the Statement of  
Activities reflects the change in accrued leave through expenditures. (27,906)

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. 403

Changes in the pension related deferred outflows, pension asset and related pension  
expenses are not reported in the governmental fund statements. 312,419

Change in Net Position of Governmental Activities	<u><u>\$ 2,788,231</u></u>
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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, 2021

	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Sanitation Fund</u>	<u>Ambulance Fund</u>	<u>Total Proprietary Funds</u>
<b>Assets and Deferred Outflows of Resources</b>						
<b>Current Assets</b>						
101 Cash (Note 2)	\$ 266,510	\$ 170,173	\$ 1,230,940	\$ 495,620	\$ -	\$ 2,163,243
107 Restricted Cash (Note 5)	40,980	143,232	-	-	-	184,212
115 Accounts Receivable, Net	783	117,441	178,124	94,105	666,557	1,057,010
131 Due from Other Funds (Note 6)	-	-	1,518,250	-	-	1,518,250
132 Due from Other Governments	-	-	459,177	-	-	459,177
142 Inventory of Supplies Purchased for Resale	378,013	-	-	-	-	378,013
155 Prepaid Expenses	3,089	4,444	1,272	5,092	6,185	20,082
<b>Total Current Assets</b>	<b>689,375</b>	<b>435,290</b>	<b>3,387,763</b>	<b>594,817</b>	<b>672,742</b>	<b>5,779,987</b>
<b>Noncurrent Assets</b>						
133 Advance to Other Funds (Note 6)	-	3,460,265	-	-	-	3,460,265
189 Net Pension Asset (Note 8)	67,876	132,979	107,385	165,996	209,099	683,335
<b>Capital Assets (Note 4)</b>						
160 Land	6,500	1,800	646,214	84,167	-	738,681
162 Buildings	826,042	181,183	377,613	243,350	359,809	1,987,997
163 Accumulated Depreciation - Buildings	(275,347)	(99,322)	(234,578)	(111,843)	(125,334)	(846,424)
164 Improvements Other Than Buildings	-	19,044,549	16,736,269	22,789	-	35,803,607
165 Accumulated Depreciation - Improvements Other Than Buildings	-	(7,088,151)	(5,359,724)	(18,860)	-	(12,466,735)
166 Machinery and Equipment	75,030	860,614	694,834	2,530,356	1,142,190	5,303,024
167 Accumulated Depreciation - Machinery and Equipment	(44,576)	(745,161)	(655,695)	(2,215,230)	(765,567)	(4,426,229)
168 Construction in Progress	-	-	16,757,627	-	-	16,757,627
<b>Total Noncurrent Assets</b>	<b>655,525</b>	<b>15,748,756</b>	<b>29,069,945</b>	<b>700,725</b>	<b>820,197</b>	<b>46,995,148</b>
<b>Total Assets</b>	<b>\$ 1,344,900</b>	<b>\$ 16,184,046</b>	<b>\$ 32,457,708</b>	<b>\$ 1,295,542</b>	<b>\$ 1,492,939</b>	<b>\$ 52,775,135</b>

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

	<u>Liquor</u>	<u>Water</u>	<u>Wastewater</u>	<u>Sanitation</u>	<u>Ambulance</u>	<u>Total</u>
<b>Liabilities and Net Position</b>	<b>Fund</b>	<b>Fund</b>	<b>Fund</b>	<b>Fund</b>	<b>Fund</b>	<b>Proprietary</b>
<b>Current Liabilities</b>						<b>Funds</b>
202 Accounts Payable	\$ 169,777	\$ 18,870	\$ 755,692	\$ 4,748	\$ 11,712	\$ 960,799
208 Due to Other Funds (Note 6)	-	581,272	-	-	586,940	1,168,212
215 Accrued Interest Payable	12,243	14,575	52,438	-	-	79,256
216 Accrued Wages Payable	7,929	17,794	9,690	17,273	32,368	85,054
217 Accrued Taxes Payable	21,410	124	-	37	-	21,571
220 Customer Deposits	-	170,173	-	-	-	170,173
226 Bonds Payable - Current (Note 5)	13,147	145,438	90,458	-	-	249,043
233 Accrued Leave Payable (Note 5)	3,087	32,529	41,767	45,849	14,088	137,320
<b>Total Current Liabilities</b>	<b>227,593</b>	<b>980,775</b>	<b>950,045</b>	<b>67,907</b>	<b>645,108</b>	<b>2,871,428</b>
<b>Long-Term Liabilities</b>						
231 Bonds Payable (Note 5)	663,942	4,124,949	16,692,701	-	-	21,481,592
<b>Total Liabilities</b>	<b>891,535</b>	<b>5,105,724</b>	<b>17,642,746</b>	<b>67,907</b>	<b>645,108</b>	<b>24,353,020</b>
<b>Deferred Inflows of Resources</b>						
248 Pension Related Deferred Inflows (Note 8)	43,883	85,974	69,427	107,320	135,187	441,791
<b>Net Position</b>						
253.10 Net Investment in Capital Assets	-	7,885,125	12,179,401	534,729	611,098	21,210,353
253.21 Restricted for Revenue Bond Debt Service (Note 5)	40,980	143,232	-	-	-	184,212
253.29 Restricted for SDRS Pension Purposes (Note 8)	23,993	47,005	37,958	58,676	73,912	241,544
253.9 Unrestricted (Deficit)	344,509	2,916,986	2,528,176	526,910	27,634	6,344,215
<b>Total Net Position</b>	<b>409,482</b>	<b>10,992,348</b>	<b>14,745,535</b>	<b>1,120,315</b>	<b>712,644</b>	<b>27,980,324</b>
<b>Total Liabilities Deferred Inflows of Resources and Net Position</b>	<b>\$ 1,344,900</b>	<b>\$ 16,184,046</b>	<b>\$ 32,457,708</b>	<b>\$ 1,295,542</b>	<b>\$ 1,492,939</b>	<b>\$ 52,775,135</b>

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	<b><u>Liquor Fund</u></b>	<b><u>Water Fund</u></b>	<b><u>Wastewater Fund</u></b>	<b><u>Sanitation Fund</u></b>	<b><u>Ambulance Fund</u></b>	<b><u>Total Proprietary Funds</u></b>
<b>Total Operating Revenue</b>						
380 Charges for Goods and Services (Note 5)	\$ 3,392,962	\$ 1,801,151	\$ 2,105,726	\$ 1,456,333	\$ 1,089,502	\$ 9,845,674
<b>Operating Expenses</b>						
410 Personal Services	246,319	522,555	355,984	550,198	908,519	2,583,575
420 Other Current Expense	279,444	703,506	412,156	799,392	245,436	2,439,934
426.2 Materials (Cost of Goods Sold)	2,456,572	-	-	-	-	2,456,572
457 Depreciation (Note 4)	32,249	415,265	364,514	71,294	87,181	970,503
<b>Total Operating Expenses</b>	<b>3,014,584</b>	<b>1,641,326</b>	<b>1,132,654</b>	<b>1,420,884</b>	<b>1,241,136</b>	<b>8,450,584</b>
<b>Operating Income (Loss)</b>	<b>378,378</b>	<b>159,825</b>	<b>973,072</b>	<b>35,449</b>	<b>(151,634)</b>	<b>1,395,090</b>
<b>Nonoperating Revenue (Expense)</b>						
331 Federal Grants	-	-	1,078,096	-	26,637	1,104,733
334 State Grants	-	-	959,057	-	3,000	962,057
361 Investment Earnings (Note 2)	9,410	-	-	-	-	9,410
367 Contributions and Donations	7,500	-	-	-	21,495	28,995
369 Other	109	-	-	20,621	205,454	226,184
442 Interest Expense	(27,376)	(137,240)	(423,097)	-	-	(587,713)
<b>Total Nonoperating Revenue (Expense)</b>	<b>(10,357)</b>	<b>(137,240)</b>	<b>1,614,056</b>	<b>20,621</b>	<b>256,586</b>	<b>1,743,666</b>
<b>Income before Transfers and Contributions</b>	<b>368,021</b>	<b>22,585</b>	<b>2,587,128</b>	<b>56,070</b>	<b>104,952</b>	<b>3,138,756</b>
391.10 Transfers In (Note 7)	-	-	-	12,000	352,489	364,489
391.30 Gain on Sale of Fixed Assets	-	-	-	-	5,247	5,247
511 Transfers Out (Note 7)	(275,004)	(80,000)	(1,350,000)	-	-	(1,705,004)
<b>Total Transfers and Contributions</b>	<b>(275,004)</b>	<b>(80,000)</b>	<b>(1,350,000)</b>	<b>12,000</b>	<b>357,736</b>	<b>(1,335,268)</b>
<b>Change in Net Position</b>	<b>93,017</b>	<b>(57,415)</b>	<b>1,237,128</b>	<b>68,070</b>	<b>462,688</b>	<b>1,803,488</b>
Net Position, December 31, 2020	316,465	11,049,763	13,508,407	1,052,245	249,956	26,176,836
<b>Net Position, December 31, 2021</b>	<b>\$ 409,482</b>	<b>\$ 10,992,348</b>	<b>\$ 14,745,535</b>	<b>\$ 1,120,315</b>	<b>\$ 712,644</b>	<b>\$ 27,980,324</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, 2021**

	<b>Liquor Fund</b>	<b>Water Fund</b>	<b>Wastewater Fund</b>
<b>Cash Flows from Operating Activities</b>			
Receipts from Customers	\$ 3,392,629	\$ 1,838,010	\$ 2,130,912
Payments to Suppliers	(2,766,577)	(839,087)	(785,052)
Payments to Employees	(261,973)	(528,499)	(374,365)
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>364,079</b>	<b>470,424</b>	<b>971,495</b>
<b>Cash Flows from Noncapital Financing Activities</b>			
Internal Activity, Net	(275,004)	(1,069,082)	(1,565,366)
<b>Net Cash Flows Provided by (Used in) Noncapital Financing Activities</b>	<b>(275,004)</b>	<b>(1,069,082)</b>	<b>(1,565,366)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchases of Capital Assets	(20,000)	(6,724)	(323,811)
Principal Borrowings on Debt	-	-	814,618
Principal Paid on Debt	(13,362)	(141,054)	(298,613)
Interest Paid	(27,619)	(137,917)	(400,591)
Other Receipts	7,609	-	815,504
<b>Net Cash Flows Provided by (Used in) Capital and Related Financing Activities</b>	<b>(53,372)</b>	<b>(285,695)</b>	<b>607,107</b>
<b>Cash Flows Provided by Investing Activities</b>			
Cash Received from Investment Earnings	9,410	-	-
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>45,113</b>	<b>(884,353)</b>	<b>13,236</b>
<b>Cash and Cash Equivalents, 2020</b>	<b>262,377</b>	<b>1,197,758</b>	<b>1,217,704</b>
<b>Cash and Cash Equivalents, 2021</b>	<b>\$ 307,490</b>	<b>\$ 313,405</b>	<b>\$ 1,230,940</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>			
Operating Income (Loss)	\$ 378,378	\$ 159,825	\$ 973,072
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by (Used in) Operating Activities:</i>			
Depreciation Expense	32,249	415,265	364,514
Change in Assets and Liabilities:			
Accounts Receivable	(333)	34,529	25,186
Inventory of Supplies Purchased for Resale	(33,891)	-	-
Prepaid Expenses	(3,089)	(4,444)	(1,272)
Pension Asset	(67,453)	(132,246)	(106,860)
Pension Related Deferred Outflows	5,911	10,250	7,341
Accounts Payable	6,643	(131,153)	(371,624)
Accrued Wages Payable	1,451	4,337	2,098
Accrued Taxes Payable	(224)	16	-
Customer Deposits	-	2,330	-
Accrued Leave Payable	554	25,741	9,613
Pension Related Deferred Inflows	43,883	85,974	69,427
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>\$ 364,079</b>	<b>\$ 470,424</b>	<b>\$ 971,495</b>
<b>Noncash Capital and Related Financing Activities</b>			
Purchase of Capital Assets with Long-term Debt	\$ -	\$ -	\$ 7,499,219
Long-Term Debt Forgiveness	-	-	814,617

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

<b>Sanitation Fund</b>	<b>Ambulance Fund</b>	<b>Total Proprietary Funds</b>
\$ 1,449,988	\$ 1,024,690	\$ 9,836,229
(848,863)	(271,780)	(5,511,359)
(581,334)	(953,611)	(2,699,782)
19,791	(200,701)	1,625,088
12,000	193,356	(2,704,096)
12,000	193,356	(2,704,096)
-	(254,488)	(605,023)
-	-	814,618
-	-	(453,029)
-	-	(566,127)
20,621	261,833	1,105,567
20,621	7,345	296,006
-	-	9,410
52,412	-	(773,592)
443,208	-	3,121,047
<b>\$ 495,620</b>	<b>\$ -</b>	<b>\$ 2,347,455</b>

\$ 35,449	\$ (151,634)	\$ 1,395,090
71,294	87,181	970,503
(6,345)	(64,812)	(11,775)
-	-	(33,891)
(5,092)	(6,185)	(20,082)
(165,017)	(207,996)	(679,572)
13,687	15,418	52,607
(44,416)	(20,159)	(560,709)
3,432	13,692	25,010
37	-	(171)
-	-	2,330
9,442	(1,393)	43,957
107,320	135,187	441,791
<b>\$ 19,791</b>	<b>\$ (200,701)</b>	<b>\$ 1,625,088</b>

\$ -	\$ -	\$ 7,499,219
-	-	814,617

## **CITY OF STURGIS**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021**

#### **(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, 2021**

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

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

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

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

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

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

##### Proprietary Funds:

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

## **CITY OF STURGIS**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2021**

#### **(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, 2021**

#### **(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, 2021 are property and sales tax revenues and special assessments.

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

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

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

##### **Interfund Eliminations and Reclassifications**

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

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

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

# **CITY OF STURGIS**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2021**

### **(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 non-spendable fund balance account which indicates that they do not constitute available spendable resources since they are not a component of net current assets. Current portions of interfund receivables (reported in Due from asset accounts) are considered available spendable resources.

#### **Capital Assets**

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

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

##### Government-wide Financial Statements:

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

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

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

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

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

Land is an inexhaustible capital asset and is not depreciated.

## **CITY OF STURGIS**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2021**

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

##### **Capital Assets (Continued)**

###### Fund Financial Statements:

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

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

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

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

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

##### **Program Revenues**

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

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

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

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

##### **Cash and Cash Equivalents**

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

## CITY OF STURGIS

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2021

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

##### Equity Classifications

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

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

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

###### Fund Financial Statements:

The City classifies governmental fund balance as follows:

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

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

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

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

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

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2021**

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

**Equity Classifications (Continued)**

Fund Financial Statements (Continued):

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, 2021, the City had the following governmental fund classifications:

		<b>General Fund</b>	<b>Capital Improvement Fund</b>	<b>TIF Funds</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
263	<b>Nonspendable:</b>					
263.02	Nonspendable - Prepaid Expenses	\$ 260,998	\$ 17,848	\$ -	\$ -	\$ 278,846
263.04	Nonspendable - Advances	2,447,118	-	-	190,000	2,637,118
263.05	Nonspendable - Notes Receivable	-	-	132,317	-	132,317
263.51	Nonspendable - Perpetual Care Cemetery	-	-	-	50,000	50,000
263.99	Nonspendable - Library Trust	-	-	-	327,535	327,535
		2,708,116	17,848	132,317	567,535	3,425,816
264	<b>Restricted:</b>					
264.01	Restricted - Debt Service	-	85,680	-	-	85,680
264.03	Restricted - Perpetual Care Cemetery	-	-	-	150,141	150,141
264.04	Restricted - BBB Tax	-	-	-	775,440	775,440
264.05	Restricted - Library Purposes	-	-	-	32,432	32,432
264.09	Restricted - BID Tax	-	-	-	76,430	76,430
264.97	Restricted - Revolving Loan	-	-	-	1,098,183	1,098,183
264.99	Restricted - Hotel Occupancy	-	-	-	128,422	128,422
264.99	Restricted - Equipment Replacement	-	-	-	448,322	448,322
		-	85,680	-	2,709,370	2,795,050
265	<b>Committed</b>					
265.04	Committed - Capital Improvements	-	283,057	-	-	283,057
265.97	Committed - Brick Fund	176,878	-	-	-	176,878
		176,878	283,057	-	-	459,935
266	<b>Assigned</b>					
266.01	Assigned - Subsequent Year's Budget	135,463	-	-	-	135,463
267	<b>Unassigned</b>	1,525,249	-	(6,159,792)	-	(4,634,543)
<b>Total Fund Balances</b>		<b>\$ 4,545,706</b>	<b>\$ 386,585</b>	<b>\$ (6,027,475)</b>	<b>\$ 3,276,905</b>	<b>\$ 2,181,721</b>

## **CITY OF STURGIS**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2021**

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

##### **Inventory of Supplies Purchased for Resale**

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

##### **Deferred Inflows and Deferred Outflows of Resources**

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period. As of December 31, 2021 there were no deferred outflows of resources.

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

##### **Receivables and Payables**

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year. Included in accounts receivable at December 31, 2021 is an allowance for doubtful accounts totaling \$10,000 for the general fund. Included in utility accounts receivable at December 31, 2021 are allowances for doubtful accounts totaling approximately \$2,500, \$4,000, \$3,500, and \$1,300,000 for the water, wastewater, sanitation, and ambulance funds, respectively.

##### **Emerging Accounting Standard**

In June 2017, the GASB issued Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the terms of the lease. The statement requires a lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City has not yet determined the specific impact of this statement on the financial statements. The standard is effective for the City's year ending December 31, 2022.

##### **Subsequent Events**

The City has assessed subsequent events through June 14, 2022, the date which the financial statements were available to be issued.

## **CITY OF STURGIS**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2021**

#### **(2) Deposits and Investments**

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

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

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

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

As of December 31, 2021, the City had \$537,697 in nonnegotiable 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, 2021

#### (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, and repurchase agreements fully collateralized by allowable securities.

##### *Custodial Credit Risk:*

Custodial credit risk is the risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City will minimize custodial credit risk for deposits by requiring the financial institution to submit a copy of their collateralization report to the finance officer to determine whether the financial institution is in compliance with SDCL 4-6A and 51A-10-9. As of December 31, 2021, the City's deposits in financial institutions collateralized by securities held by the pledging financial institution were as follows:

	Bank Balance
Insured - FDIC	\$ 531,366
Uninsured, collateralized in accordance with SDCL 4-6A-3	6,722,301
<b>Total Deposits</b>	<b>\$ 7,253,667</b>

##### *Concentration Risk:*

The City minimizes concentration of credit risk by diversifying the investment portfolio so the impact of potential losses from any one type of security or issuer will be minimized. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

#### (3) Property Taxes

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

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

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

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



**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2021**

**(4) Changes in Capital Assets**

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

	Balance 12/31/2020	Additions	Transfers/ Deletions	Balance 12/31/2021
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 2,923,815	\$ -	\$ -	\$ 2,923,815
Construction Work in Progress	1,222,199	4,060,212	(1,357,960)	3,924,451
Total Capital Assets, not being Depreciated	4,146,014	4,060,212	(1,357,960)	6,848,266
Capital Assets, being Depreciated:				
Buildings	21,101,115	-	1,357,960	22,459,075
Improvements Other Than Buildings	41,355,729	810,322	-	42,166,051
Machinery and Equipment	5,803,966	348,274	(23,773)	6,128,467
Total Capital Assets, being Depreciated	68,260,810	1,158,596	1,334,187	70,753,593
Less Accumulated Depreciation for:				
Buildings	6,130,824	482,352	-	6,613,176
Improvements Other Than Buildings	12,022,521	896,701	-	12,919,222
Machinery and Equipment	3,619,726	236,479	(23,773)	3,832,432
Total Accumulated Depreciation	21,773,071	1,615,532	(23,773)	23,364,830
Total Governmental Activities Capital Assets, being Depreciated, Net	46,487,739	(456,936)	1,357,960	47,388,763
Total Governmental Capital Assets, Net	\$ 50,633,753	\$ 3,603,276	\$ -	\$ 54,237,029

Depreciation expense was charged to functions as follows:

Public Works	\$ 783,797
Culture and Recreation	369,900
General Government	359,891
Public Safety	101,944
Total Depreciation Expense - Governmental	\$ 1,615,532

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2021**

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

	Balance 12/31/2020	Additions	Transfers/ Deletions	Balance 12/31/2021
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 738,681	\$ -	\$ -	\$ 738,681
Construction Work in Progress	9,413,245	7,829,754	(485,372)	16,757,627
Total Capital Assets, not being Depreciated	10,151,926	7,829,754	(485,372)	17,496,308
Capital Assets, being Depreciated:				
Buildings	1,987,997	-	-	1,987,997
Improvements Other Than Buildings	35,318,235	-	485,372	35,803,607
Machinery and Equipment	5,224,244	274,488	(195,708)	5,303,024
Total Capital Assets, being Depreciated	42,530,476	274,488	289,664	43,094,628
Less Accumulated Depreciation for:				
Buildings	789,888	56,536	-	846,424
Improvements Other Than Buildings	11,730,142	736,593	-	12,466,735
Machinery and Equipment	4,444,563	177,374	(195,708)	4,426,229
Total Accumulated Depreciation	16,964,593	970,503	(195,708)	17,739,388
Total Business-Type Activities Capital Assets, being Depreciated, Net	25,565,883	(696,015)	485,372	25,355,240
Total Business-Type Capital Assets, Net	\$ 35,717,809	\$ 7,133,739	\$ -	\$ 42,851,548

Depreciation expense was charged to functions as follows:

Liquor	\$ 32,249
Water	415,265
Sanitation	71,294
Wastewater	364,514
Ambulance	87,181
Total Depreciation Expense - Business-Type	\$ 970,503

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2021**

**(5) Long-Term Debt**

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

	Balance 12/31/2020	Additions	Deletions	Balance 12/31/2021	Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Tax Increment Financing Obligations	\$ 1,867,624	\$ -	\$ 177,200	\$ 1,690,424	\$ 252,306
2018 Public Works Building Debt	4,377,839	-	61,943	4,315,896	64,151
Notes Payable	5,334,133	-	188,512	5,145,621	195,900
Compensated Absences	230,809	391,563	363,657	258,715	258,715
Total Governmental Activities	11,810,405	391,563	791,312	11,410,656	771,072
<b>Business-Type Activities:</b>					
2010 Sales Tax Revenue Bond	690,451	-	13,362	677,089	13,147
2011 Drinking Water Revenue Bond	2,931,867	-	48,670	2,883,197	50,250
2012 Drinking Water Revenue Bond	1,479,574	-	92,384	1,387,190	95,188
Wastewater Note Payable	2,463,048	-	87,046	2,376,002	90,458
2018 Clean Water Revenue Bond	7,119,504	8,313,836	1,026,183	14,407,157	-
Compensated Absences	93,363	162,670	118,713	137,320	137,320
Total Business-Type Activities	14,777,807	8,476,506	1,386,358	21,867,955	386,363
Total Primary Government	\$ 26,588,212	\$ 8,868,069	\$ 2,177,670	\$ 33,278,611	\$ 1,157,435

The City has restricted reserves of \$40,980, \$143,232, and \$85,680 at December 31, 2021, in accordance with debt covenants.

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

	Water Fund	Wastewater Fund	2010 and 2018 Sales Tax Bonds
Current Year Principal and Interest	\$ 278,294	\$ 721,710	\$ 254,913
Pledged Revenue	1,801,151	2,105,726	4,985,983

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2021**

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

Long-term debt at December 31, 2021, is comprised of the following:

*Revenue Bonds*

Sales Tax Revenue Bonds, Series 2010 (Build America Bonds - Direct Pay), for \$811,000, matures in July 2050, interest at a fixed 4.00 percent, due in annual installments of \$40,980. Sales tax revenues pledged and financed through the Liquor Fund. The City will receive a credit from the Federal government for 35 percent of the interest paid on the bonds. \$ 677,089

Drinking Water Revenue Borrower Bond, 2011 Series for \$3,200,000, matures in September 2054, interest at a fixed 3.25 percent, due in monthly installments of \$11,936. Water revenues pledged and financed through the Water Fund. 2,883,197

Drinking Water Revenue Borrower Bond, Series 2012 for \$2,035,893, matures in July 2034, interest at a fixed 3.00 percent, due in quarterly installments of \$33,935. Water revenues pledged and financed through the Water Fund. 1,387,190

Clean Water Revenue Borrower Bond, Series 2018 for borrowings up to \$16,247,000, with 9.90 percent principal forgiveness not to exceed \$1,600,000, matures in May 2048, interest at a fixed 2.50 percent, payment amounts will be finalized in the future. Wastewater revenue pledged and financed through the Wastewater Fund. 14,407,157

Public Works Building Debt, Series 2018, for \$4,600,000, matures September 2058, interest at a fixed 3.50 percent, due in monthly installments of \$17,848. Sales tax revenues pledged and financed through the Capital Improvements Fund for construction of the Public Works Campus. 4,315,896

*Notes Payable*

Note Payable to Pioneer Bank for \$3,052,000, matures May 2040, interest at a fixed 3.85 percent, due in monthly installments of \$15,029. Financed through Wastewater Fund. 2,376,002

Note payable to Pioneer Bank for \$5,757,000, interest at a 3.85 percent fixed rate, with principal and interest payments of \$32,547 through May 2040. Financed through the Capital Improvements Fund. 5,145,621

*Tax Increment Financing Obligations*

TIF #12 maximum borrowings of \$1,900,000, including interest not to exceed 10.00 percent per annum, due in varying installments within 30 days of property tax collections from the County. Financed through TIF Debt Service Funds. 1,690,424

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**Total Bonds, Notes Payable, and TIF Obligations 32,882,576**

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**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2021**

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

*Compensated Absences:*

General Fund	258,715
Liquor Fund	3,087
Water Fund	32,529
Wastewater Fund	41,767
Sanitation Fund	45,849
Ambulance Fund	14,088
<b>Total Compensated Absences</b>	<b>396,035</b>

<b>Total Long-Term Debt</b>	<b>\$ 33,278,611</b>
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The annual requirements to amortize long-term debt outstanding as of December 31, 2021, except for compensated absences are as follows:

	Revenue Bonds		TIF Obligations		Notes Payable		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2022	\$ 161,278	\$ 222,736	\$ 63,230	\$ 252,306	\$ 284,550	\$ 286,358	\$ 509,058	\$ 761,400
2023	156,193	230,089	55,612	259,924	273,329	297,579	485,134	787,592
2024	151,060	237,686	45,112	270,424	262,416	308,492	458,588	816,602
2025	145,657	245,536	33,916	281,620	249,579	321,329	429,152	848,485
2026	140,079	253,648	22,395	293,141	236,987	333,921	399,461	880,710
2027-2031	610,232	1,399,681	10,402	333,009	978,776	1,875,766	1,599,410	3,608,456
2032-2036	455,512	1,259,437	-	-	581,370	2,273,171	1,036,882	3,532,608
2037-2041	356,113	1,146,693	-	-	125,548	1,825,007	481,661	2,971,700
2042-2046	262,682	1,362,501	-	-	-	-	262,682	1,362,501
2047-2051	132,828	15,965,994	-	-	-	-	132,828	15,965,994
2052-2056	17,363	1,346,528	-	-	-	-	17,363	1,346,528
<b>Total</b>	<b>\$ 2,588,997</b>	<b>\$ 23,670,529</b>	<b>\$ 230,667</b>	<b>\$ 1,690,424</b>	<b>\$ 2,992,555</b>	<b>\$ 7,521,623</b>	<b>\$ 5,812,219</b>	<b>\$ 32,882,576</b>

**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, 2021, TIF related property tax revenues were \$336,885. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$350,138 for the year ended December 31, 2021.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2021**

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

Interfund receivable and payable balances at December 31, 2021, are as follows:

Fund	Interfund Receivables	Interfund Payables
<i>Major Funds:</i>		
Ambulance Fund	\$ -	\$ 586,940
Water Fund	-	581,272
Wastewater Fund	1,518,250	-
TIF Fund	-	350,038
<b>Total Interfund Receivable and Payable Balances</b>	<b>\$ 1,518,250</b>	<b>\$ 1,518,250</b>

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

Interfund advances balances at December 31, 2021, are as follows:

Fund	Interfund Advance To	Interfund Advance From
<i>Major Funds:</i>		
General Fund	\$ 2,447,118	\$ -
Water Fund	3,460,265	-
TIF Funds	-	5,497,383
Capital Improvement Fund	-	600,000
Nonmajor Funds	190,000	-
<b>Total Interfund Receivable and Payable Balances</b>	<b>\$ 6,097,383</b>	<b>\$ 6,097,383</b>

The General Fund and the nonmajor 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 and Water Funds advanced monies to the TIF Funds to assist in funding for TIF #11. The balance will be repaid through 2033 and bears interest at 4.00 percent. The General Fund advanced monies to the TIF Funds to assist in funding for TIF #13. The balance will be repaid through 2025 and bears interest at 5.00 percent. The Water Fund advanced monies to the TIF Funds to assist in funding for the Dolan Creek note receivable. The balance will be repaid when the long-term debt on TIF #12 has been repaid by the City. The General and Water Funds advanced monies to the TIF Funds to assist in funding for TIF #16. The balance will be repaid through 2040 and bears interest at 5.00 percent. The General Fund advanced monies to the TIF Funds to assist in funding for TIF #17. The balance will be repaid through 2040 and bears interest at 5.00 percent. The General and Water funds advanced monies to the TIF funds to assist in funding for TIF #20 and #21. The balances will be repaid through 2041 and bear interest at 5.00 percent.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2021**

**(7) Interfund Transfers**

	Transfers In	Transfers Out
General Fund	\$ 425,004	\$ 364,489
Special Sales Tax Fund	-	38,000
Capital Improvement Fund	1,280,000	-
BID Fund	38,000	-
Liquor Fund	-	275,004
Water Fund	-	80,000
Wastewater Fund	-	1,350,000
Sanitation Fund	12,000	-
Ambulance Fund	352,489	-
<b>Total Transfers</b>	<b>\$ 2,107,493</b>	<b>\$ 2,107,493</b>

Transfers between the funds were made to cover general operational costs of the City and to transfer interest income to the General Fund in accordance with the City's policy. Transfers from General fund to Ambulance fund were made to buy ambulances. Transfers from Water and Wastewater were made to Capital Improvement for Stormwater and Wastewater projects. Additionally, transfers were also made from the General Fund to the Sanitation Fund to cover repairs for the Community Center roof.

**(8) Pension Plan**

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

Benefits Provided:

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

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

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2021**

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

All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

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

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

All benefits except those depending on the Member's Accumulated Contributions are annually increased by COLA.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2021, 2020, and 2019 were **\$350,922**, \$308,000 and \$297,836 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, 2021, SDRS is 105.52 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, 2021 and reported by the City as of December 31, 2021, are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 21,949,328	\$ 13,056,014	\$ <b>35,005,342</b>
Less: Proportionate Share of Total Pension Liability	(20,800,531)	(12,372,679)	( <b>33,173,210</b> )
Proportionate Share of Net Pension Asset	\$ <b>1,148,797</b>	\$ <b>683,335</b>	\$ <b>1,832,132</b>

At December 31, 2021, the City reported an asset of \$1,832,132 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2021, 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, 2021, the City's proportion was 0.23923500 percent, which is an increase of .009 percent from its proportion measured as of June 30, 2020.



**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2021**

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

For the year ended December 31, 2021, the City recognized pension revenue of \$146,667. At December 31, 2021, the City reported deferred outflows of resources, and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 65,778	\$ -
Changes in Assumption	1,189,427	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	2,622,038
Changes in Proportion and Difference between City Contributions and Proportionate Share of Contributions	-	-
City Contributions Subsequent to the Measurement Date	182,318	-
<b>Total</b>	<b>\$ 1,437,523</b>	<b>\$ 2,622,038</b>

Deferred outflow of resources includes \$182,318 resulting from City contributions subsequent to the measurement date that will be recognized as an increase of the net pension asset in the year ending December 31, 2022. 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:

2022	\$ (336,712)
2023	(229,632)
2024	(64,207)
2025	(736,282)
	<b>\$ (1,366,833)</b>

Actuarial Assumptions:

The total pension asset in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	6.50 percent at entry to 3.00 percent after 25 years of service
Discount Rate	6.50 percent, net of pension plan investment expense. This is composed of an average inflation rate of 2.25 percent and real returns of 4.25 percent.
Future COLAS	2.25 percent

Mortality rates were based on 97 percent of the RP-2014 Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males.

Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

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.).

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2021**

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

Actuarial Assumptions (Continued):

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, 2020 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.3%
Fixed Income	30.0%	1.6%
Real Estate	10.0%	4.6%
Cash	2.0%	0.9%
	<u>100.0%</u>	

Discount Rate:

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

Sensitivity of Asset to Changes in the Discount Rate:

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's Proportionate Share of the Net Pension (Asset)/Liability	\$ 2,966,675	\$ (1,832,131)	\$ (5,727,644)

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, 2021, the City managed its risks as follows:

Employee Health Insurance:

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

## CITY OF STURGIS

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021

#### (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 a Members' Annual Operating Contribution, to provide liability coverage detailed below, under a claims-made policy and premiums are accrued on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, vehicle coverage, wrongful acts, and errors and omissions of public officials.

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

The City reflected the effects of the new SDPAA policy in the financial statements as an increase in insurance expenditures.

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

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

##### Property and Building Insurance:

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

##### Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to provide worker's compensation coverage for its employees under a retrospectively rated policy, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to \$2,000,000 per individual per incident. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage over the past three years.

##### Unemployment Benefits:

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

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2021**

**(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, 2021:

Governmental:

<u>Loan</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
D&M Rentals	Equipment	2%	June 1, 2029	\$ 38,511
Jake's Garage	Real Estate	3%	December 5, 2024	8,515
Baldwin	Real Estate	3%	February 5, 2025	8,992
Dominos	Real Estate	3%	June 1, 2025	9,371
Little Promises	Equipment, Cash	2%	December 1, 2027	111,360
Dolan Creek, LLC	Real Estate	5%	December 1, 2032	132,317
A&A Sturgis	Inventory, Equipment	2%	April 1, 2030	84,737
Strain Morman Law Firm	Real Estate	2%	July 1, 2029	20,548
Sturgis Brewing	Inventory and Equipment	2%	April 1, 2030	189,955
Emma's Ice Cream	Personal Property and Personal Guarantees of Borrowers	2%	July 1, 2029	24,133
				<b>\$ 628,439</b>

**(11) Operating Lease**

The City leases buildings under a non-cancelable operating lease. Rent expense under this lease was \$180,000 for the year ended December 31, 2021. The City prepaid the total amount of the lease with the remaining balance of \$180,000 due by December 31, 2022, which is included in the December 31, 2021 prepaid balance.

## REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF STURGIS**

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2021**

		<b><u>Original Budget</u></b>	<b><u>Final Budget</u></b>	<b><u>Actual - Budgetary Basis</u></b>	<b><u>Variance</u></b>
<b>Revenue</b>					
	<i>Taxes:</i>				
311	General Property Taxes	\$ 2,911,940	\$ 2,911,940	\$ 2,929,751	\$ 17,811
313	General Sales and Use Taxes	1,900,000	1,900,000	2,270,465	370,465
315	Amusement Taxes	888	888	-	(888)
319	Penalties and Interest on Delinquent Taxes	12,585	12,585	9,343	(3,242)
320	Licenses and Permits	647,575	647,575	686,310	38,735
	<i>Intergovernmental Revenue:</i>				
331	Federal Grants	-	-	229,866	229,866
335	Bank Franchise Tax	12,992	12,992	16,920	3,928
335	Liquor Tax Reversion	43,479	43,479	48,524	5,045
335	Motor Vehicle Licenses	96,116	96,116	106,028	9,912
335.1	Local Government Highway and Bridge Fund	138,552	138,552	147,152	8,600
338	County Highway and Bridge Reserve Tax (25%)	-	-	5,855	5,855
338	Port of Entry	5,855	5,855	14,336	8,481
339	Other	13,554	13,554	2,402	(11,152)
	<i>Charges for Goods and Services:</i>				
341	General Government	2,032,530	2,032,530	2,071,089	38,559
342	Public Safety	88,177	88,177	57,466	(30,711)
345	Health	6,393	6,393	5,650	(743)
346	Culture and Recreation	276,402	276,402	248,071	(28,331)
349	Other	82,636	82,636	187,904	105,268
	<i>Fines and Forfeits:</i>				
351	Court Fines and Costs	2,954	2,954	3,862	908
	<i>Miscellaneous Revenue:</i>				
361	Earnings on Deposits and Investments	134,186	134,186	101,951	(32,235)
362	Rentals/Airport Hangar Lease	30,513	30,513	49,848	19,335
367	Contributions and Donations - Private Sources	29,372	29,372	48,735	19,363
369	Other	2,997	2,997	59	(2,938)
<b>Total Revenue</b>		<b>8,469,696</b>	<b>8,469,696</b>	<b>9,241,587</b>	<b>771,891</b>

CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED) (CONTINUED)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
<b>Expenditures</b>				
<i>General Government:</i>				
411 Legislative	577,129	523,129	712,849	(189,720)
414 Financial Administration	1,222,867	1,541,356	1,196,537	344,819
419 Other	1,738,621	2,802,320	2,730,959	71,361
<i>Public Safety:</i>				
421 Police	2,176,363	2,286,036	2,263,447	22,589
422 Fire	143,735	172,736	171,844	892
<i>Public Works:</i>				
431 Highway and Streets	925,804	947,866	837,829	110,037
435 Airport	132,469	234,469	228,926	5,543
437 Cemeteries	115,892	115,892	101,307	14,585
<i>Culture and Recreation:</i>				
451 Recreation	867,052	898,454	866,111	32,343
452 Parks	718,958	723,958	592,332	131,626
455 Library	384,433	404,432	376,481	27,951
456 Auditorium	27,579	27,579	25,213	2,366
<b>Total Expenditures</b>	<b>9,030,902</b>	<b>10,678,227</b>	<b>10,103,835</b>	<b>574,392</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(561,206)</b>	<b>(2,208,531)</b>	<b>(862,248)</b>	<b>1,346,283</b>
<b>Other Financing Sources (Uses)</b>				
391.01 Transfers In	425,000	425,000	425,004	4
391.04 Compensation for Loss or Damage to Capital Assets	-	-	33,081	33,081
511 Transfers Out	(122,000)	(122,000)	(364,489)	(242,489)
<b>Total Other Financing Sources</b>	<b>303,000</b>	<b>303,000</b>	<b>93,596</b>	<b>(209,404)</b>
Net Change in Fund Balance	(258,206)	(1,905,531)	(768,652)	1,136,879
Fund Balance, December 31, 2020	5,314,358	5,314,358	5,314,358	-
<b>Fund Balance, December 31, 2021</b>	<b>\$ 5,056,152</b>	<b>\$ 3,408,827</b>	<b>\$ 4,545,706</b>	<b>\$ 1,136,879</b>

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

CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (UNAUDITED)**  
**CAPITAL IMPROVEMENT FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
<b>Revenue</b>				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 1,710,000	\$ 1,710,000	\$ 2,043,419	\$ 333,419
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	618,547	618,547
334 State Grants	-	-	294,665	294,665
<i>Charges for Goods and Services:</i>				
341 General Government	150,000	150,000	100,000	(50,000)
<i>Miscellaneous Revenue:</i>				
363 Special Assessments	235,900	235,900	348,263	112,363
367 Contributions and Donations	-	-	7,500	7,500
<b>Total Revenue</b>	<b>2,095,900</b>	<b>2,095,900</b>	<b>3,412,394</b>	<b>1,316,494</b>
<b>Expenditures</b>				
<i>General Government:</i>				
419 Other	-	19,000	36,008	(17,008)
<i>Public Safety:</i>				
422 Fire	16,471	19,771	16,471	3,300
<i>Public Works:</i>				
431 Highway and Streets	-	96,050	94,480	1,570
<i>Culture and Recreation:</i>				
451 Recreation	-	16,275	1,270	15,005
452 Parks	-	33,260	33,205	55
455 Library	-	-	-	-
470 Debt Service	604,741	604,741	604,741	-
900 Capital Outlay	930,000	1,666,515	1,356,002	310,513
<b>Total Expenditures</b>	<b>1,551,212</b>	<b>2,455,612</b>	<b>2,142,177</b>	<b>313,435</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>544,688</b>	<b>(359,712)</b>	<b>1,270,217</b>	<b>1,629,929</b>
<b>Other Financing Sources</b>				
391 Transfers In	80,000	-	1,280,000	1,280,000
391 Sale of Municipal Property	-	-	10,000	10,000
<b>Total Other Financing Sources</b>	<b>80,000</b>	<b>-</b>	<b>1,290,000</b>	<b>1,290,000</b>
<b>Net Change in Fund Balance</b>	<b>624,688</b>	<b>(359,712)</b>	<b>2,560,217</b>	<b>2,919,929</b>
Fund Balance, December 31, 2020	(2,173,632)	(2,173,632)	(2,173,632)	-
<b>Fund Balance, December 31, 2021</b>	<b>\$ (1,548,944)</b>	<b>\$ (2,533,344)</b>	<b>\$ 386,585</b>	<b>\$ 2,919,929</b>

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



**CITY OF STURGIS**

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET (LIABILITY) (UNAUDITED)  
DECEMBER 31, 2021**

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
City's Proportion of the Net Pension Asset (Liability)	0.2392350%	0.23066390%	0.23558680%	0.24256130%
City's Proportionate Share of Net Pension Asset (Liability)	\$ 1,832,131	\$ 10,017	\$ 24,965	\$ 5,656
City's Covered Payroll (Plan's Fiscal Year)	\$ 5,130,778	\$ 4,813,573	\$ 4,741,713	\$ 4,809,142
City's Proportionate Share of the Net Pension Asset (Liability) as a Percentage of its Covered Payroll	35.71%	0.21%	0.53%	0.12%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset (Liability)	105.52%	100.04%	100.09%	100.02%
	<b>2017</b>	<b>2016</b>	<b>2015</b>	
City's Proportion of the Net Pension Asset (Liability)	0.25232870%	0.25267720%	0.24867220%	
City's Proportionate Share of Net Pension Asset (Liability)	\$ 22,899	\$ (853,519)	\$ 1,054,689	
City's Covered Payroll (Plan's Fiscal Year)	\$ 4,699,493	\$ 4,639,694	\$ 4,346,273	
City's Proportionate Share of the Net Pension Asset (Liability) as a Percentage of its Covered Payroll	0.49%	-18.40%	24.27%	
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset (Liability)	100.10%	96.89%	104.10%	

**CITY OF STURGIS**

**SCHEDULE OF THE CITY'S CONTRIBUTIONS (UNAUDITED)  
DECEMBER 31, 2021**

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

## **CITY OF STURGIS**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2021**

#### **(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, 2021.
7. Formal budgetary integration is employed as a management control device during the year for the general fund and major special revenue funds.
8. The financial statements prepared in conformity with US GAAP applied within the context of the modified accrual basis of accounting present capital outlay expenditure information in a separate category of expenditures. For the general fund, under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

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

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

*Changes from Prior Valuation:* The June 30, 2021 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2020 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

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

*Benefit Provision Changes:* Legislation enacted in 2021 reduced the minimum SDRS COLA from 0.5% to 0%. This change will impact the SDRS COLA only when inflation is very low or when a restricted maximum COLA of 0.5% is not affordable. The change had no impact on the current assets or liabilities of SDRS.

**CITY OF STURGIS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)**

**DECEMBER 31, 2021**

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

*Actuarial Assumption Changes:* The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2020 and the July 2021 SDRS COLA was limited to a restricted maximum of 1.41%. As of June 30, 2021, the FVFR assuming the COLA is equal to the baseline COLA assumption is greater than 100%. The July 2022 SDRS COLA will equal inflation, between 0% and 3.5%. For the June 30, 2021 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.41%. For this June 30, 2021 Actuarial Valuation, future COLAs are assumed to equal the baseline COLA assumption of 2.25%.

The change in the COLA assumption increased the Actuarial Accrued Liability by \$1,135 million, or 8.9% of the Actuarial Accrued Liability based on the 1.41% restricted maximum COLA.

Actuarial assumptions are reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

*Actuarial Method Changes:* No changes in actuarial methods were made since the prior valuation.

## OTHER SUPPLEMENTARY INFORMATION

## CITY OF STURGIS

COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2021

	Special Sales Tax <u>Fund</u>	Hotel Occupancy <u>Fund</u>	Revolving Loan <u>Fund</u>	Equipment Replacement <u>Fund</u>	BID <u>Fund</u>	Alice W. Dunn <u>Fund</u>
<b>Assets</b>						
101 Cash	\$ 141,406	\$ 128,422	\$ 595,971	\$ 429,248	\$ 76,000	\$ 359,967
108 Property Tax Receivable	-	-	-	-	53	-
108 Sales Tax Receivable	26,603	-	-	19,074	-	-
115 Accounts Receivable	-	-	6,090	-	7,001	-
121 Special Assessments Receivable	-	-	-	-	76,964	-
128 Notes Receivable	-	-	496,122	-	-	-
133 Advance to Other Funds	-	-	190,000	-	-	-
151 Investment Held for Sale	608,100	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 776,109</b>	<b>\$ 128,422</b>	<b>\$ 1,288,183</b>	<b>\$ 448,322</b>	<b>\$ 160,018</b>	<b>\$ 359,967</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>						
<i>Liabilities</i>						
202 Accounts Payable	\$ 669	\$ -	\$ -	\$ -	\$ 6,624	\$ -
<b>Total Liabilities</b>	<b>669</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,624</b>	<b>-</b>
<i>Deferred Inflows of Resources</i>						
246 Unavailable Revenue - Special Assessments	-	-	-	-	76,964	-
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,964</b>	<b>-</b>
<i>Fund Balances</i>						
263.04 Nonspendable - Advances	-	-	190,000	-	-	-
263.51 Nonspendable - Perpetual Care Cemetery	-	-	-	-	-	-
263.99 Nonspendable - Library Trust	-	-	-	-	-	327,535
264.03 Restricted - Perpetual Care Cemetery	-	-	-	-	-	-
264.04 Restricted - BBB Tax	775,440	-	-	-	-	-
264.05 Restricted - Library Purposes	-	-	-	-	-	32,432
264.09 Restricted - BID Tax	-	-	-	-	76,430	-
264.97 Restricted - Revolving Loan	-	-	1,098,183	-	-	-
264.99 Restricted - Hotel Occupation	-	128,422	-	-	-	-
264.99 Restricted - Equipment Replacement	-	-	-	448,322	-	-
<b>Total Fund Balances</b>	<b>775,440</b>	<b>128,422</b>	<b>1,288,183</b>	<b>448,322</b>	<b>76,430</b>	<b>359,967</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 776,109</b>	<b>\$ 128,422</b>	<b>\$ 1,288,183</b>	<b>\$ 448,322</b>	<b>\$ 160,018</b>	<b>\$ 359,967</b>

<b>Perpetual Maintenance Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 200,141	\$ 1,931,155
-	53
-	45,677
-	13,091
-	76,964
-	496,122
-	190,000
-	608,100
<b>\$ 200,141</b>	<b>\$ 3,361,162</b>

\$ -	\$ 7,293
-	7,293

-	76,964
-	76,964

-	190,000
50,000	50,000
-	327,535
150,141	150,141
-	775,440
-	32,432
-	76,430
-	1,098,183
-	128,422
-	448,322
200,141	3,276,905

<b>\$ 200,141</b>	<b>\$ 3,361,162</b>
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CITY OF STURGIS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021

	Special Sales Tax Fund	Hotel Occupancy Fund	Revolving Loan Fund	Equipment Replacement Fund	BID Fund	Alice W. Dunn Fund
<b>Revenue:</b>						
313 General Sales and Use Taxes	\$ 445,052	\$ -	\$ -	\$ 227,047	\$ -	\$ -
315 Amusement Taxes	-	83,784	-	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	-	-	551	-
341 Charges for Goods and Services - General Government	-	-	-	-	73,251	-
361 Investment Earnings	-	-	11,456	-	-	-
363 Special Assessments	-	-	-	-	24,563	-
369 Other	2,000	-	-	-	6,304	8,116
<b>Total Revenue</b>	<b>447,052</b>	<b>83,784</b>	<b>11,456</b>	<b>227,047</b>	<b>104,669</b>	<b>8,116</b>
<b>Expenditures:</b>						
419 General Government - Other	-	-	-	10,000	159,768	-
451 Culture and Recreation	-	77,494	-	-	-	-
460 Conservation and Development	293,710	-	1,030	-	-	-
485 Capital Outlay	-	-	-	197,744	-	-
<b>Total Expenditures</b>	<b>293,710</b>	<b>77,494</b>	<b>1,030</b>	<b>207,744</b>	<b>159,768</b>	<b>-</b>
<b>Other Financing Sources (Uses)</b>						
391 Transfers In	-	-	-	-	38,000	-
391 Sale of Municipal Property	-	-	-	28,363	-	-
511 Transfers Out	(38,000)	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(38,000)</b>	<b>-</b>	<b>-</b>	<b>28,363</b>	<b>38,000</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>115,342</b>	<b>6,290</b>	<b>10,426</b>	<b>47,666</b>	<b>(17,099)</b>	<b>8,116</b>
Fund Balance, December 31, 2020	660,098	122,132	1,277,757	400,656	93,529	351,851
<b>Fund Balance, December 31, 2021</b>	<b>\$ 775,440</b>	<b>\$ 128,422</b>	<b>\$ 1,288,183</b>	<b>\$ 448,322</b>	<b>\$ 76,430</b>	<b>\$ 359,967</b>



Perpetual Maintenance <u>Fund</u>	Total Nonmajor Governmental <u>Funds</u>
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\$ -	\$ 672,099
-	83,784
-	551
-	73,251
-	11,456
-	24,563
7,215	23,635
<u>7,215</u>	<u>889,339</u>

-	169,768
-	77,494
-	294,740
-	197,744
<u>-</u>	<u>739,746</u>

-	38,000
-	28,363
-	(38,000)
<u>-</u>	<u>28,363</u>

7,215	177,956
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192,926	3,098,949
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<u>\$ 200,141</u>	<u>\$ 3,276,905</u>
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**CITY OF STURGIS**

**SCHEDULE OF RALLY ACTIVITIES (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**Revenue**

*Taxes:*

313 Sales Tax	\$ 750,279
320 Licenses and Permits	383,990

*Charges for Goods and Services:*

341 General Government	1,426,449
344 Special Sanitation Fee	180,937

<b>Total Revenue</b>	<b>2,741,655</b>
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**Expenditures**

*General Government:*

419 Other	(1,383,709)
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*Special Sanitation:*

419 Other	(72,858)
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*Donations to Charities:*

419 Other	(152,199)
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<b>Total Expenditures</b>	<b>(1,608,766)</b>
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<b>Excess of Revenue over Expenditures</b>	<b>\$ 1,132,889</b>
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## SINGLE AUDIT SECTION

**CITY OF STURGIS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Identifying Number	Assistance Listing	Amount
<i>U.S. Department of Justice:</i>			
<i>Direct Funding</i>			
Public Safety Partnership and Community Policing Grants	N/A	16.710	47,214
<i>U.S. Department of Transportation:</i>			
<i>Pass-Through the S.D. Department of Transportation</i>			
COVID-19 - Airport Improvement Program - T-Hangers	3-46-0054-016-2020	20.106	251,141
Airport Improvement Program - Taxilane	3-46-0054-019-2021	20.106	186,093
COVID-19 - Airport Improvement Program - Taxilane	3-46-0054-019-2021	20.106	164,982
COVID-19 - Airport Improvement Program	3-46-0054-018-2021	20.106	13,000
<b>Total U.S. Department of Transportation</b>			<b>615,216</b>
<i>U.S. Department of Treasury:</i>			
<i>Direct Funding</i>			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	N/A	21.027	1,078,096
<i>Pass-Through the S.D. Bureau of Finance and Management</i>			
COVID-19 - Coronavirus Relief Fund	20-0900-279	21.019	10,000
<b>Total U.S. Department of Treasury</b>			<b>1,088,096</b>
<i>Institute of Museum and Library Sciences</i>			
<i>Pass-Through S.D. Department of Education</i>			
COVID-19 - Grants to States - Libraries	2021-G-895	45.310	15,000
<i>US Elections Assistance Commission</i>			
<i>Pass-Through S.D. Department of Environment and Natural Resources</i>			
Capitalization Grants for Clean Water State Revolving Funds	C461068-06	66.458	2,490,000
<i>US Department of Health and Human Services</i>			
<i>Direct Funding</i>			
Drug-Free Communities Support Program Grants	N/A	93.276	29,137
COVID-19 - Provider Relief Fund	N/A	93.498	14,883
<i>Pass-Through S.D. Department of Health</i>			
Public Health Stimulus	40159061	93.069	16,637
<b>Total U.S. Department of Health and Human Services</b>			<b>60,657</b>
<i>U.S. Department of Homeland Security:</i>			
<i>Pass-Through the S.D. Department of Public Safety - Office of Emergency Management</i>			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	093-62100-00	97.036	130,640
Homeland Security Grant Program	00144	97.067	7,876
<b>Total U.S. Department of Homeland Security</b>			<b>138,516</b>
<b>Total</b>			<b>\$ 4,454,699</b>

**CITY OF STURGIS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**Note 1: Basis of Presentation and Summary of Significant Accounting Policies**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 2: Indirect Cost Rate**

The City has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.



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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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 14, 2022.

#### **Report on Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as #2021-001 and #2021-002, that we consider to be material weaknesses.

#### **Report on Compliance and Other Matters**

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

City Council  
City of Sturgis

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**City's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questions Costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of this Report**

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



KETEL THORSTENSON, LLP  
Certified Public Accountants

June 14, 2022



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

City Council  
City of Sturgis  
Sturgis, South Dakota

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

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

We have audited the City's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2021. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.



***Auditor's Responsibilities for the Audit of Compliance (Continued)***

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

- Exercise professional judgment and maintain professional skepticism throughout the audit
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**Report on Internal Control over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings as item #2021-001 to be a material weakness.

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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



KETEL THORSTENSON, LLP  
Certified Public Accountants

## **CITY OF STURGIS**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2021**

#### **A. SUMMARY OF AUDIT RESULTS**

1. The Independent Auditor's Report expresses unmodified opinions on all of the financial statements of the City of Sturgis (the City).
2. Material weaknesses disclosed during the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the City's financial statements were disclosed during the audit.
4. One material weakness was disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses unmodified opinions on all major programs, as listed in #7.
6. One audit finding relative to the major federal award programs for the City is reported in part C of this schedule.
7. The programs tested as major programs were Capitalization Grants for Clean Water State Revolving Funds and Coronavirus State and Local Fiscal Recovery Funds (CFDA #66.458 and #21.027).
8. The threshold for distinguishing type A and B programs was \$750,000.
9. The City was not determined to be a low-risk auditee.

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

##### **MATERIAL WEAKNESSES**

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

*Federal Program Affected:* Capitalization Grants for Clean Water State Revolving Funds and Coronavirus State and Local Fiscal Recovery Funds (CFDA #66.458 and #21.027).

*Compliance Requirement:* Reporting

*Questioned Costs:* None

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

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

*Repeat Finding from Prior Year:* Yes, prior year finding #2020-001.

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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

**MATERIAL WEAKNESSES (CONTINUED)**

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

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

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

#2021-002 FINDING: Audit Adjustments

*Federal Program Affected:* None

*Compliance Requirement:* None

*Questioned Costs:* None

*Condition and Cause:* During the course of our engagement, we proposed material audit adjustments that were approved and recorded. Adjustments included an entry to rollforward fund balance/net position, to adjust receivables and deferrals, to record state grant revenue and receivable, to adjust prepaid expenses, to record interest from TIF #17, to adjust governmental capital assets, to adjust interest expense, to record retainage payable on construction in progress, to record adjustments on uncollectible receivables and write-offs, and to record adjustments for pension activity. Additionally, we proposed reclassification entries with no effect on net income. Furthermore, other entries were proposed as a part of the audit, but were not recorded due to the overall insignificance on the financial statements.

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

*Repeat Finding from Prior Year:* Yes, prior year finding 2020-002.

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

- a. Record retainage associated with all projects in process at year-end.
- b. Work with lenders to verify year-end long-term debt balances, including interest, and adjust balances accordingly.
- c. For reimbursement-based grants, ensure expenditures equals revenues and record any receivables due from other governments, if necessary. Record the activity in due from other government accounts, rather than accounts receivable.
- d. Do not post activity directly to fund balance/net position accounts.
- e. Adjust SDPAA balances to actual at year-end.
- f. Ensure library cash accounts contain only those belonging to the City.
- g. Adjust property tax receivables and deferrals to actual at year-end.
- h. Management should continue to review and approve the pension entries.
- i. Analyze and adjust, if necessary, ambulance allowance for doubtful accounts.
- j. Analyze and write-off any revolving loans deemed uncollectible.
- k. Capital assets should be reviewed to make sure all additions and disposals are properly reflected, including the activity within TIF Funds. When adjusting these figures, take into account capital contributions, both external and between funds, that may need recorded.
- l. Adjust interfund advances to agree to amortization schedules.

**CITY OF STURGIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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

**MATERIAL WEAKNESSES (CONCLUDED)**

#2021-002 FINDING: Audit Adjustments (Continued)

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

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

**MATERIAL WEAKNESS**

Finding #2021-001 listed in Part B related to major programs as noted in the finding.

## MANAGEMENT RESPONSE



**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2020**

The City of Sturgis respectfully submits the following summary schedule of prior audit findings from December 31, 2020 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2020 Schedule of Findings.

**#2020-001 FINDING: Financial Statement Preparation**

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

*Initial Year Report:* Originally issued years ago.

*Reasons for Recurrence and Corrective Action Plan:* As the City has accepted the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2021, see Corrective Action Plan.

**#2020-002 FINDING: Audit Adjustments**

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

*Initial Year Report:* Originally issued years ago.

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

**#2020-003: FINDING: Budgetary Overdraft**

*Status:* The City made efforts to ensure budgetary overdrafts were prevented.

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

*Reasons for Recurrence and Corrective Action Plan:* The finding is not repeated in 2021.



**CORRECTIVE ACTION PLAN  
DECEMBER 31, 2021**

The City respectfully submits the following corrective action plan regarding findings from December 31, 2021 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

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

*Responsible Officials:* Fay Bueno, Finance Officer

*Corrective Action Plan:* The City has accepted the risk associated with Finding #2021-001 regarding the preparation of the financial statements and will continue to have the independent auditor prepare the annual financial statements. For future audits, Finance Officer Fay Bueno will continue to monitor the financial statement preparation and determine if any modification is necessary.

*Anticipated Completion Date:* Ongoing

#2021-002 FINDING: Audit Adjustments

*Responsible Officials:* Fay Bueno, Finance Officer

*Corrective Action Plan:* The City will make every effort to make accurate accounting adjustments throughout the year. When recording a journal entry that is unfamiliar, the Finance Officer will inquire on how to make the correct entry. The Finance Officer will make every effort to make sure the accounting adjustments are made correctly. Capital assets will be reviewed monthly by the Finance Officer and capitalized in a timely manner. Some of the ambulance receivables will be analyzed and adjusted by Accounting Clerk on a monthly basis.

*Anticipated Completion Date:* Ongoing