

CITY OF STURGIS

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2014**



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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CITY OF STURGIS

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Sturgis
Sturgis, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF STURGIS** (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2014, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, and budgetary comparison information on pages 42 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining nonmajor fund financial statements and schedule of rally activities on pages 47 through 49 are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule of rally activities on page 49 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

July 16, 2015

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

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, 2014. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$1,086,096 more than the \$8,743,091 governmental program expenditures. This includes any transfers in/out. The overall change in net position in governmental activities increased three percent compared to last year. The increase is due to increased sales tax, temporary vendor licensing, licensing and permits for construction, FEMA reimbursement funding for the Atlas Storm, and interest on investments. Sales tax in the General Fund and Capital Improvement Fund was up 3.49% and the gross receipts sales tax was up 5.6% compared to 2013. The City has seen an increase in construction, tourism and is hosting more events during the summer months.
- In the City's business-type activities, revenues exceeded expenses by \$772,061, which includes transfers and any activity due to the disposal of fixed assets. The increase is due to a 3.5% increase in fees in the Water Fund and a 2% increase in fees in the Wastewater Fund and Sanitation Fund. There has been a 35% increase in usage of the Rubble Site (much of this is due to the increase in construction activity). The Ambulance Fund had an increase in revenue of 21% over 2013 and the Liquor Store Fund had an increase in revenue of 2% over 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014

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

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

Government-wide Statements

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

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Government-wide Statements (Continued)

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

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

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

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

Fund Financial Statements

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

The City has two kinds of funds:

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

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position increased four percent between fiscal year 2013 and 2014. (See Table A-1).

Table A-1 Summarized Statement of Net Position						
	Governmental Activities		Business-Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 7,207,731	\$ 6,639,664	\$ 3,487,987	\$ 3,218,379	\$ 10,695,718	\$ 9,858,043
Capital Assets	34,127,471	33,331,579	22,553,492	22,424,593	56,680,963	55,756,172
Total Assets	\$ 41,335,202	\$ 39,971,243	\$ 26,041,479	\$ 25,642,972	\$ 67,376,681	\$ 65,614,215
Long-Term Debt	\$ 5,060,496	\$ 5,123,122	\$ 7,632,372	\$ 7,944,917	\$ 12,692,868	\$ 13,068,039
Other Liabilities	642,703	302,214	504,574	565,583	1,147,277	867,797
Total Liabilities	5,703,199	5,425,336	8,136,946	8,510,500	13,840,145	13,935,836
<i>Net Position:</i>						
Net Investment in Capital Assets	29,454,385	28,755,165	15,000,034	14,560,959	44,454,419	43,316,124
Restricted	3,495,114	3,483,469	17,099	12,294	3,512,213	3,495,763
Unrestricted	2,682,504	2,307,273	2,887,400	2,559,219	5,569,904	4,866,492
Total Net Position	\$ 35,632,003	\$ 34,545,907	\$ 17,904,533	\$ 17,132,472	\$ 53,536,536	\$ 51,678,379
Beginning Net Position	\$ 34,545,907	\$ 33,478,885	\$ 17,132,472	\$ 16,646,164	\$ 51,678,379	\$ 50,125,049
Change in Accounting Principle	-	(123,103)	-	-	-	(123,103)
Increase in Net Position	\$ 1,086,096	\$ 1,190,125	\$ 772,061	\$ 486,308	\$ 1,858,157	\$ 1,676,433
Percentage of Increase in Net Position	3%	4%	5%	3%	4%	3%

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.

Changes in Net Position

The City's revenues totaled \$17,236,338 (See Table A-2). Well over half of the City's revenue comes from charges for services and taxes, with 55 cents of every dollar raised coming from charges for services (primarily liquor and water operations) and 36 cents of every dollar raised coming from some type of tax (See Figure A-2). Of the City's total revenue, 6 percent comes from state and federal grants for capital purposes, and the rest comes from operating grants, contributions, state shared revenue, interest and miscellaneous.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

The total cost of all programs and services was \$15,378,181 (See Table A-2). The City's expenses cover a range of services, including road maintenance, parks and recreation services and sewer system services. (See Figure A-3).

Figure A-2: Sources of Revenue for 2014

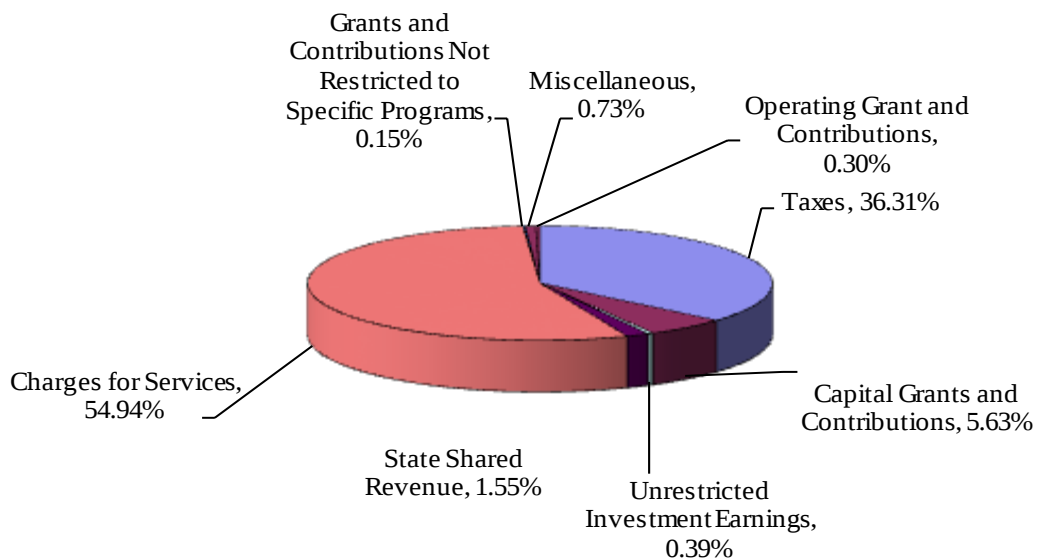
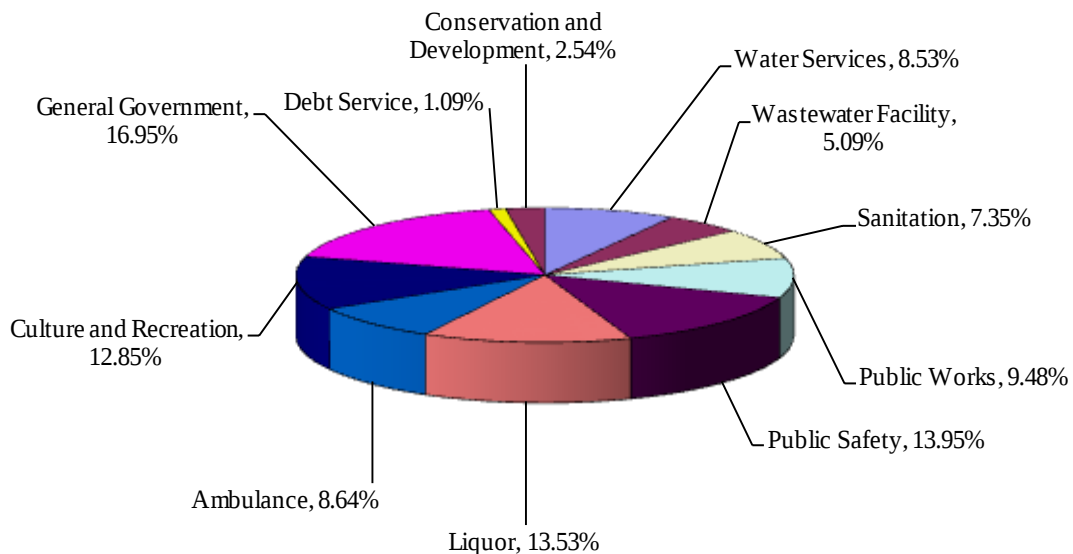


Figure A-3: Functional Expenses for 2014



CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014

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.

Table A-2 Changes in Net Position						
	Governmental Activities		Business - Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues						
Charges for Services	\$ 2,221,319	\$ 2,043,801	\$ 7,247,549	\$ 6,624,164	\$ 9,468,868	\$ 8,667,965
Operating Grants and Contributions	51,710	299,541	-	-	51,710	299,541
Capital Grants and Contributions	671,532	167,572	297,938	-	969,470	167,572
General Revenues						
Taxes	6,260,953	6,085,970	-	-	6,260,953	6,085,970
State Shared Revenue	267,047	252,764	-	-	267,047	252,764
Grants and Contributions not Program Specific	25,940	18,627	-	-	25,940	18,627
Unrestricted Investment Earnings	56,219	29,888	11,200	11,990	67,419	41,878
Miscellaneous	85,329	137,237	39,602	24,802	124,931	162,039
Total Revenues	9,640,049	9,035,400	7,596,289	6,660,956	17,236,338	15,696,356
Expenses						
General Government	2,603,835	2,547,121	-	-	2,603,835	2,547,121
Public Safety	2,147,240	1,873,261	-	-	2,147,240	1,873,261
Public Works	1,458,161	1,271,694	-	-	1,458,161	1,271,694
Culture and Recreation	1,976,044	1,788,152	-	-	1,976,044	1,788,152
Conservation and Development	389,996	225,168	-	-	389,996	225,168
Debt Service	167,815	197,879	-	-	167,815	197,879
Liquor	-	-	2,080,997	2,159,753	2,080,997	2,159,753
Water Services	-	-	1,312,136	1,245,434	1,312,136	1,245,434
Wastewater Services	-	-	783,160	768,148	783,160	768,148
Sanitation Services	-	-	1,130,734	1,090,726	1,130,734	1,090,726
Ambulance	-	-	1,328,063	852,587	1,328,063	852,587
Total Expenses	8,743,091	7,903,275	6,635,090	6,116,648	15,378,181	14,019,923
Excess Before Transfers	896,958	1,132,125	961,199	544,308	1,858,157	1,676,433
Transfers	189,138	58,000	(189,138)	(58,000)	-	-
Increase in Net Position	1,086,096	1,190,125	772,061	486,308	1,858,157	1,676,433
Change in Accounting Principle	-	(123,103)	-	-	-	(123,103)
Ending Net Position	\$ 35,632,003	\$ 34,545,907	\$ 17,904,533	\$ 17,132,472	\$ 53,536,536	\$ 51,678,379

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2014

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

Total revenues of the governmental activities for the City increased by 7 percent compared to the prior year, while total expenses increased by 11 percent. The primary reason was due to an overall increase in several different revenue sources, which included sales tax, licensing and permitting and intergovernmental revenue. Vendor licensing fees are up 31% due to a change in how the City charges for the fee. The change was from a flat fee to a fee determined by the size of the location being vended. Licensing and permitting was up 46%. The City is seeing growth in tourism, construction and in economic development.

Business-Type Activities

Operating revenues of the City's business-type activities increased by approximately 14 percent compared to the prior year, while expenses increased approximately 9 percent. The overall increase in revenues is due to the increase in fees, the economic growth, and usage of services. The City has seen increases in the use of the rubble site and also the ambulance service. The increase of expenses were mainly caused by the increase in ambulance calls, which increased wages and supplies.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

BUDGETARY HIGHLIGHTS

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

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

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014

CAPITAL ASSET ADMINISTRATION

By the end of 2014, the City had invested \$56,680,963 in a broad range of capital assets, including, land, buildings, and various machinery and equipment. (See Table A-3). This amount represents a net increase (including additions and deductions) of \$924,791, primarily due to the construction work in progress on the Harley-Davidson Rally Point.

Table A-3 Capital Assets (net of depreciation)				
	Governmental Activities		Business-type Activities	
	2014	2013	2014	2013
Land	\$ 2,184,497	\$ 2,184,497	\$ 738,681	\$ 738,681
Construction Work in Progress	1,044,026	84,883	9,053	-
Buildings	8,650,909	8,743,330	1,632,295	1,692,929
Improvements Other Than Buildings	20,382,231	20,641,480	18,966,711	18,661,516
Machinery and Equipment	1,865,808	1,677,389	1,206,752	1,331,467
Total Capital Assets	\$ 34,127,471	\$ 33,331,579	\$ 22,553,492	\$ 22,424,593

LONG-TERM DEBT

At year-end the City had \$12,692,868 in Sales Tax Revenue Bonds, Contract Payable, General Obligation Bonds and other long-term obligations. This is a decrease of \$375,171 as shown on Table A-4 below.

Table A-4 Outstanding Debt and Obligations				
	Governmental Activities		Business-type Activities	
	2014	2013	2014	2013
Compensated Absences	\$ 204,980	\$ 181,848	\$ 75,727	\$ 81,283
Tax Increment Financing Obligations	188,289	301,414	-	-
Marcotte Property	182,430	364,860	-	-
2nd Street Plaza	679,797	-	-	-
Sales Tax Revenue Bonds	3,805,000	4,275,000	6,541,645	6,538,634
General Obligation Bonds	-	-	1,015,000	1,325,000
Total Outstanding Debt and Obligations	\$ 5,060,496	\$ 5,123,122	\$ 7,632,372	\$ 7,944,917

During the current year, the City had additional draws on its water revenue bonds for the Drinking Water Project. The City made scheduled payments throughout the year on its debt balances.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2014

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 \$22,925,964 or 7%. The City requested a 0% increase in property tax for the year of 2014 payable in 2015. The growth factor of 2013 taxes payable in 2014 was 0.727%. The growth factor for 2014 taxes payable in 2015 was 0.488%.

The second largest portion of revenue within the general fund is retail sales tax. In 2014, the City experience an increase of 8 percent compared to 2013. The increase was due to increased construction, additional traffic before and after the annual motorcycle rally and the other events the City hosted.

The adopted 2015 general fund expenditures budget increased by .05%, as the City continues to watch their spending. The City has grown the general fund reserves and the reserves of all other operating funds, and will continue to maintain these reserves.

The City's business-type activities, other than liquor and water, will have changes in 2015 compared to 2014. The Wastewater Fund and Sanitation Fund increased the use fee 2%. The Ambulance Fund continues to anticipate higher revenue due to the high demand for ambulance service in the area.

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 2nd Street, Suite 103, Sturgis, SD 57785.

CITY OF STURGIS

**STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets			
Cash and Cash Equivalents (Note 2)	\$ 4,453,901	\$ 2,909,500	\$ 7,363,401
Receivables, Net	773,375	608,092	1,381,467
Notes Receivable (Note 10)	187,726	12,500	200,226
Internal Balances (Note 6)	398,000	(398,000)	-
Inventories	1,485	325,264	326,749
Other Assets	23,535	13,532	37,067
Investment Real Estate Held for Sale (Note 5)	608,100	-	608,100
Restricted Assets:			
Cash with Fiscal Agent (Note 5)	625,765	17,099	642,864
Deposits (Notes 2 and 9)	135,844	-	135,844
Capital Assets (Note 4)			
Land and Construction Work in Progress	3,228,523	747,734	3,976,257
Other Capital Assets, Net of Depreciation	30,898,948	21,805,758	52,704,706
Total Assets	\$ 41,335,202	\$ 26,041,479	\$ 67,376,681
Liabilities			
Accounts Payable	\$ 470,309	\$ 228,548	\$ 698,857
Other Current Liabilities	172,394	276,026	448,420
Noncurrent Liabilities (Note 5):			
Due Within One Year	1,121,645	509,204	1,630,849
Due in More Than One Year	3,938,851	7,123,168	11,062,019
Total Liabilities	5,703,199	8,136,946	13,840,145
Net Position			
Net Investment in Capital Assets	29,454,385	15,000,034	44,454,419
Restricted for:			
Debt Service	715,621	17,099	732,720
SDPAA (Note 9)	135,844	-	135,844
Revolving Loans	1,271,677	-	1,271,677
BID Tax	646,400	-	646,400
Library Purposes	232,788	-	232,788
Permanently Restricted Purposes:			
Expendable	115,249	-	115,249
Nonexpendable	377,535	-	377,535
Unrestricted	2,682,504	2,887,400	5,569,904
Total Net Position	35,632,003	17,904,533	53,536,536
Total Liabilities and Net Position	\$ 41,335,202	\$ 26,041,479	\$ 67,376,681

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

CITY OF STURGIS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

	----- 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
Functions/Programs							
Primary Government							
Governmental Activities:							
General Government	\$ 2,603,835	\$ 1,865,059	\$ -	\$ -	\$ (738,776)	\$ -	\$ (738,776)
Public Safety	2,147,240	62,526	51,710	-	(2,033,004)	-	(2,033,004)
Public Works	1,458,161	17,080	-	671,532	(769,549)	-	(769,549)
Health and Welfare	-	507	-	-	507	-	507
Culture and Recreation	1,976,044	276,147	-	-	(1,699,897)	-	(1,699,897)
Conservation and Development	389,996	-	-	-	(389,996)	-	(389,996)
Interest on Long-Term Debt	167,815	-	-	-	(167,815)	-	(167,815)
Total Governmental Activities	8,743,091	2,221,319	51,710	671,532	(5,798,530)	-	(5,798,530)
Business-Type Activities:							
Liquor	2,080,997	2,137,277	-	-	-	56,280	56,280
Water	1,312,136	1,731,842	-	260,000	-	679,706	679,706
Wastewater	783,160	1,119,904	-	-	-	336,744	336,744
Sanitation	1,130,734	1,263,788	-	-	-	133,054	133,054
Ambulance	1,328,063	994,738	-	37,938	-	(295,387)	(295,387)
Total Business-Type Activities	6,635,090	7,247,549	-	297,938	-	910,397	910,397
Total Primary Government	\$ 15,378,181	\$ 9,468,868	\$ 51,710	\$ 969,470	(5,798,530)	910,397	(4,888,133)
General Revenues:							
Taxes:							
Property Taxes					2,934,661	-	2,934,661
Sales Taxes					3,326,292	-	3,326,292
State Shared Revenue					267,047	-	267,047
Grants and Contributions Not Restricted to Specific Programs					25,940	-	25,940
Unrestricted Investment Earnings					56,219	11,200	67,419
Miscellaneous Revenue					85,329	39,602	124,931
Transfers					189,138	(189,138)	-
Total General Revenues and Transfers					6,884,626	(138,336)	6,746,290
Change in Net Position					1,086,096	772,061	1,858,157
Net Position, Beginning					34,545,907	17,132,472	51,678,379
Net Position, Ending					\$ 35,632,003	\$ 17,904,533	\$ 53,536,536

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

CITY OF STURGIS

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

		<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Revolving Loan Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
101	Cash (Note 2)	\$ 4,875	\$ -	\$ -	\$ -	\$ 4,875
104	Interest Bearing Accounts (Note 2)	1,046,569	164,623	232,899	422,315	1,866,406
105	Savings Certificates (Note 2)	1,418,630	334,055	402,400	427,535	2,582,620
106	Restricted Cash with Fiscal Agent (Note 5)	-	625,765	-	-	625,765
108	Property Taxes Receivable	69,392	-	-	-	69,392
108	Sales Tax Receivable	113,813	75,876	-	22,053	211,742
115	Accounts Receivable	130,157	-	65,900	-	196,057
116	Estimated Uncollectible Accounts Receivable	(10,000)	-	-	-	(10,000)
121	Special Assessments Receivable	1,790	-	-	-	1,790
128	Notes Receivable (Note 10)	-	14,818	172,908	-	187,726
132	Due from Federal/State Government (Note 11)	304,394	-	-	-	304,394
133	Advance to Wastewater Fund (Note 6)	-	-	398,000	-	398,000
142	Inventory of Supplies Purchased for for Resale	1,485	-	-	-	1,485
151	Investment Held for Sale (Note 5)	-	-	-	608,100	608,100
154.1	Restricted Deposits (Note 9)	135,844	-	-	-	135,844
155	Prepaid Expense	23,535	-	-	-	23,535
Total Assets		\$ 3,240,484	\$ 1,215,137	\$ 1,272,107	\$ 1,480,003	\$ 7,207,731
Liabilities, Deferred Inflows of Resources and Fund Balances						
<i>Liabilities</i>						
202	Accounts Payable	\$ 413,978	\$ 22,933	\$ 430	\$ 32,968	\$ 470,309
216	Accrued Wages Payable	128,532	-	-	-	128,532
217	Accrued Taxes Payable	1,155	-	-	25	1,180
Total Liabilities		543,665	22,933	430	32,993	600,021
<i>Deferred Inflows of Resources</i>						
245	Unavailable Revenue - Property Taxes	63,879	-	-	-	63,879
246	Unavailable Revenue - Special Assessments	1,790	-	-	-	1,790
247	Other Deferred Inflows of Resources - Grant Revenue	265,608	-	-	-	265,608
Total Deferred Inflows of Resources		331,277	-	-	-	331,277
<i>Fund Balances (Note 1j)</i>						
263	Nonspendable	160,864	-	-	377,535	538,399
264	Restricted	-	640,583	1,271,677	1,069,475	2,981,735
265	Committed	114,980	551,621	-	-	666,601
267	Unassigned	2,089,698	-	-	-	2,089,698
Total Fund Balances		2,365,542	1,192,204	1,271,677	1,447,010	6,276,433
Total Liabilities, Deferred Inflows of Resources and Fund Balances		\$ 3,240,484	\$ 1,215,137	\$ 1,272,107	\$ 1,480,003	\$ 7,207,731

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

CITY OF STURGIS

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2014**

Total Fund Balances - Governmental Funds	\$ 6,276,433
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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.	34,127,471
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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.	(5,060,496)
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Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported in the funds.	(42,682)
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Assets such as delinquent taxes receivable, special assessments, and grants are not available to pay for current period expenditures and therefore are deferred in the funds.	331,277
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Total Net Position - Governmental Funds	\$ 35,632,003
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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, 2014

		<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Revolving Loan Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenue						
	<i>Taxes:</i>					
311	General Property Taxes (Note 3)	\$ 2,782,890	\$ -	\$ -	\$ 161,979	\$ 2,944,869
313	General Sales and Use Taxes	1,812,611	1,210,937	-	302,744	3,326,292
315	Amusement Taxes	900	-	-	-	900
319	Penalties and Interest on Delinquent Taxes	14,230	-	-	-	14,230
320	Licenses and Permits	631,496	-	-	-	631,496
	<i>Intergovernmental Revenue:</i>					
331	Federal Grants	335,081	7,258	-	-	342,339
334	State Grants	44,219	-	244,357	-	288,576
335.01	Bank Franchise Tax	9,266	-	-	-	9,266
335.03	Liquor Tax Reversion	41,749	-	-	-	41,749
335.04	Motor Vehicle Licenses	73,512	-	-	-	73,512
335.08	Local Government Highway and Bridge Fund	142,520	-	-	-	142,520
338.02	County Highway and Bridge Reserve Tax	5,855	-	-	-	5,855
338.04	Port of Entry	5,068	-	-	-	5,068
338.99	Other	6,157	-	-	-	6,157
	<i>Charges for Goods and Services:</i>					
341	General Government	1,109,955	123,608	-	-	1,233,563
342	Public Safety	55,542	-	-	-	55,542
345	Health	507	-	-	-	507
346	Culture and Recreation	276,147	-	-	-	276,147
349	Other	40,162	-	-	-	40,162
	<i>Fines and Forfeits:</i>					
351	Court Fines and Costs	6,984	-	-	-	6,984
	<i>Miscellaneous Revenue:</i>					
361	Investment Earnings	39,827	10,458	768	5,166	56,219
362	Rentals/Airport Hangar Lease	13,093	-	-	-	13,093
367	Contributions and Donations from Private Sources	15,940	10,000	-	-	25,940
369	Other	5,149	-	-	6,740	11,889
Total Revenue		7,468,860	1,362,261	245,125	476,629	9,552,875

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Revolving Loan Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Expenditures					
<i>General Government:</i>					
411 Legislative	197,973	-	-	-	197,973
414 Financial Administration	1,054,573	558	-	-	1,055,131
419 Other	1,231,083	24,058	-	-	1,255,141
<i>Public Safety:</i>					
421 Police	1,818,804	-	-	-	1,818,804
422 Fire	114,745	-	-	-	114,745
<i>Public Works:</i>					
431 Highway and Streets	668,259	134,529	-	-	802,788
435 Airport	39,698	-	-	-	39,698
437 Cemeteries	98,264	-	-	-	98,264
<i>Culture and Recreation:</i>					
451 Recreation	703,226	97,536	-	-	800,762
452 Parks	567,708	-	-	-	567,708
455 Library	329,462	3,141	-	1,329	333,932
456 Auditorium	22,969	-	-	-	22,969
460 Conservation and Development	-	44,170	109,083	236,743	389,996
470 Debt Service	-	643,306	-	318,360	961,666
485 Capital Outlay	387,096	1,365,167	399,770	-	2,152,033
Total Expenditures	7,233,860	2,312,465	508,853	556,432	10,611,610
Excess of Revenue Over (Under)					
Expenditures	235,000	(950,204)	(263,728)	(79,803)	(1,058,735)
Other Financing Sources (Uses)					
391.01 Transfers In (Note 7)	464,917	34,626	234,011	126,104	859,658
Compensation for Loss or					
391.04 Damage to Capital Assets	20,185	-	-	-	20,185
391.20 Long-Term Debt Issued	-	699,585	-	-	699,585
511 Transfers Out (Note 7)	(12,000)	(223,094)	-	-	(235,094)
Total Other Financing Sources	473,102	511,117	234,011	126,104	1,344,334
Net Change in Fund Balances	708,102	(439,087)	(29,717)	46,301	285,599
Fund Balance, December 31, 2013	1,657,440	1,631,291	1,301,394	1,400,709	5,990,834
Fund Balance, December 31, 2014	\$ 2,365,542	\$ 1,192,204	\$ 1,271,677	\$ 1,447,010	\$ 6,276,433

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, 2014**

Net Change in Fund Balances - Total Government Funds \$ 285,599

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

Governmental funds report capital outlays as expenditures. However,
in the Statement of Activities the cost of those assets is allocated over
their estimated lives and reported as depreciation expense. 1,097,800

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. 133,518

Capital assets transferred to the water and sewer proprietary funds. (435,426)

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. (25,338)

Revenues in the Statement of Activities that do not provide current financial
resources are not reported as revenues in the funds (i.e. grant receivables). (41,191)

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. 785,343

Borrowings on long-term debt is an other financing source in the governmental
funds, but increases long-term debt in the Statement of Net Position. (699,585)

Governmental funds do not reflect the change in accrued leave, but the Statement
of Activities reflects the change in accrued leave through expenditures. (23,132)

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. 8,508

Change in Net Position of Governmental Activities	\$ 1,086,096
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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, 2014**

Assets	Liquor Fund	Water Fund	Wastewater Fund	Sanitation Fund	Ambulance Fund	Total Proprietary Funds
Current Assets						
101 Cash (Note 2)	\$ 1,388	\$ 2,017,934	\$ 373,872	\$ 516,306	\$ -	\$ 2,909,500
107 Restricted Cash (Note 5)	16,392	707	-	-	-	17,099
115 Accounts Receivable, Net	23,213	133,287	102,337	76,001	273,254	608,092
128 Notes Receivable (Note 10)	-	-	12,500	-	-	12,500
131 Due from Other Funds (Note 6)	-	539,418	-	-	-	539,418
142 Inventory of Supplies Purchased for Resale	325,264	-	-	-	-	325,264
155 Prepaid Expenses	1,159	3,139	1,655	3,487	4,092	13,532
Total Current Assets	367,416	2,694,485	490,364	595,794	277,346	4,425,405
Capital Assets (Note 4)						
160 Land	6,500	1,800	646,214	84,167	-	738,681
162 Buildings	826,042	181,183	445,257	310,994	359,809	2,123,285
163 Accumulated Depreciation - Buildings	(100,126)	(60,889)	(174,635)	(80,380)	(74,960)	(490,990)
164 Improvements Other Than Buildings	-	16,067,202	10,790,394	22,789	-	26,880,385
165 Accumulated Depreciation - Improvements Other Than Buildings	-	(4,522,552)	(3,373,912)	(17,210)	-	(7,913,674)
166 Machinery and Equipment	57,208	771,183	694,834	2,149,810	936,076	4,609,111
167 Accumulated Depreciation - Machinery and Equipment	(32,315)	(575,572)	(560,818)	(1,827,038)	(406,616)	(3,402,359)
Construction in Progress	-	9,053	-	-	-	9,053
Total Capital Assets	757,309	11,871,408	8,467,334	643,132	814,309	22,553,492
Total Assets	\$ 1,124,725	\$ 14,565,893	\$ 8,957,698	\$ 1,238,926	\$ 1,091,655	\$ 26,978,897

	<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>
Liabilities and Net Position						
Current Liabilities						
202 Accounts Payable	\$ 116,951	\$ 37,445	\$ 8,900	\$ 41,259	\$ 23,993	\$ 228,548
208 Due to Other Funds (Note 6)	342,817	-	-	-	196,601	539,418
215 Accrued Interest Payable	13,751	20,896	3,075	-	-	37,722
216 Accrued Wages Payable	5,300	12,386	10,051	14,615	33,717	76,069
217 Accrued Taxes Payable	13,808	52	-	-	-	13,860
220 Customer Deposits	525	147,850	-	-	-	148,375
226 Bonds Payable - Current (Note 5)	10,008	197,388	226,081	-	-	433,477
233 Accrued Leave Payable (Note 5)	1,112	27,862	18,817	18,508	9,428	75,727
236 Advance from Revolving Loan Fund (Note 6)	-	-	398,000	-	-	398,000
Total Current Liabilities	504,272	443,879	664,924	74,382	263,739	1,951,196
Long-Term Liabilities (Note 5)						
231 Bonds Payable	750,488	5,443,151	929,529	-	-	7,123,168
Total Liabilities	1,254,760	5,887,030	1,594,453	74,382	263,739	9,074,364
Net Position						
253.10 Net Investment in Capital Assets	-	6,230,869	7,311,724	643,132	814,309	15,000,034
253.21 Restricted for Revenue Bond Debt Service (Note 5)	16,392	707	-	-	-	17,099
253.9 Unrestricted (Deficit)	(146,427)	2,447,287	51,521	521,412	13,607	2,887,400
Total Net Position	(130,035)	8,678,863	7,363,245	1,164,544	827,916	17,904,533
Total Liabilities and Net Position	\$ 1,124,725	\$ 14,565,893	\$ 8,957,698	\$ 1,238,926	\$ 1,091,655	\$ 26,978,897

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

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<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>
Total Operating Revenue						
380 Charges for Goods and Services (Note 5)	\$ 2,137,277	\$ 1,731,842	\$ 1,119,904	\$ 1,263,788	\$ 994,738	\$ 7,247,549
Operating Expenses						
410 Personal Services	173,198	442,205	273,782	445,474	933,039	2,267,698
420 Other Current Expense	185,749	380,527	225,951	575,319	308,425	1,675,971
426.2 Materials (Cost of Goods Sold)	1,663,798	-	-	-	-	1,663,798
457 Depreciation (Note 4)	29,088	357,239	246,828	109,941	86,599	829,695
Total Operating Expenses	2,051,833	1,179,971	746,561	1,130,734	1,328,063	6,437,162
Operating Income (Loss)	85,444	551,871	373,343	133,054	(333,325)	810,387
Nonoperating Revenue (Expense)						
331 Federal Grant Revenue	-	260,000	-	-	-	260,000
361 Investment Earnings (Note 2)	11,200	-	-	-	-	11,200
369 Other	-	7,690	-	10,583	4,859	23,132
391.40 Compensation for Loss or Damage to Capital Assets	1,200	-	-	-	15,270	16,470
442 Interest Expense	(29,164)	(132,165)	(36,599)	-	-	(197,928)
Total Nonoperating Revenue (Expense)	(16,764)	135,525	(36,599)	10,583	20,129	112,874
Income (Loss) before Transfers and Capital Contributions	68,680	687,396	336,744	143,637	(313,196)	923,261
391.07 Capital Contributions	-	258,892	176,534	-	37,938	473,364
391.10 Transfers In (Note 7)	-	-	-	12,000	-	12,000
511 Transfers Out (Note 7)	(1,500)	(260,940)	(206,403)	(133,095)	(34,626)	(636,564)
Total Transfers	(1,500)	(2,048)	(29,869)	(121,095)	3,312	(151,200)
Change in Net Position	67,180	685,348	306,875	22,542	(309,884)	772,061
Net Position (Deficit), December 31, 2013	(197,215)	7,993,515	7,056,370	1,142,002	1,137,800	17,132,472
Net Position (Deficit), December 31, 2014	\$ (130,035)	\$ 8,678,863	\$ 7,363,245	\$ 1,164,544	\$ 827,916	\$ 17,904,533

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, 2014**

	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>
Cash Flows from Operating Activities			
Receipts from Customers	\$ 2,136,817	\$ 1,725,362	\$ 1,111,074
Payments to Suppliers	(1,919,603)	(400,806)	(226,055)
Payments to Employees	(172,831)	(456,523)	(267,684)
Net Cash Flows Provided by (Used in) Operating Activities	44,383	868,033	617,335
Cash Flows from Noncapital Financing Activities			
Transfers In	-	-	-
Transfers Out	(1,500)	(260,940)	(206,403)
Internal Activity - Receipts from (Payments to) Other Funds	(8,122)	(133,561)	398,000
Cash Receipts from Notes Receivable	-	-	12,500
Net Cash Flows Provided By (Used in) Noncapital Financing Activities	(9,622)	(394,501)	204,097
Cash Flows from Capital and Related Financing Activities			
Purchases of Capital Assets	(10,775)	(24,053)	(426,998)
Compensation for Loss or Damage to Capital Assets	1,200	-	-
Principal Paid on Debt	(10,154)	(150,129)	(288,014)
Borrowings on Long-Term Debt	-	141,308	-
Interest Paid	(30,826)	(184,844)	(36,811)
Grant Revenue	-	260,000	-
Other Receipts	-	7,690	-
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(50,555)	49,972	(751,823)
Cash Flows Provided by Investing Activities			
Cash Received from Investment Earnings	11,200	-	-
Increase (Decrease) in Cash and Cash Equivalents	(4,594)	523,504	69,609
Cash and Cash Equivalents, January 1, 2014	22,374	1,495,137	304,263
Cash and Cash Equivalents, December 31, 2014	\$ 17,780	\$ 2,018,641	\$ 373,872
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities			
Operating Income	\$ 85,444	\$ 551,871	\$ 373,343
<i>Adjustments to Reconcile Operating Income to Net Cash Flows Provided by (Used in) Operating Activities:</i>			
Depreciation Expense	29,088	357,239	246,828
Change in Assets and Liabilities:			
Accounts Receivable	(685)	(13,670)	(8,830)
Inventory of Supplies Purchased for Resale	(40,076)	-	-
Prepaid Expenses	440	450	(605)
Accounts Payable	(32,066)	(20,738)	501
Accrued Wages Payable	594	607	3,719
Accrued Taxes Payable	1,646	9	-
Customer Deposits	225	7,190	-
Accrued Leave Payable	(227)	(14,925)	2,379
Net Cash Flows Provided by (Used in) Operating Activities	\$ 44,383	\$ 868,033	\$ 617,335
Noncash Capital and Related Financing Activities			
Capital Assets Contributed	\$ -	\$ 258,892	\$ 176,534

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

Sanitation Fund	Ambulance Fund	Total Proprietary Funds
\$ 1,271,321	\$ 1,103,309	\$ 7,347,883
(580,236)	(293,177)	(3,419,877)
(437,951)	(913,914)	(2,248,903)
253,134	(103,782)	1,679,103
12,000	-	12,000
(133,095)	(34,626)	(636,564)
-	141,683	398,000
-	-	12,500
(121,095)	107,057	(214,064)
-	(23,404)	(485,230)
-	15,270	16,470
-	-	(448,297)
-	-	141,308
-	-	(252,481)
-	-	260,000
10,583	4,859	23,132
10,583	(3,275)	(745,098)
-	-	11,200
142,622	-	731,141
373,684	-	2,195,458
\$ 516,306	\$ -	\$ 2,926,599

\$ 133,054	\$ (333,325)	\$ 810,387
109,941	86,599	829,695
7,533	108,571	92,919
-	-	(40,076)
(624)	(1,471)	(1,810)
(238)	16,719	(35,822)
4,766	14,665	24,351
(4,055)	-	(2,400)
-	-	7,415
2,757	4,460	(5,556)
\$ 253,134	\$ (103,782)	\$ 1,679,103

\$ - \$ 37,938 \$ 473,364

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies

a. Reporting Entity

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

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net 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, 2014

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

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

Governmental Funds:

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

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

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

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

Debt Service Funds - debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. There are no major debt service funds.

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

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

Proprietary Funds:

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Proprietary Funds (Continued):

Proprietary Funds include:

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

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

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

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

c. Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net 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, 2014

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting:

Government-wide Financial Statements:

In the Government-wide Statement of Net 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, 2014 are sales tax revenues and intergovernmental revenue.

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

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

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

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

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

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Continued)

d. Interfund Eliminations and Reclassifications (Continued)

Fund Financial Statements:

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

e. Capital Assets

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

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

Government-wide Financial Statements:

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

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

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Government-wide Statement of Activities. Accumulated depreciation is reported on the Government-wide Statement of Net 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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

f. Long-Term Liabilities

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

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

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

g. Program Revenues

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

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

h. Proprietary Funds Revenue and Expense Classifications

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

i. Cash and Cash Equivalents

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Continued)

j. Equity Classifications

Government-wide Financial Statements:

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

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

Fund Financial Statements:

The City classifies governmental fund balance as follows:

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

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

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The City has two committed fund balances for the year ended December 31, 2014. The Brick Fund and Capital Improvement Fund were created through ordinances passed by the City Council, the highest decision making authority. The City Council would have to pass ordinances to remove the commitments.

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

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Continued)

j. Equity Classifications (Continued)

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

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

As of December 31, 2014, the City had the following governmental fund classifications:

	General Fund	Capital Improvement Fund	Revolving Loan Fund	Other Governmental Funds	Total Governmental Funds
263 Nonspendable:					
263.01 Nonspendable - Inventory	\$ 1,485	\$ -	\$ -	\$ -	\$ 1,485
263.02 Nonspendable - Prepaid Expenses	23,535	-	-	-	23,535
263.49 Nonspendable - SDPAA Reserve (Note 9)	135,844	-	-	-	135,844
263.51 Nonspendable - Perpetual Care Cemetery	-	-	-	50,000	50,000
263.99 Nonspendable - Library Trust	-	-	-	327,535	327,535
	160,864	-	-	377,535	538,399
264 Restricted:					
264.01 Restricted - Debt Service	-	640,583	-	75,038	715,621
264.03 Restricted - Perpetual Care Cemetery	-	-	-	115,249	115,249
264.04 Restricted - BID Tax	-	-	-	646,400	646,400
264.05 Restricted - Library Purposes	-	-	-	232,788	232,788
264.97 Restricted - Revolving Loan	-	-	1,271,677	-	1,271,677
	-	640,583	1,271,677	1,069,475	2,981,735
265 Committed					
265.97 Committed - Brick Fund	114,980	-	-	-	114,980
265.97 Committed - Capital Improvements	-	551,621	-	-	551,621
	114,980	551,621	-	-	666,601
267 Unassigned	2,089,698	-	-	-	2,089,698
Total Fund Balances	\$ 2,365,542	\$ 1,192,204	\$ 1,271,677	\$ 1,447,010	\$ 6,276,433

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Continued)

k. 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.

l. Compensated Absences

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

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

m. Deferred Inflows

Deferred inflows of resources represent acquisitions of net position that apply to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows of resources consist primarily of property taxes, special assessments and federal grants.

n. 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 utility accounts receivable at December 31, 2014 are unbilled accounts receivable totaling approximately \$3,000, \$4,000, \$4,000 and \$794,000 for the water, wastewater, sanitation and ambulance funds, respectively.

o. Emerging Accounting Standards

In June 2012, GASB issued Statement Nos. 67 and 68, *Accounting and Reporting for Pensions*, which replace the requirements of Statement No. 50, *Pension Disclosures* and will require additional note disclosures for the City's cost-sharing multiple employer, defined benefit pension plan. These statements relate to accounting and financial reporting issues and how pension costs and obligations are measured and reported in audited financial statements. The standards describe the change from the funding-based approach to an accounting-based approach in order to improve pension information and increase the transparency, consistency, and comparability of pension information across governments.

The City will recognize its share of a collective net pension liability, as well as pension expense and deferred outflows or inflows of resources for its proportionate share. Within the governmental fund financial statements, pension expenditures should be recognized equal to the total of (1) amounts paid by the City to a pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Note disclosures will include descriptive information about the plan and its terms, contribution rates and how they are determined, and amounts attributed to employee service and forfeitures in the current period.

The implementation of GASB 67 will not impact the entity's financial statements and is effective for the City's current year ending December 31, 2014. With regard to GASB 68, although expected to be significant, management has not yet determined the specific impact of this Statement on the financial statements. This statement is effective for the City's year ending December 31, 2015.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Concluded)

o. Emerging Accounting Standards (Continued)

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which amends GASB No. 68. This statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability and should be applied simultaneously with GASB No. 68. Management has not yet determined the impact of this Statement on the financial statements. This statement is effective for the City's year ending December 31, 2015.

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

In June 2015, GASB issued Statements No. 74 and 75, *Accounting and Reporting for Postemployment Benefits Other than Pensions*, which replace GASB Statement Nos. 43 and 45, and will require additional note disclosures for the City's Other Post-Employment Benefits (OPEB) offered. These statements relate to accounting and financial reporting issues and how OPEB expenses and related obligations are measured and reported in audited financial statements. The standards describe the recognition of the entire net OPEB liability in the employer's financial statements. The implementation of GASB 74 will not impact the entity's financial statements. With regard to GASB 75, although expected to be significant, management has not yet determined the specific impact of this Statement on the financial statements. These statements are effective for the City's years ending December 31, 2017 and December 31, 2018 for GASB Statement Nos. 74 and 75, respectively.

(2) Deposits and Investments

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

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

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

As of December 31, 2014, the City's cash and investments consisted of checking, savings, money market accounts, and certificates of deposit.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(2) Deposits and Investments (Continued)

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.

Interest Rate Risk:

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

Credit Risk:

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

Custodial Credit Risk:

Custodial credit risk is the risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City will minimize custodial credit risk for deposits by requiring the financial institution to submit a copy of their collateralization report to the finance officer to determine whether the financial institution is in compliance with SDCL 4-6A and 51A-10-9. As of December 31, 2014, the City's deposits in financial institutions collateralized by securities held by the pledging financial institution were \$500,000. Total deposits collateralized by securities held by the pledging financial institutions' trust department or agent but not in the City's name were \$6,049,435 as of December 31, 2014.

Concentration Risk:

The City will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. More than five percent of the City's certificates of deposit are in: American Express (12.2 percent), First Premier Bank (10.3 percent), GE Capital (26.2 percent), Goldman Sachs (25.7 percent), and Discover Bank (25.6 percent).

(3) Property Taxes

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

(3) Property Taxes (Continued)

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

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

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

(4) Changes in Capital Assets

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

	Balance 12/31/2013	Additions	Transfers/ Deletions	Balance 12/31/2014
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 2,184,497	\$ -	\$ -	\$ 2,184,497
Construction Work in Progress	84,883	1,504,564	(545,421)	1,044,026
Total Capital Assets, not being Depreciated	2,269,380	1,504,564	(545,421)	3,228,523
Capital Assets, being Depreciated:				
Buildings	12,585,649	48,134	134,876	12,768,659
Improvements Other Than Buildings	27,574,121	332,257	-	27,906,378
Machinery and Equipment	3,966,867	400,596	(24,881)	4,342,582
Total Capital Assets, being Depreciated	44,126,637	780,987	109,995	45,017,619
Less Accumulated Depreciation for:				
Buildings	3,842,319	275,431	-	4,117,750
Improvements Other Than Buildings	6,932,641	591,506	-	7,524,147
Machinery and Equipment	2,289,478	187,296	-	2,476,774
Total Accumulated Depreciation	13,064,438	1,054,233	-	14,118,671
Total Governmental Activities Capital Assets, being Depreciated, Net	31,062,199	(273,246)	109,995	30,898,948
Total Governmental Capital Assets, Net	\$ 33,331,579	\$ 1,231,318	\$ (435,426)	\$ 34,127,471

Depreciation expense was charged to functions as follows:

Public Works	\$ 494,279
Culture and Recreation	250,673
General Government	95,590
Public Safety	213,691
Total Depreciation Expense - Governmental	\$ 1,054,233

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

(4) Changes in Capital Assets (Continued)

	Balance 12/31/2013	Additions	Deletions	Balance 12/31/2014
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 738,681	\$ -	\$ -	\$ 738,681
Construction Work in Progress	-	9,053	-	9,053
Total Capital Assets, not being Depreciated	738,681	9,053	-	747,734
Capital Assets, being Depreciated:				
Buildings	2,123,285	-	-	2,123,285
Improvements Other Than Buildings	26,042,842	837,543	-	26,880,385
Machinery and Equipment	4,497,113	111,998	-	4,609,111
Total Capital Assets, being Depreciated	32,663,240	949,541	-	33,612,781
Less Accumulated Depreciation for:				
Buildings	430,356	60,634	-	490,990
Improvements Other Than Buildings	7,381,326	532,348	-	7,913,674
Machinery and Equipment	3,165,646	236,713	-	3,402,359
Total Accumulated Depreciation	10,977,328	829,695	-	11,807,023
Total Business-Type Activities Capital Assets, being Depreciated, Net	21,685,912	119,846	-	21,805,758
Total Business-Type Capital Assets, Net	\$ 22,424,593	\$ 128,899	\$ -	\$ 22,553,492

Depreciation expense was charged to functions as follows:

Ambulance	\$ 86,599
Wastewater	246,828
Water	357,239
Sanitary	109,941
Liquor	29,088
Total Depreciation Expense - Business-Type	\$ 829,695

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

(5) Long-Term Debt

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

	Balance 12/31/2013	Additions	Deletions	Balance 12/31/2014	Due Within One Year
Primary Government:					
Governmental Activities:					
2008 Revenue Bonds	\$ 4,275,000	\$ -	\$ 470,000	\$ 3,805,000	\$ 485,000
Tax Increment Financing Obligations	301,414	-	113,125	188,289	188,289
Marcotte Property	364,860	-	182,430	182,430	182,430
2nd Street Plaza	-	699,585	19,788	679,797	60,946
Compensated Absences	181,848	199,652	176,520	204,980	204,980
Total Governmental Activities	5,123,122	899,237	961,863	5,060,496	1,121,645
Business-Type Activities:					
2010 GO Crossover Refunding Bonds	1,325,000	-	310,000	1,015,000	240,000
2010 Sales Tax Revenue Bond	770,650	-	10,154	760,496	10,008
2009 Drinking Water Revenue Bond	409,025	-	52,540	356,485	53,732
2009 Clean Water Revenue Bond	264,374	-	12,114	252,260	12,481
2011 Drinking Water Revenue Bond	3,058,692	141,308	7,071	3,192,929	40,038
2012 Drinking Water Revenue Bond	2,035,893	-	56,418	1,979,475	77,218
Compensated Absences	81,283	69,494	75,050	75,727	75,727
Total Business-Type Activities	7,944,917	210,802	523,347	7,632,372	509,204
Total Primary Government	\$ 13,068,039	\$ 1,110,039	\$ 1,485,210	\$ 12,692,868	\$ 1,630,849

The City has restricted reserves of \$625,765 and \$16,392 at December 31, 2014, in accordance with debt covenants. However, the City was in violation of the Rural Development debt reserve covenant by \$707. The City did not establish a separate bank account for the reserve. Subsequent to year-end, the City obtained written waiver of such and will meet the requirement during 2015.

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

	Water Fund	Wastewater Fund
Current Year Principal and Interest	\$ 282,294	\$ 324,613
Pledged Revenue	1,731,842	1,119,904

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

(5) Long-Term Debt (Continued)

Debt payable at December 31, 2014, is comprised of the following:

General Obligation

General Obligation Crossover Refunding Bonds, Series 2010A for \$2,210,000, matures in June 2021, interest at 2.00 to 3.65 percent, due in semi-annual installments of \$30,000 to \$155,000. Financed through Water and Wastewater Funds. \$ 1,015,000

Revenue Bonds

Sales Tax Refunding Bonds, 2008 Series for \$6,470,000, mature in March 2020, interest at 2.50 to 3.80 percent, due in variable annual installments. Financed through the Capital Improvement Fund. 3,805,000

Sales Tax Revenue Bonds, Series 2010 (Build America Bonds - Direct Pay), for \$811,000, mature in July 2050, interest at a fixed 4.00 percent, due in annual installments of \$40,980. Sales tax revenues pledged and financed through the Liquor Fund. The City will receive a credit from the Federal government for 35 percent of the interest paid on the bonds. (See Note 2) 760,496

Drinking Water Revenue Borrower Bond, 2009 Series for \$547,576, mature in January 2021, interest at a fixed 2.25 percent, due in quarterly installments of \$15,325. Water revenues pledged and financed through the Water Fund. 356,485

Clean Water Revenue Borrower Bond, 2009 Series for \$298,617, mature in October 2030, interest at a fixed 3.00 percent, due in quarterly installments of \$4,977. Wastewater revenues pledged and financed through the Wastewater Fund. 252,260

Drinking Water Revenue Borrower Bond, 2011 Series for \$3,200,000, matures in September 2054, interest only payments through the state Revolving Fund at 2 percent totaling \$69,200, made through October 2014, then interest at a fixed 3.25 percent due in monthly installments of \$11,936 through USDA Rural Development. Water Revenues pledged and financed through the Water Fund. 3,192,929

Drinking Water Revenue Borrower Bond, Series 2012 for \$2,035,893, mature in July 2034, interest at a fixed 3.00 percent, due in quarterly installments of \$33,935. Water revenues pledged and financed through the Water Fund. 1,979,475

Contract Payable

Note payable to Game Fish and Parks for purchase of real property totaling \$608,100, matures July 2015, non-interest bearing, due in annual installments of \$182,430 through 2015. Financed through the Special Sales Tax Fund and secured by real estate. 182,430

Note Payable to First Interstate Bank with a maximum borrowing of \$1,200,000. As of December advances totaled \$679,797. Payments begin in September 2014, due in monthly installments of \$7,116.44 including interest at 3.75 percent. 679,797

Tax Increment Financing Obligations

TIF #9 for \$406,001, including interest not to exceed 10 percent per annum, due in varying installments within 30 days of property tax collections from the County. Financed through TIF Debt Service Funds. 188,289

Total Bonds, Contract Payable, and TIF Obligations 12,412,161

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

(5) Long-Term Debt (Continued)

Compensated Absences:

General Fund	204,980
Liquor Fund	1,112
Water Fund	27,862
Wastewater Fund	18,817
Sanitation Fund	18,508
Ambulance Fund	9,428
Total Compensated Absences	280,707

Total Long-Term Debt **\$ 12,692,868**

The annual requirements to amortize long-term debt outstanding as of December 31, 2014, except for compensated absences are as follows:

	General Obligation		Revenue Bonds		TIF Obligations	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2015	\$ 28,184	\$ 240,000	\$ 361,104	\$ 678,477	\$ 11,232	\$ 188,289
2016	22,991	175,000	336,607	699,146	-	-
2017	18,337	165,000	310,754	724,985	-	-
2018	13,574	130,000	283,413	751,001	-	-
2019	9,219	135,000	250,054	772,197	-	-
2020-2024	5,160	170,000	855,316	2,151,509	-	-
2025-2029	-	-	566,989	1,019,313	-	-
2030-2034	-	-	511,818	1,006,043	-	-
2035-2039	-	-	391,149	529,911	-	-
2040-2044	-	-	292,378	628,682	-	-
2045-2049	-	-	175,009	746,051	-	-
2050-2054	-	-	50,837	639,330	-	-
Total	\$ 97,465	\$ 1,015,000	\$ 4,385,428	\$ 10,346,645	\$ 11,232	\$ 188,289

	Contract Payable		Total	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
\$	43,782	\$ 243,376	\$ 444,302	\$ 1,350,142
	42,315	63,272	401,913	937,418
	40,551	65,686	369,642	955,671
	38,840	68,191	335,827	949,192
	24,876	421,702	284,149	1,328,899
	-	-	860,476	2,321,509
	-	-	566,989	1,019,313
	-	-	511,818	1,006,043
	-	-	391,149	529,911
	-	-	292,378	628,682
	-	-	175,009	746,051
	-	-	50,837	639,330
\$	190,364	\$ 862,227	\$ 4,684,489	\$ 12,412,161

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

(5) Long-Term Debt (Concluded)

Tax Increment Financing Obligations

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

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

During the year ended December 31, 2014, property tax revenues were \$161,979 for TIF #9. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$22,805 for the year ended December 31, 2014.

(6) Individual Fund Interfund Receivable and Payable Balances

Interfund receivable and payable balances at December 31, 2014, are as follows:

Fund	Interfund Receivables	Interfund Payables
<i>Major Funds:</i>		
Ambulance Fund	\$ -	\$ 196,601
Liquor	-	342,817
Revolving Loan Fund	398,000	-
Wastewater Fund	-	398,000
Water Fund	539,418	-
Total Interfund Receivable and Payable Balances	\$ 937,418	\$ 937,418

The Water Fund loaned monies to the Liquor Fund and Ambulance Fund for operations. The balances will be repaid within the next year. The Revolving Loan Fund advanced monies to the Wastewater Fund to help with lagoon repairs. The balance will be repaid through 2034.

(7) Interfund Transfers

	Transfers In	Transfers Out
<i>Major Funds:</i>		
General Fund	\$ 464,917	\$ 12,000
Wastewater Fund	-	206,403
Sanitation Fund	12,000	133,095
Capital Improvements	34,626	223,094
Revolving Loan Fund	234,011	-
Water Fund	-	260,940
Liquor Fund	-	1,500
Ambulance Fund	-	34,626
<i>Nonmajor Fund:</i>		
Special Sales Tax Fund	126,104	-
Total Transfers	\$ 871,658	\$ 871,658

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(8) Retirement Plan -- South Dakota Retirement System

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

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute eight and nine percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2014, 2013, and 2012, were **\$284,199**, \$243,369, and \$244,509, respectively, equal to the required contributions each year.

(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, 2014, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

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

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

As of December 31, 2014, the City has a fully vested balance in the cumulative reserve fund of \$135,844. Access to this balance is restricted by SDPAA.

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

(9) Risk Management (Continued)

Property and Building Insurance:

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

Worker's Compensation:

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

Unemployment Benefits:

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

(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, 2014:

Governmental:

<u>Loan</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
Jenter	None	0%	May 2018	\$ 14,818
Knuckle Brewery	Real Estate	3%	August 5, 2024	24,282
Sturgis ATV	Real Estate	3%	August 5, 2024	24,273
Jake's Garage	Real Estate	3%	December 5, 2024	25,000
Dakota Hardware	Real Estate	2%	November 1, 2024	99,353
				<u>\$ 187,726</u>

Business -Type:

<u>Loan</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
Mount Rodney RV Park, LLC	None	3%	September 2015	\$ 12,500

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2014

(11) Due from Other Governments

The following represent receivables due from other governments at December 31, 2014:

Due from State Government:

Local Government Highway and Bridge	\$	28,286
Alcohol Reversion		10,500
Disaster Recovery for FEMA		31,248
Total Due from State Government		70,034

Due from Federal Government:

Disaster Recovery for FEMA		234,360
Total Due from Other Governments	\$	304,394

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
311 General Property Taxes	\$ 2,765,402	\$ 2,765,402	\$ 2,782,890	\$ 17,488
313 General Sales and Use Taxes	1,491,739	1,491,739	1,812,611	320,872
315 Amusement Taxes	900	900	900	-
319 Penalties and Interest on Delinquent Taxes	10,000	10,000	14,230	4,230
320 Licenses and Permits	583,325	583,325	631,496	48,171
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	335,081	335,081
334 State Grants	-	-	44,219	44,219
335 Bank Franchise Tax	5,000	5,000	9,266	4,266
335 Liquor Tax Reversion	35,000	35,000	41,749	6,749
335 Motor Vehicle Licenses	65,000	65,000	73,512	8,512
335.1 Local Government Highway and Bridge Fund	100,000	100,000	142,520	42,520
338 County Highway and Bridge Reserve Tax (25%)	5,855	5,855	5,855	-
338 Port of Entry	13,000	13,000	5,068	(7,932)
339 County Payments in Lieu of Taxes	2,500	2,500	6,157	3,657
<i>Charges for Goods and Services:</i>				
341 General Government	1,151,600	1,151,600	1,109,955	(41,645)
342 Public Safety	42,000	42,000	55,542	13,542
345 Health	1,000	1,000	507	(493)
346 Culture and Recreation	266,930	266,930	276,147	9,217
349 Other	-	-	40,162	40,162
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	3,000	3,000	6,984	3,984
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	17,500	17,500	39,827	22,327
362 Rentals/Airport Hangar Lease	11,000	11,000	13,093	2,093
367 Contributions and Donations - Private Sources	9,700	9,700	15,940	6,240
369 Other	2,000	2,000	5,149	3,149
Total Revenue	6,582,451	6,582,451	7,468,860	886,409

CITY OF STURGIS

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
Expenditures				
<i>General Government:</i>				
411 Legislative	271,535	279,536	197,973	81,563
414 Financial Administration	1,063,320	1,075,020	1,054,573	20,447
419 Other	1,029,861	1,217,861	1,231,083	(13,222)
<i>Public Safety:</i>				
421 Police	1,864,519	1,864,519	1,850,358	14,161
422 Fire	152,144	152,144	114,745	37,399
<i>Public Works:</i>				
431 Highway and Streets	758,945	758,945	668,259	90,686
435 Airport	43,860	43,860	39,698	4,162
437 Cemeteries	120,048	120,048	98,264	21,784
<i>Culture and Recreation:</i>				
451 Recreation	713,757	713,757	703,226	10,531
452 Parks	652,023	652,023	567,708	84,315
455 Library	336,961	336,961	329,462	7,499
456 Auditorium	37,449	37,449	22,969	14,480
485 Capital Outlay	280,245	405,245	355,542	49,703
Total Expenditures	7,324,667	7,657,368	7,233,860	423,508
Excess of Revenue Over (Under) Expenditures	(742,216)	(1,074,917)	235,000	1,309,917
Other Financing Sources (Uses)				
391.01 Transfers In	451,327	856,572	464,917	(391,655)
391.04 Compensation for Loss or Damage to Capital Assets	-	-	20,185	20,185
511 Transfers Out	(83,400)	(83,400)	(12,000)	71,400
Total Other Financing Sources	367,927	773,172	473,102	(300,070)
Net Change in Fund Balance	(374,289)	(301,745)	708,102	1,009,847
Fund Balance, December 31, 2013	1,657,440	1,657,440	1,657,440	-
Fund Balance, December 31, 2014	\$ 1,283,151	\$ 1,355,695	\$ 2,365,542	\$ 1,009,847

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

CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL IMPROVEMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 1,200,850	\$ 1,200,850	\$ 1,210,937	\$ 10,087
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	7,258	7,258
<i>Miscellaneous Revenue:</i>				
341 Rally Property Leases	120,000	120,000	123,608	3,608
360 Cash on Hand	127,500	127,500	-	(127,500)
361 Earnings on Deposits	-	-	10,458	10,458
367 Contributions and Donations	-	-	10,000	10,000
Total Revenue	1,448,350	1,448,350	1,362,261	(86,089)
Expenditures				
<i>General Government:</i>				
414 Financial Administration	-	558	558	-
419 Other	167,459	167,459	24,058	143,401
<i>Public Works:</i>				
431 Highway and Streets	-	134,529	134,529	-
<i>Culture and Recreation:</i>				
451 Recreation	-	97,536	97,536	-
456 Library	-	3,141	3,141	-
460 Conservation and Development	-	-	44,170	(44,170)
470 Debt Service	614,840	643,340	643,306	34
900 Capital Outlay	574,573	668,809	1,365,167	(696,358)
Total Expenditures	1,356,872	1,715,372	2,312,465	(597,093)
Excess of Revenue Over (Under) Expenditures	91,478	(267,022)	(950,204)	(683,182)
Other Financing Sources (Uses)				
391.01 Transfers In	34,626	34,626	34,626	-
391.20 Long-Term Debt Issued	-	-	699,585	699,585
511 Transfers Out	(126,104)	(126,104)	(223,094)	(96,990)
Net Change in Fund Balance	-	(358,500)	(439,087)	(80,587)
Fund Balance, December 31, 2013	1,631,291	1,631,291	1,631,291	-
Fund Balance, December 31, 2014	\$ 1,631,291	\$ 1,272,791	\$ 1,192,204	\$ (80,587)

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

CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
REVOLVING LOAN FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
Revenue				
334 State Grants	\$ -	\$ -	\$ 244,357	\$ 244,357
Miscellaneous Revenue:				
361 Investment Earnings	200,000	200,000	768	(199,232)
Total Revenue	200,000	200,000	245,125	45,125
Expenditures				
460 Conservation and Development	200,000	848,000	508,853	339,147
Excess of Expenditures Over Revenue	-	(648,000)	(263,728)	384,272
Other Financing Sources				
391 Transfers In	-	-	234,011	234,011
Net Change in Fund Balance	-	(648,000)	(29,717)	618,283
Fund Balance, December 31, 2013	1,301,394	1,301,394	1,301,394	-
Fund Balance, December 31, 2014	\$ 1,301,394	\$ 653,394	\$ 1,271,677	\$ 618,283

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

CITY OF STURGIS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2014

(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, 2014.
7. Formal budgetary integration is employed as a management control device during the year for the general fund and major special revenue funds.
8. Budgets for the general fund and major special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States (USGAAP).

(2) GAAP Budgetary Accounting Basis Differences

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF STURGIS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2014

		Special Sales Tax <u>Fund</u>	Library <u>Fund</u>	TIF <u>Funds</u>	Alice W. Dunn <u>Fund</u>	Perpetual Maintenance <u>Fund</u>	Total Nonmajor Governmental <u>Funds</u>
Assets							
104	Interest Bearing Accounts	\$ 27,011	\$ 63,638	\$ 97,242	\$ 69,150	\$ 165,274	\$ 422,315
105	Savings Certificates	-	-	-	427,535	-	427,535
108	Sales Tax Receivable	13,097	-	8,956	-	-	22,053
151	Investment Held for Sale	608,100	-	-	-	-	608,100
Total Assets		\$ 648,208	\$ 63,638	\$ 106,198	\$ 496,685	\$ 165,274	\$ 1,480,003
Liabilities and Fund Balances							
<i>Liabilities</i>							
216	Accounts Payable	\$ 1,808	\$ -	\$ 31,160	\$ -	\$ -	\$ 32,968
217	Accrued Taxes Payable	-	-	-	-	25	25
Total Liabilities		1,808	-	31,160	-	25	32,993
<i>Fund Balances</i>							
263.51	Nonspendable - Perpetual Care Cemetery	-	-	-	-	50,000	50,000
263.99	Nonspendable - Library Trust	-	-	-	327,535	-	327,535
264.01	Restricted - Debt Service	-	-	75,038	-	-	75,038
264.03	Restricted - Perpetual Care Cemetery	-	-	-	-	115,249	115,249
264.04	Restricted - BID Tax	646,400	-	-	-	-	646,400
264.05	Restricted - Library Purposes	-	63,638	-	169,150	-	232,788
Total Fund Balances		646,400	63,638	75,038	496,685	165,249	1,447,010
Total Liabilities and Fund Balances		\$ 648,208	\$ 63,638	\$ 106,198	\$ 496,685	\$ 165,274	\$ 1,480,003

CITY OF STURGIS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Special Sales Tax Fund</u>	<u>Library Fund</u>	<u>TIF Funds</u>	<u>Alice W. Dunn Fund</u>	<u>Perpetual Maintenance Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenue:						
311 General Property Taxes	\$ -	\$ -	\$ 161,979	\$ -	\$ -	\$ 161,979
313 General Sales and Use Taxes	302,744	-	-	-	-	302,744
361 Investment Earnings	-	37	-	5,129	-	5,166
369 Other	-	1,877	-	-	4,863	6,740
Total Revenue	302,744	1,914	161,979	5,129	4,863	476,629
Expenditures:						
455 Library	-	1,329	-	-	-	1,329
460 Conservation and Development	236,743	-	-	-	-	236,743
470 Debt Service	182,430	-	135,930	-	-	318,360
Total Expenditures	419,173	1,329	135,930	-	-	556,432
Excess of Revenue Over (Under) Expenditures	(116,429)	585	26,049	5,129	4,863	(79,803)
Other Financing Sources						
391 Transfers In	126,104	-	-	-	-	126,104
Net Change in Fund Balances	9,675	585	26,049	5,129	4,863	46,301
Fund Balance, December 31, 2013	636,725	63,053	48,989	491,556	160,386	1,400,709
Fund Balance, December 31, 2014	\$ 646,400	\$ 63,638	\$ 75,038	\$ 496,685	\$ 165,249	\$ 1,447,010

CITY OF STURGIS

**SCHEDULE OF RALLY ACTIVITIES (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2014**

Revenue

Taxes:

313 Sales Tax	\$ 541,591
320 Licenses and Permits	410,279

Charges for Goods and Services:

341 General Government	1,013,179
346 Culture & Recreation	30,257
344 Special Sanitation Fee	143,080

Total Revenue	2,138,386
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Expenditures

General Government:

419 Other	(1,004,400)
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Total Expenditures	(1,004,400)
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Excess of Revenue over Expenditures	\$ 1,133,986
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OTHER REPORTS



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

City Council
City of Sturgis
Sturgis, South Dakota

We have audited, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 16, 2015.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Auditor's Comments and Closing Conference as #2014-001, #2014-002, and #2014-003 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Auditor's Comments and Closing Conference as #2014-004 and #2014-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters reported in the Auditor's Comments and Closing Conference as #2014-004 and #2014-005 that are required to be reported under *Government Auditing Standards*.

City Council

City's Response to Findings

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

Purpose of this Report

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

A handwritten signature in dark ink, reading "Ketel Thorstenson, LLP". The signature is fluid and cursive, with the letters "K" and "T" being particularly prominent.

KETEL THORSTENSON, LLP
Certified Public Accountants

July 16, 2015

CITY OF STURGIS

AUDITOR'S COMMENTS AND CLOSING CONFERENCE FOR THE YEAR ENDED DECEMBER 31, 2014

A. Status of Prior Audit Findings and Recommendations

The City does not consider the additional costs of preparing its financial statements to be necessary, so Finding #2013-001 will be repeated as Finding #2014-001 for the year ended December 31, 2014.

The City continues to improve on recording year-end adjustments; however as significant audit adjustments were necessary, Finding #2013-002 will be repeated as Finding #2014-002 for the year ended December 31, 2014.

Errors were noted during the inventory count in the current year, and segregation of duties issues still exist. Thus, Finding #2013-003 will be repeated as Finding #2014-003 for the year ended December 31, 2014.

B. Current Year Audit Findings and Recommendations

MATERIAL WEAKNESSES

2014-001 FINDING: Financial Statement Preparation

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

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

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

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

2014-002 FINDING: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed material audit adjustments that were approved and recorded. Adjustments included adjusting construction in process, recording a deposit receivable, and recording the expenditures and proceeds of the 2nd street land purchase. Additionally, we proposed several reclassification entries with no effect on net income. Furthermore, other entries were proposed as a part of the audit, but were not recorded due to the overall insignificance on the financial statements.

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

CITY OF STURGIS

AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

B. Current Year Audit Findings and Recommendations (Continued)

MATERIAL WEAKNESSES (CONTINUED)

2014-002 FINDING: Audit Adjustments (Continued)

Recommendation: We recommend that management consider the following:

- a. All construction in process costs should be recorded in the general capital assets fund, as well as within the applicable governmental fund.
- b. Grant receivables and deferrals need to be recorded in the proper fund.
- c. Receivables should be recorded for deposits expected to be reimbursed in a future period.
- d. The full amount of expenditures and proceeds from a capital asset purchase needs to be recorded in the general ledger.

Response and Corrective Action Plan: The City will make every effort to make accurate accounting adjustments throughout the year. When recording a journal entry that is unfamiliar, the Finance Officer will inquire on how to make the correct entry.

2014-003 FINDING: Liquor Store Internal Controls

Condition and Cause: There is an overall lack of segregation of duties involving the Liquor Store Manager's ability to order inventory, receive inventory, adjust inventory costs, and perform inventory counts. Next, the gross margins calculated per the general ledger did not agree to those expected based on markup. Management is aware the gross margin does not meet expectations, but has not identified the problem. Additionally, errors were noted during the physical inventory count causing the beer to need recounting. Lastly, a sample of 60 items were selected for price testing. Within the sample, two invoices could not be located, as well as 28 items with more than a five percent variance between the average cost per the software and the invoice amount.

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

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

Response and Corrective Action Plan: The City has hired a full-time Liquor Store Assistant, who is trained in receiving inventory and performing inventory counts. This individual is also being trained on the software in order to review cost adjustments and gross margins. This position will allow for greater segregation of duties in the near future. The City will be looking into other POS systems to replace the current system.

CITY OF STURGIS

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2014**

B. Current Year Audit Findings and Recommendations (Concluded)

SIGNIFICANT DEFICIENCIES

2014-004 FINDING: Budgetary Overdraft

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

Fund	Department	Overdraft
Capital Improvement	Conservation and Development	\$ (44,170)
General Fund	General Government - Other	(13,222)

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

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

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

2014-005 FINDING: Debt Reserve Covenant

Condition and Cause: We noted the City is out of compliance with its debt covenant by \$707 to maintain debt reserves in a separate bank account equal to 10 percent of the annual payment over the life of the loan until one installment is accumulated. The City contacted Rural Development who provided a verbal waiver with the understanding the City would have the proper debt reserve balance in 2015.

Criteria and Effect: This could cause difficulty obtaining borrowings in the future, and may cause current debt holders to require sales tax bonds to be paid prior to maturity.

Recommendation: The City should ensure the appropriate amount is accumulated in a restricted cash account upon each annual installment being made.

Response and Corrective Action Plan: More consideration will be given when new bonds are issued and to make sure the debt reserve is properly recorded. The Finance Officer is responsible for the corrective action plan for this finding.