FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT DECEMBER 31, 2017



# TABLE OF CONTENTS

	PAGE
Independent Auditor's Report.	4-5
Management's Discussion and Analysis (Unaudited)	6-15
Government-Wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet – Governmental Funds	18
Reconciliation of Governmental Funds Balance Sheet to Government-Wide Statement of Net Position	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	21-22
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to Government-Wide Statement of Activities	23
Statement of Net Position – Proprietary Funds	24
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	26
Statement of Cash Flows – Proprietary Funds	27
Notes to Financial Statements	29-51
Required Supplementary Information:	
Budgetary Comparison Schedule – Budgetary Basis – General Fund	53-54
Budgetary Comparison Schedule – Budgetary Basis – Capital Improvement Fund	55
Budgetary Comparison Schedule – Budgetary Basis – Revolving Loan Fund	56
Schedule of the City's Proportionate Share of the Net Pension Asset (Liability)	57
Schedule of the City's Contributions	58
Notes to Required Supplementary Information	59
Other Supplementary Information:	
Combining Balance Sheet – Nonmajor Governmental Funds	61
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	62
Schedule of Rally Activities (Unaudited)	63

# TABLE OF CONTENTS (CONTINUED)

Other	Reports.
Oiner	Reports

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	65-66
Schedule of Findings	67-68
Management Response:	
Summary Schedule of Prior Audit Findings	70-71
Corrective Action Plan	72



810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 □ e-mail: ktllp@ktllp.com

## INDEPENDENT AUDITOR'S REPORT

City Council City of Sturgis Sturgis, South Dakota

# **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF STURGIS** (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

# Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

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

# **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of December 31, 2017, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

# **Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 15, budgetary comparison information on pages 53 through 56, pension information on pages 57 through 58, and notes to required supplementary information on page 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

# **Report on Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The combining nonmajor fund financial statements and schedule of rally activities on pages 61 through 63 are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 63 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 August 28, 2018, 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

August 28, 2018

# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017

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, 2017. Please read it in conjunction with the City's financial statements, which follow this section.

# FINANCIAL HIGHLIGHTS

- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$2,997,202 more than the \$9,501,052 governmental program expenditures. This includes any transfers in/out. The increase is due to an increase in Taxes and in Capital and Operating Grants and Contributions and a decrease in expenditures. Taxes were up 3.80 percent compared to 2016. Capital Grants and Contributions were up 58 percent compared to 2016 primarily because of the Main Street Reconstruction project. The City continues to see growth in construction of homes and businesses during 2017.
- In the City's business-type activities, revenues exceeded expenses by \$1,947,463, which includes transfers and any activity due to the disposal of fixed assets. The increase is due to a 3 percent increase in wastewater fees and the surcharge that was added in July 2017 for the new wastewater project. There were slight decreases in revenue in the Sanitation Fund (landfill fees and rubble site tickets), Ambulance Fund, and Liquor Fund compared to 2016. The Water Fund had very little change in revenue from 2016. Expenses were higher in Wastewater and Sanitation, but down in Liquor Fund, Water Fund, and Ambulance Fund. Overall expenses in the business-type activities were lower by 4 percent compared to 2016.

# OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2017

# 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	Fund St	atements
	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-termand 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2017

# 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2017

# FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

### **Net Position**

The City's combined net position increased nine percent between fiscal year 2016 and 2017. (See Table A-1).

	*	•	·		,	,					
	Table A-1 Summarized Statement of Net Position										
	Government	al Activities	Business-Type	e Activities	Tot	al					
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>					
Current and Other Assets	\$ 4,969,100	\$ 4,019,885	\$ 4,148,552	\$ 3,601,786	\$ 9,117,652	\$ 7,621,671					
Capital Assets	42,006,046	37,809,133	26,673,658	24,410,309	68,679,704	62,219,442					
Total Assets	\$46,975,146	\$ 41,829,018	\$ 30,822,210	\$ 28,012,095	\$ 77,797,356	\$ 69,841,113					
Pension Related Deferred											
Outflows	\$ 1,203,184	\$ 1,247,194	\$ 654,739	\$ 671,694	\$ 1,857,923	\$ 1,918,888					
Long-Term Debt	\$ 7,053,789	\$ 5,583,087	\$ 8,828,880	\$ 7,536,523	\$ 15,882,669	\$ 13,119,610					
Other Liabilities	1,576,125	941,911	668,670	1,115,330	2,244,795	2,057,241					
Total Liabilities	\$ 8,629,914	\$ 6,524,998	\$ 9,497,550	\$ 8,651,853	\$ 18,127,464	\$ 15,176,851					
Net Position:											
Net Investment in Capital	\$35,166,804	\$ 32,442,911	\$ 17,958,805	\$ 16,977,996	\$ 53,125,609	\$ 49,420,907					
Assets											
Restricted	4,228,579	3,689,900	*	415,095	4,932,407	4,104,995					
Unrestricted	153,033	418,403	3,316,766	2,638,845	3,469,799	3,057,248					
Total Net Position	\$39,548,416	\$ 36,551,214	\$ 21,979,399	\$ 20,031,936	\$ 61,527,815	\$ 56,583,150					
Beginning Net Position	\$36,551,214	\$ 37,149,938	\$ 20,031,936	\$ 18,741,690	\$ 56,583,150	\$ 55,891,628					
Increase in Net Position	\$ 2,997,202	\$ (598,724)	\$ 1,947,463	\$ 1,290,246	\$ 4,944,665	\$ 691,522					
D CI											
Percentage of Increase	<b>6</b> 7.		400:		0.24						
in Net Position	8%	-2%	10%	7%	9%	1%					

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.

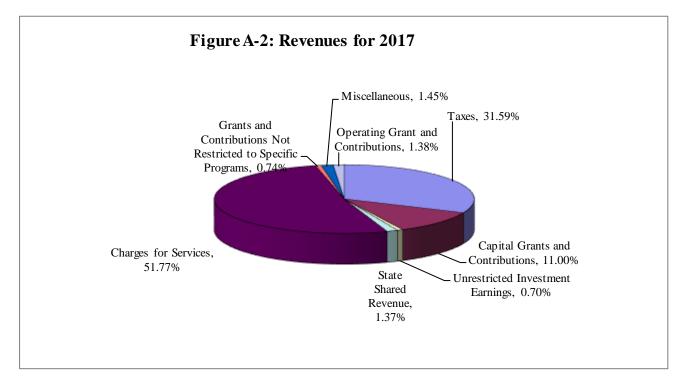
# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2017

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

# **Changes in Net Position**

The City's revenues totaled \$21,408,221 (See Table A-2). Well over half of the City's revenue comes from charges for services and taxes, with 52 cents of every dollar raised coming from charges for services (primarily liquor and water operations) and 32 cents of every dollar raised coming from some type of tax (See Figure A-2). The other seventeen percent of the City's total revenue comes from state and federal grants for capital purposes, operating grants, contributions, state shared revenue, interest and miscellaneous.

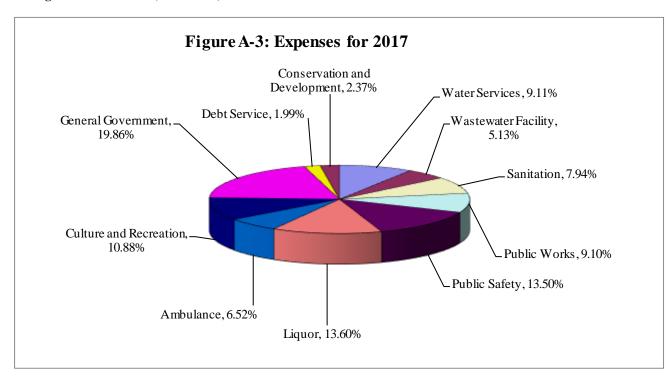
The total cost of all programs and services was \$16,463,556 (See Table A-2). The City's expenses cover a range of services, including road maintenance, parks and recreation services and sewer system services. (See Figure A-3).



# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2017

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

**Changes in Net Position (Continued)** 



# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2017

# 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.

			able A-2			
		Changes	in Net Position			
		tal Activities		Type Activities		otal
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues	\$ 2,808,904	\$ 2,731,165	\$ 8,274,299	\$ 7,904,216	\$ 11,083,203	\$ 10,635,381
Charges for Services Operating Grants and	\$ 2,000,904	\$ 2,731,103	\$ 0,274,299	\$ 7,904,210	\$ 11,085,205	\$ 10,033,381
Contributions	295,846	29,513			295,846	29,513
Capital Grants and	293,040	29,313	-	-	273,040	29,313
Contributions	2,354,491	25,212	_	_	2,354,491	25,212
General Revenues	2,334,471	25,212	_		2,334,471	23,212
Taxes	6,763,619	6,479,143	_	_	6,763,619	6,479,143
State Shared Revenue	292,636	281,111	_	_	292,636	281,111
Grants and Contributions	2,000	201,111	_		2,2,000	201,111
not Program Specific	158,463	21,320	_	34,385	158,463	55,705
Unrestricted Investment	100,100	21,320		31,303	100,100	33,703
Earnings	140,532	161,869	9,821	10,724	150,353	172,593
Miscellaneous	143,968	127,301	165,642	93,667	309,610	220,968
Total Revenues	12,958,459	9,856,634	8,449,762	8,042,992	21,408,221	17,899,626
	, ,		, ,			
Expenses						
General Government	3,270,212	3,513,661	-	-	3,270,212	3,513,661
Public Safety	2,222,402	2,435,561	-	-	2,222,402	2,435,561
Public Works	1,497,735	1,530,814	-	-	1,497,735	1,530,814
Culture and Recreation	1,791,833	2,023,419	-	-	1,791,833	2,023,419
Conservation and						
Development	390,772	273,209	-	-	390,772	273,209
Debt Service	328,098	250,158	-	-	328,098	250,158
Liquor	-	-	2,238,959	2,256,085	2,238,959	2,256,085
Water Services	-	-	1,499,234	1,551,409	1,499,234	1,551,409
Wastewater Services	-	-	844,215	794,859	844,215	794,859
Sanitation Services	-	-	1,306,410	1,273,133	1,306,410	1,273,133
Ambulance	-	-	1,073,686	1,305,796	1,073,686	1,305,796
Total Expenses	9,501,052	10,026,822	6,962,504	7,181,282	16,463,556	17,208,104
	A 455 405	(1=0.100)	4.00.400	0.51 = 1.0	4044	-0.4
Excess Before Transfers	3,457,407	(170,188)	1,487,258	861,710	4,944,665	691,522
Transfers	(460,205)	(428,536)	460,205	428,536	-	-
Increase (Decrease) in Net						
Position	2,997,202	(598,724)	1,947,463	1,290,246	4,944,665	691,522
Ending Net Position	\$ 39,548,416	\$ 36,551,214	\$ 21,979,399	\$ 20,031,936	\$ 61,527,815	\$ 56,583,150

# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2017

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

### **Governmental Activities**

Total revenues of the governmental activities for the City increased 31 percent compared to the prior year, while total expenses decreased by 5 percent. The City is seeing growth in sales tax and in Rally sponsorships, while the expenses decrease in many of the departments. Overall, 2017 was a good year and continue to see growth in tourism, construction, and economic development.

# **Business-Type Activities**

Operating revenues of the City's business-type activities increased by 5 percent compared to the prior year, while expenses decreased by 3 percent. The overall increase in revenues is due to the increase in fees, the economic growth, and the surcharge in the Wastewater Fund. Decrease in expenses is also due to better liquor store inventory management and decreased wages in the Ambulance Fund.

# FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

## **BUDGETARY HIGHLIGHTS**

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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2017

### CAPITAL ASSET ADMINISTRATION

By the end of 2017, the City had invested \$68,679,704 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 \$6,460,262, primarily due to the completion of TIF #12, Dolan Creek Housing project; the completion of the Main Street Project; completion of the Wastewater Screen project, improvements to the Community Center; completion of Ft. Meade Trail and the Stone Shelter.

		Table A Capital A (net of depro	sset						
Governmental Business-type									
		Act	ivitie	S		Act	tivitie	es	
		2017		2016	2017			2016	
Land	\$	2,923,815	\$	2,923,815	\$	738,681	\$	738,681	
Construction Work in Progress		3,895,047		382,541		2,269,008		1,578,765	
Buildings		8,546,120		8,707,116		1,450,389		1,511,024	
Improvements Other Than Buildings		24,683,864		23,924,056		21,176,565		19,435,066	
Machinery and Equipment		1,957,200		1,871,605		1,039,015		1,146,773	
Total Capital Assets	\$	42,006,046	\$	37,809,133	\$	26,673,658	\$	24,410,309	

# LONG-TERM DEBT

At year-end the City had \$15,882,669 in Sales Tax Revenue Bonds, Contract Payable, General Obligation Bonds and other long-term obligations. This is an increase of \$2,763,059 as shown on Table A-4 below.

	Ta	ble A-4						
Outstanding Debt and Obligations								
		Govern	nmei	ntal		Busines	ss-t	ype
	Activities				Activ	itie	S	
		2017		2016		2017		2016
Compensated Absences	\$	214,547	\$	216,865	\$	77,536	\$	86,676
Tax Increment Financing Obligations		1,750,000		1,548,801		-		-
Notes Payable		5,089,242		997,421		2,819,929		712,501
Sales Tax Revenue Bonds		-		2,820,000		5,931,415		6,137,346
General Obligation Bonds		-		-		-		600,000
Total Outstanding Debt and Obligations	\$	7,053,789	\$	5,583,087	\$	8,828,880	\$	7,536,523

During the current year, the City obtained additional financing through a Pioneer Bank and will begin making regular payments in 2018. The additional financing was for the Wastewater Screen Project and the East Annex sewer line. The City paid off the 2010 general obligation bonds for the Wastewater and Water Funds. The City received an additional loan from Pioneer Bank for the Main Street Project and several other governmental capital improvement projects. The City will make interest only payments until the projects are completed. The City made schedule payments throughout the year on other debt balances.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONCLUDED) DECEMBER 31, 2017

# 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 \$3,348,753. The City requested a 6% increase in property tax for the year of 2017 payable in 2018. The growth factor of 2016 taxes payable in 2017 was 3.33%. The growth factor for 2017 taxes payable in 2018 was 2.4%.

The adopted 2018 general fund expenditures budget increased by 4%. The increase is primarily due to wage increases.

The City's business-type activities, sanitation fees will not increase in 2018. The Liquor Fund anticipants an 8 to 10 percent increase in revenue over 2017. The Ambulance Fund anticipates revenue to remain comparable to recent years.

# CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

# STATEMENT OF NET POSITION DECEMBER 31, 2017

		ERNMENTAL CTIVITIES		SINESS-TYPE CTIVITIES		TOTAL
Assets		iciiviiii.	11	icii vii ii.		TOTAL
Cash and Cash Equivalents (Note 2)	\$	3,506,482	\$	2,272,484	\$	5,778,966
Receivables, Net	7	916,531	_	698,610	_	1,615,141
Notes Receivable (Note 10)		413,390		-		413,390
Internal Balances (Note 6)		(666,368)		666,368		-
Inventories		-		447,223		447,223
Other Assets		38,591		14,778		53,369
Investment Real Estate Held for Sale		608,100		-		608,100
Restricted Assets:		000,100				000,100
Cash with Fiscal Agent (Note 5)		_		42,720		42,720
Deposits (Note 9)		135,844		-		135,844
Net Pension Asset (Note 8)		16,530		6,369		22,899
Capital Assets (Note 4)		10,550		0,507		22,077
Land and Construction Work in Progress		6,818,862		3,007,689		9,826,551
Other Capital Assets, Net of Depreciation		35,187,184		23,665,969		58,853,153
Total Assets		46,975,146		30,822,210		77,797,356
Total Assets		40,973,140		30,822,210		11,191,330
Deferred Outflows of Resources						
Pension Related Deferred Outflows of Resources (Note 8)		1,203,184		654,739		1,857,923
Total Assets and Deferred Outflows of Resources	\$	48,178,330	\$	31,476,949	\$	79,655,279
Liabilities						
Accounts Payable	\$	1,430,180	\$	423,983	\$	1,854,163
Other Current Liabilities	7	145,945	_	244,687	_	390,632
Noncurrent Liabilities (Note 5):		- 10,5 10		,		-,,,,,
Due Within One Year		458,142		412,699		870,841
Due in More Than One Year		6,595,647		8,416,181		15,011,828
Total Liabilities		8,629,914		9,497,550		18,127,464
Net Position		, ,		, ,		, , ,
		25 166 904		17 050 005		52 125 600
Net Investment in Capital Assets		35,166,804		17,958,805		53,125,609
Restricted for:				42.720		42.720
Debt Service		125 044		42,720		42,720
SDPAA (Note 9)		135,844		-		135,844
Revolving Loans		1,307,817		-		1,307,817
BID Tax BBB Tax		201		-		201
		753,869		-		753,869
Library Purposes		269,987		-		269,987
SDRS Pension (Note 8)		1,219,714		661,108		1,880,822
Hotel Occupancy		32,592				32,592
Permanently Restricted Purposes:		121.020				121.020
Expendable		131,020		-		131,020
Nonexpendable		377,535		<u>-</u>		377,535
Unrestricted		153,033		3,316,766		3,469,799
Total Net Position		39,548,416		21,979,399		61,527,815
Total Liabilities and Net Position	\$	48,178,330	\$	31,476,949	\$	79,655,279

CITY OF STURGIS

# STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2017

										nse) Reven		
		Program Revenues Operating			Capital						1	
		Charges		nts and		ants and		vernmental			;	
	Expenses	for Services	Conti	ributions	Con	tributions	Α	ctivities	A	ctivities		Total
Functions/Programs												
Primary Government												
Governmental Activities:												
General Government	\$ 3,270,212	\$ 2,444,718	\$	7,209	\$	875,300	\$	57,015	\$	-	\$	57,015
Public Safety	2,222,402	53,010		38,637		-	(	(2,130,755)		-		(2,130,755)
Public Works	1,497,735	39,934		-	1	,435,203		(22,598)		-		(22,598)
Health and Welfare	-	7,981		-		-		7,981		-		7,981
Culture and Recreation	1,791,833	263,261		250,000		18,631	(	(1,259,941)		-		(1,259,941)
Conservation and Development	390,772	-		-		25,357		(365,415)		-		(365,415)
Interest on Long-Term Debt	328,098	-		-		-		(328,098)		-		(328,098)
<b>Total Governmental Activities</b>	9,501,052	2,808,904		295,846	2	,354,491	(	(4,041,811)		-		(4,041,811)
Business-Type Activities:												
Liquor	2,238,959	2,358,673		-		-		-		119,714		119,714
Water	1,499,234	1,850,678		-		-		-		351,444		351,444
Wastewater	844,215	1,741,488		-		-		-		897,273		897,273
Sanitation	1,306,410	1,364,324		-		-		-		57,914		57,914
Ambulance	1,073,686	959,136		-		-		-		(114,550)		(114,550)
<b>Total Business-Type Activities</b>	6,962,504	8,274,299		-		-		-		1,311,795		1,311,795
Total Primary Government	\$ 16,463,556	\$ 11,083,203	\$	295,846	\$ 2	,354,491	(	(4,041,811)		1,311,795		(2,730,016)
	G 15											
	General Revenu	es:										
	Taxes:							2 025 120				2.025.120
	Property Ta	xes						2,935,129		-		2,935,129
	Sales Taxes							3,828,490		-		3,828,490
	State Shared F		_					292,636		-		292,636
		ontributions No	t Restr	icted								
	to Specific I	· ·						158,463		-		158,463
		nvestment Earn	ings					140,532		9,821		150,353
	Miscellaneous	Revenue						143,968		165,642		309,610
	Transfers							(460,205)		460,205		
	Total General	Revenues and	Trans	fers				7,039,013		635,668		7,674,681
	Change in Net	Position						2,997,202		1,947,463		4,944,665
	Net Position, B	eginning					3	6,551,214	2	0,031,936		56,583,150
	Net Position, I	Ending					\$ 3	9,548,416	\$ 2	1,979,399	\$	61,527,815

# BALANCE SHEET - GOVERNMENTAL FUNDS DECEMBER 31, 2017

		General <u>Fund</u>	Capital Improvement <u>Fund</u>	Rewolving Loan <u>Fund</u>
Assets	:			
101	Cash (Note 2)	\$ 170,953	\$ 219,201	\$ 201,008
105	Savings Certificates (Note 2)	718,691	546,172	229,323
108	Property Taxes Receivable	99,694	-	-
108	Sales Tax Receivable	183,676	138,562	-
115	Accounts Receivable, Net	46,593	-	65,900
121	Special Assessments Receivable	-	-	-
128	Notes Receivable (Note 10)	-	1,804	411,586
131	Due from Other Funds (Note 6)	633,599	259,625	-
132	Due from Federal/State Government	91,609	235,507	-
133	Advance to Other Funds (Note 6)	1,092,484	-	400,000
151	Investment Held for Sale	-	-	-
154.1	Restricted Deposits (Note 9)	135,844	-	-
155	Prepaid Expense	38,591	=	-
Total A	Assets	\$3,211,734	\$ 1,400,871	\$1,307,817
	ties, Deferred Inflows of ources and Fund Balances			
202		\$ 201,522	\$ 1,223,415	\$ -
202	Accounts Payable Due to Other Funds (Note 6)	\$ 201,322	\$ 1,223,415	Ф -
216	Accrued Wages Payable	80,114	-	-
217	Accrued Taxes Payable  Accrued Taxes Payable	2,144	-	-
220	Deposits	2,700	-	-
236	Advance from Other Funds (Note 6)	2,700	810,000	-
	Liabilities	286,480	2,033,415	
		200,400	2,033,413	
	ed Inflows of Resources	94 107		
245	Unavailable Revenue - Property Taxes	84,107	-	-
246 Tetal I	Unavailable Revenue - Special Assessments	94 107	-	
10tal 1	Deferred Inflows of Resources	84,107	-	
Fund I	Balances (Deficits) (Note 1)			
263	Nonspendable	1,266,919	-	-
264	Restricted	-	-	1,307,817
265	Committed	134,742	-	-
266	Assigned	89,201	-	-
267	Unassigned	1,350,285	(632,544)	-
Total I	Fund Balances (Deficits)	2,841,147	(632,544)	1,307,817
Total I	Liabilities, Deferred Inflows of			
Reso	ources and Fund Balances	\$3,211,734	\$ 1,400,871	\$1,307,817

	(DVD)		Other		Total
	TIF	G	overnmental	Go	vernmental
	<u>Funds</u>		<u>Funds</u>		<u>Funds</u>
\$	491,614	\$	501,985	\$	1,584,761
	-		427,535		1,921,721
	-		_		99,694
	-		22,929		345,167
	-		7,649		120,142
	-		24,412		24,412
	-		-		413,390
	-		-		893,224
	-		-		327,116
	-				1,492,484
	-		608,100		608,100
	-		-		135,844
	-		-		38,591
\$	491,614	\$	1,592,610	\$	8,004,646
\$	3,365	\$	1,878	\$	1,430,180
·	167,841	·	-		167,841
	-		962		81,076
	-		154		2,298
	-		_		2,700
	2,074,235		-		2,884,235
	2,245,441		2,994		4,568,330
	-		-		84,107
	-		24,412		24,412
	-		24,412		108,519
	-		377,535		1,644,454
	-		1,187,669		2,495,486
	-		-		134,742
	-		-		89,201
	(1,753,827)		-		(1,036,086)
	(1,753,827)		1,565,204		3,327,797
-					

\$ 491,614 \$ 1,592,610 \$ 8,004,646

# RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO GOVERNMENT-WIDE STATEMENT OF NET POSITION DECEMBER 31, 2017

Total Net Position - Governmental Activities	\$ 39,548,416
funds.	108,519
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	
Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported in the funds.	(59,871)
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.	(7,053,789)
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.	1,203,184
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	16,530
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	42,006,046
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total Fund Balances - Governmental Funds	\$ 3,327,797

CITY OF STURGIS

# STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31,2017

			Capital	Revolving		Other	Total
		General	Improvement		TIF	Governmental	Governmental
Revenu	0	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>
	Taxes:						
311		\$ 2,848,336	\$ -	\$ -	\$ 47,664	\$ -	\$ 2,896,000
313	General Sales and Use Taxes	1,987,248	1,496,889	φ - -	\$ 47,00 <del>4</del>	344,353	3,828,490
315	Amusement Taxes	1,092	1,490,669	_	_	32,592	33,684
319	Penalties and Interest	1,072	_	_	_	32,372	33,004
317	on Delinquent Taxes	12,007	_	_	_	204	12,211
320	Licenses and Permits	643,482	_	_	_	-	643,482
	Intergovernmental Revenue:	043,402					043,402
331	Federal Grants	53,542	1,005,705	_	_	_	1,059,247
334	State Grants	6,107	665,695	_	_	_	671,802
335.01	Bank Franchise Tax	12,082	-	_	_	_	12,082
335.03	Liquor Tax Reversion	43,057	_	_	_	_	43,057
335.04	Motor Vehicle Licenses	91,834	_	_	_	_	91,834
335.08	Local Government Highway	, ,,,,,					, 2,02
	and Bridge Fund	145,663	_	=	_	_	145,663
338.02	County Highway and	,					,
	Bridge Reserve Tax	5,855	-	_	-	-	5,855
338.04	Port of Entry	29,046	-	_	-	-	29,046
338.99	Other	5,033	-	_	-	-	5,033
	Charges for Goods and Services:						
341	General Government	1,630,736	153,500	-	-	17,000	1,801,236
342	Public Safety	44,880	-	-	-	-	44,880
345	Health	7,981	-	-	-	-	7,981
346	Culture and Recreation	263,261	-	-	-	-	263,261
349	Other	7,787	_	-	-	-	7,787
	Fines and Forfeits:						
351	Court Fines and Costs	8,130	-	-	-	-	8,130
	Miscellaneous Revenue:						
361	Investment Earnings	125,934	-	9,606	-	4,992	140,532
362	Rentals/Airport Hangar Lease	17,716	-	-	-	-	17,716
363	Special Assessments	-	-	-	-	25,051	25,051
367	Contributions and Donations						
	from Private Sources	131,463	27,000	-	-	-	158,463
369	Other	10,196	25,000	-	_	80,588	115,784
Total R	evenue	8,132,468	3,373,789	9,606	47,664	504,780	12,068,307

CITY OF STURGIS

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

FOR THE YEAR ENDED DECEMBER 31, 2017

**GOVERNMENTAL FUNDS** 

		General <u>Fund</u>	Capital Improvement <u>Fund</u>	Revolving Loan <u>Fund</u>	TIF Funds	Other Governmental Funds	Total Governmental <u>Funds</u>
Expe	nditures			<u></u>		<u></u>	·
	General Government:						
411	Legislative	215,933	-	-	-	-	215,933
414	Financial Administration	1,202,160	-	-	-	-	1,202,160
419	Other (Note 11)	1,688,466	177,066	-	-	54,842	1,920,374
	Public Safety:						
421	Police	1,994,028	-	-	-	-	1,994,028
422	Fire	131,406	21,297	-	-	-	152,703
	Public Works:						
431	Highway and Streets	808,168	33,659	_	8,289	-	850,116
435	Airport	60,879	· -	_	-	-	60,879
437	Cemeteries	105,840	-	-	=	-	105,840
	Culture and Recreation:						
451	Recreation	727,442	14,879	-	=	-	742,321
452	Parks	514,649	-	-	-	-	514,649
455	Library	330,688	-	-	-	-	330,688
456	Auditorium	21,922	_	_	_	_	21,922
460	Conservation and Development	-	_	14,399	_	376,373	390,772
470	Debt Service	_	3,259,905	-	103,011	-	3,362,916
485	Capital Outlay	264,732	4,604,146	_	201,199	_	5,070,077
	Expenditures	8,066,313	8,110,952	14,399	312,499	431,215	16,935,378
	<b>T</b>	- , , -	- 7 - 7	,		- , -	
Exces	ss of Revenue Over (Under)						
	penditures	66,155	(4,737,163)	(4,793)	(264,835)	73,565	(4,867,071)
•		,	, , , ,	· , ,	, , ,	,	, , , ,
Othe	r Financing Sources (Uses)						
391	Transfers In (Note 7)	110,000	75,975	_	_	_	185,975
391	Compensation for Loss or	-,	,				,-
-,-	Damage to Capital Assets	2,681	_	_	_	_	2,681
391.2	9 Other Long-Term Debt Issued	_,==	4,333,313	_	201,199	_	4,534,512
511	Transfers Out (Note 7)	(87,975)	-	_		_	(87,975)
	Other Financing	(87,578)					(61,510)
	ources (Uses)	24,706	4,409,288	_	201,199	_	4,635,193
		_ :,	.,,				.,,,,,,,,
Not C	Change in Fund Balances						
	eficit)	90,861	(327,875)	(4.702)	(63,636)	73,565	(221 979)
(DC	encit)	90,801	(321,813)	(4,793)	(03,030)	75,505	(231,878)
Eund	Balance (Deficit),	2.750.296	(204 660)	1 212 610	(1,600,101)	1 401 620	2 550 675
	. , , ,	2,750,286	(304,669)	1,312,610	(1,690,191)	1,491,639	3,559,675
	ember 31, 2016  Balance (Deficit),						
	eember 31, 2017	\$ 2,841,147	\$ (632,544)	\$ 1,307,817	\$ (1,753,827)	\$ 1,565,204	\$ 3,327,797
Dec	CHINCI 31, 2011	φ 4,041,14/	φ (034,344)	φ 1,50/,01/	φ (1,133,041)	φ 1,303,404	φ 3,341,171

# 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, 2017

Net Change in Fund Balances - Total Government Funds

\$ (231,878)

2,997,202

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

3,861,187
893,931
(558,205)
(6,460)
3,061,492
(4,534,512)
2,318
(26,674)
319,608
216,395

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

Change in Net Position of Governmental Activities

# STATEMENT OF NET POSITION PROPRIETARY FUNDS DECEMBER 31, 2017

Assets and Deferred Outflows of Resources	Liquor <u>Fund</u>	Water <u>Fund</u>	V	Vastewater <u>Fund</u>	Sanitation <u>Fund</u>	A	ambulance <u>Fund</u>	P	Total Proprietary <u>Funds</u>
Current Assets									
101 Cash (Note 2)	\$ 4,820	\$ 799,768	\$	700,055	\$ 767,841	\$	-	\$	2,272,484
107 Restricted Cash (Note 5)	28,686	14,034		-	-		-		42,720
115 Accounts Receivable, Net	160	138,671		186,497	69,760		298,422		693,510
131 Due from Other Governments	-	-		-	-		5,100		5,100
142 Inventory of Supplies Purchased									
for Resale	447,223	-		-	-		-		447,223
155 Prepaid Expenses	3,046	3,204		1,601	3,203		3,724		14,778
<b>Total Current Assets</b>	483,935	955,677		888,153	840,804		307,246		3,475,815
Noncurrent Assets									
133 Advance to Other Funds (Note 6)	-	1,391,751		-	-		-		1,391,751
189 Net Pension Asset (Note 8)	698	1,101		967	1,380		2,223		6,369
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	(175,221)	(77,361)		(215,113)	(108,652)		(96,549)		(672,896)
164 Improvements Other Than Buildings	-	18,136,683		12,649,735	22,789		-		30,809,207
165 Accumulated Depreciation -									
Improvements Other Than Buildings	-	(5,546,071)		(4,068,654)	(17,917)		-		(9,632,642)
166 Machinery and Equipment	55,030	837,256		694,834	2,416,772		1,083,410		5,087,302
167 Accumulated Depreciation -									
Machinery and Equipment	(21,311)	(660,002)		(611,116)	(2,092,734)		(663,124)		(4,048,287)
168 Construction in Progress	-	164,992		2,104,016	-		-		2,269,008
Total Noncurrent Assets	691,738	14,431,332		11,646,140	616,799		685,769		28,071,778
Total Assets	1,175,673	15,387,009		12,534,293	1,457,603		993,015		31,547,593
<b>Deferred Outflows of Resources</b>									
196 Pension Related Deferred									
Outflows (Note 8)	 41,669	85,880		111,708	146,758		268,724		654,739
Total Assets and Deferred Outflows of Resources	\$ 1,217,342	\$ 15,472,889	\$	12,646,001	\$ 1,604,361	\$	1,261,739	\$	32,202,332

Liabilities and Net Position	Liquor <u>Fund</u>	Water <u>Fund</u>	W	Vastewater <u>Fund</u>	S	anitation <u>Fund</u>	A	mbulance <u>Fund</u>	P	Total roprietary <u>Funds</u>
Current Liabilities										
202 Accounts Payable	\$ 136,888	\$ 16,851	\$	239,121	\$	20,538	\$	10,585	\$	423,983
208 Due to Other Funds (Note 6)	48,934	-		-		-		676,449		725,383
215 Accrued Interest Payable	14,551	17,794		1,268		-		-		33,613
216 Accrued Wages Payable	4,740	8,339		4,750		8,236		12,534		38,599
217 Accrued Taxes Payable	15,870	-		-		-		-		15,870
220 Customer Deposits	-	156,605		-		-		-		156,605
226 Bonds Payable - Current (Note 5)	11,281	186,067		137,815		-		-		335,163
233 Accrued Leave Payable (Note 5)	892	25,967		24,607		21,596		4,474		77,536
Total Current Liabilities	233,156	411,623		407,561		50,370		704,042		1,806,752
Long-Term Liabilities 231 Bonds Payable (Note 5)	716,250	4,815,005		2,884,926		-		-		8,416,181
Total Long-Term Liabilities	716,250	4,815,005		2,884,926		-		-		8,416,181
<b>Total Liabilities</b>	949,406	5,226,628		3,292,487		50,370		704,042		10,222,933
Net Position										
253.10 Net Investment in Capital Assets	-	8,037,408		8,622,432		615,419		683,546		17,958,805
253.21 Restricted for Revenue Bond										
Debt Service (Note 5)	28,686	14,034		-		-		-		42,720
253.29 Restricted for SDRS Pension										
Purposes (Note 8)	42,367	86,981		112,675		148,138		270,947		661,108
253.9 Unrestricted (Deficit)	196,883	2,107,838		618,407		790,434		(396,796)		3,316,766
<b>Total Net Position</b>	 267,936	10,246,261		9,353,514		1,553,991		557,697		21,979,399

Total Liabilities and Net Position	\$ 1,217,342	\$ 15,472,889	\$ 12,646,001	\$ 1,604,361 \$ 1,261,739 \$ 32,202,332	

**CITY OF STURGIS** 

# STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS FOR THE YEAR ENDED DECEMBER 31, 2017

	Liquor <u>Fund</u>	Water <u>Fund</u>	Wastewater <u>Fund</u>	Sanitation <u>Fund</u>	Ambulance <u>Fund</u>	Total Proprietary <u>Funds</u>
<b>Total Operating Revenue</b>						
380 Charges for Goods						
and Services (Note 5)	\$ 2,358,673	\$ 1,850,678	\$ 1,741,488	\$ 1,364,324	\$ 959,136	\$ 8,274,299
Operating Expenses						
410 Personal Services	202,950	405,974	261,505	438,784	736,023	2,045,236
420 Other Current Expense	221,273	548,944	229,811	783,863	241,947	2,025,838
426.2 Materials						
(Cost of Goods Sold)	1,753,608	-	-	-	-	1,753,608
457 Depreciation (Note 4)	30,381	384,028	272,562	83,763	95,716	866,450
Total Operating Expenses	2,208,212	1,338,946	763,878	1,306,410	1,073,686	6,691,132
Operating Income (Loss)	150,461	511,732	977,610	57,914	(114,550)	1,583,167
Nonoperating Revenue (Expense)						
361 Investment Earnings (Note 2)	9,821	-	-	-	-	9,821
369 Other	3,863	-	-	15,962	145,817	165,642
442 Interest Expense	(30,747)	(160,288)	(80,337)	-	-	(271,372)
Total Nonoperating						
Revenue (Expense)	(17,063)	(160,288)	(80,337)	15,962	145,817	(95,909)
Income before Transfers						
and Contributions	133,398	351,444	897,273	73,876	31,267	1,487,258
391.07 Capital Contributions	-	191,036	367,169	-	-	558,205
391.10 Transfers In (Note 7)	-	-	-	12,000	-	12,000
511 Transfers Out (Note 7)	-	-	(100,000)	(10,000)	-	(110,000)
Total Transfers and Contributions	-	191,036	267,169	2,000	-	460,205
Change in Net Position	133,398	542,480	1,164,442	75,876	31,267	1,947,463
Net Position, December 31, 2016	134,538	9,703,781	8,189,072	1,478,115	526,430	20,031,936
Net Position, December 31, 2017	\$ 267,936	\$ 10,246,261	\$ 9,353,514	\$ 1,553,991	\$ 557,697	\$ 21,979,399

# STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED DECEMBER 31, 2017

	Liquor Fund	Water <u>Fund</u>	V	Vastewater <u>Fund</u>
Cash Flows from Operating Activities	<u> </u>	<del></del>		<del>=</del>
Receipts from Customers	\$ 2,386,160	\$ 1,848,513	\$	1,666,916
Payments to Suppliers	(1,937,400)	(632,891)		(315,251)
Payments to Employees	(223,956)	(459,815)		(303,395)
Net Cash Flows Provided by (Used in) Operating Activities	224,804	755,807		1,048,270
Cash Flows from Noncapital Financing Activities				
Internal Activity, Net	(192,588)	323,069		(108,475)
Net Cash Flows Provided by (Used in) Noncapital Financing Activities	(192,588)	323,069		(108,475)
Cash Flows from Capital and Related Financing Activities				
Purchases of Capital Assets	-	(495,941)		(181,257)
Principal Borrowings on Debt	-	-		313,649
Principal Paid on Debt	(11,423)	(246,938)		(547,570)
Interest Paid	(29,559)	(161,280)		(81,311)
Other Receipts	3,863	-		
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(37,119)	(904,159)		(496,489)
Cash Flows Provided by Investing Activities				
Cash Received from Investment Earnings	9,821	-		
Increase (Decrease) in Cash and Cash Equivalents	4,918	174,717		443,306
Cash and Cash Equivalents, 2016	28,588	639,085		256,749
Cash and Cash Equivalents, 2017	\$ 33,506	\$ 813,802	\$	700,055
Reconciliation of Operating Income (Loss) to Net Cash				
Provided by (Used in) Operating Activities				
Operating Income (Loss)	\$ 150,461	\$ 511,732	\$	977,610
Adjustments to Reconcile Operating Income (Loss) to Net Cash				
Flows Provided by (Used in) Operating Activities:				
Depreciation Expense	30,381	384,028		272,562
Change in Assets and Liabilities:				
Accounts Receivable	28,687	(4,292)		(74,572)
Inventory of Supplies Purchased for Resale	25,200	_		-
Prepaid Expenses	362	(196)		401
Pension Asset	(698)	(1,101)		(967)
Pension Related Deferred Outflows	1,857	2,930		2,575
Accounts Payable	11,209	(83,732)		(85,841)
Accrued Wages Payable	6	1,720		331
Accrued Taxes Payable	710	(19)		-
Customer Deposits	(1,200)	2,127		-
Accrued Leave Payable	(366)	(282)		(771)
Pension Liability	(21,805)	(57,108)		(43,058)
Net Cash Flows Provided by (Used in) Operating Activities	\$ 224,804	\$ 755,807	\$	1,048,270
Noncash Capital and Related Financing Activities				
Capital Assets Contributed	\$ -	\$ 191,036	\$	367,169
Purchase of Capital Assets with Long-Term Debt	-	-	•	1,793,779
				, , , ,

S	Sanitation <u>Fund</u>	A	Ambulance <u>Fund</u>	P	Total Proprietary <u>Funds</u>
\$	1,367,054	\$	880,783	\$	8,149,426
Ψ	(781,280)	Ψ	(247,010)	Ψ	(3,913,832)
	(508,850)		(834,350)		(2,330,366)
	76,924		(200,577)		1,905,228
-	,		(===,=,-,		
	251,414		155,377		428,797
	251,414		155,377		428,797
	_		(100,617)		(777,815)
	-		(100,017)		313,649
	-		-		(805,931)
	-		-		(272,150)
	15,962		145,817		165,642
	15,962		45,200		(1,376,605)
	13,702		+3,200		(1,370,003)
	-		-		9,821
	344,300		-		967,241
	423,541		-		1,347,963
\$	767,841	\$	-	\$	2,315,204
\$	57,914	\$	(114,550)	\$	1,583,167
	83,763		95,716		866,450
	2,730		(78,353)		(125,800)
	-		-		25,200
	(187)		267		647
	(1,380)		(2,223)		(6,369)
	3,674		5,919		16,955
	2,770		(5,330)		(160.024)
					(160,924)
	1,281		121		3,459
					3,459 691
	1,281		121		3,459 691 927
	1,281 - - (6,543)		121 - - (1,178)		3,459 691 927 (9,140)
<u> </u>	1,281 - - (6,543) (67,098)	ф.	121 - - (1,178) (100,966)	Φ.	3,459 691 927 (9,140) (290,035)
\$	1,281 - - (6,543)	\$	121 - - (1,178)	\$	3,459 691 927 (9,140)
<b>\$</b>	1,281 - - (6,543) (67,098)	<b>\$</b>	121 - - (1,178) (100,966)	<b>\$</b>	3,459 691 927 (9,140) (290,035)

# NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

# (1) Summary of Significant Accounting Policies

# **Reporting Entity**

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

### **Basis of Presentation**

### Government-wide Financial Statements:

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

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

# Fund Financial Statements:

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

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

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

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

## **Basis of Presentation (Continued)**

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

# Governmental Funds:

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

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

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

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

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

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

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

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

# Proprietary Funds:

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

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

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

# **Basis of Presentation (Concluded)**

# Proprietary Funds (Continued):

# Proprietary Funds include:

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

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

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

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

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

# **Measurement Focus and Basis of Accounting**

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

## Measurement Focus:

# Government-wide Financial Statements:

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

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

# **Fund Financial Statements:**

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

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

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

# Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting:

### Government-wide Financial Statements:

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

## Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the City does not exceed one bill-paying cycle, and for the City, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2017 are property tax revenues and special assessments.

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

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

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

# **Interfund Eliminations and Reclassifications**

# Government-wide Financial Statements:

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

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

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

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

### **Interfund Eliminations and Reclassifications (Continued)**

### Fund Financial Statements:

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

# **Capital Assets**

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

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

# Government-wide Financial Statements:

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

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

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

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

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

	Capitalization	Depreciation	Estimated
	Threshold	Method	Useful Life
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

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

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

#### Capital Assets (Continued)

Land is an inexhaustible capital asset and is not depreciated.

### Fund Financial Statements:

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

# **Long-Term Liabilities**

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

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

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

# **Program Revenues**

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

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

# **Proprietary Funds Revenue and Expense Classifications**

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

# **Cash and Cash Equivalents**

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

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

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

# **Equity Classifications**

### Government-wide Financial Statements:

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

- 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.

<u>Restricted</u> – 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.

<u>Committed</u> – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The Brick Fund and Capital Improvement Fund were created through ordinances passed by the City Council, the highest decision making authority. The City Council would have to pass ordinances to remove the commitments. However, due to a deficit fund balance at year-end, the Capital Improvement Fund is presenting a negative unassigned fund balance, rather than a committed balance.

<u>Assigned</u> – 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.

<u>Unassigned</u> – 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.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

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

# **Equity Classifications (Continued)**

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

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

As of December 31, 2017, the City had the following governmental fund classifications:

		General Fund	Capital Improvement Fund	Revolving Loan Fund	TIF Funds	Other Governmental Funds	Total Governmental Funds
263	Nonspendable:	rund	rund	runa	runus	runus	runus
263.02	Nonspendable - Prepaid Expenses	\$ 38,591	\$ -	\$ -	\$ -	\$ -	\$ 38,591
263.04	Nonspendable - Advances	1,092,484	-	-	-	_	1,092,484
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
		1,266,919	-	-	-	377,535	1,644,454
264	Restricted:						
264.03	Restricted - Perpetual						
	Care Cemetery	-	-	_	_	131,020	131,020
264.04	Restricted - BBB Tax	-	-	_	_	753,869	753,869
264.05	Restricted - Library Purposes	-	-	-	-	269,987	269,987
264.09	Restricted - BID Tax	-	-	-	-	201	201
264.97	Restricted - Revolving Loan	-	-	1,307,817	-	-	1,307,817
264.99	Restricted - Hotel Occupancy	-	-	-	-	32,592	32,592
		_	-	1,307,817	-	1,187,669	2,495,486
265	Committed						
265.97	Committed - Brick Fund	134,742	_	-	-	-	134,742
266	Assigned						
266.01	Assigned - Subsequent Year's						
200.01	Budget	89,201	_	_	_	_	89,201
•		0,201					~
267	Unassigned	1,350,285	(632,544)	-	(1,753,827)	-	(1,036,086)
Total F	und Balances	\$ 2,841,147	\$ (632,544)	\$ 1,307,817	\$ (1,753,827)	\$ 1,565,204	\$ 3,327,797

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

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

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

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

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

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

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

#### **Receivables and Payables**

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year. Included in accounts receivable at December 31, 2017 is an allowance for doubtful accounts totaling \$10,000 for the general fund. Included in utility accounts receivable at December 31, 2017 are allowances for doubtful accounts totaling approximately \$2,500, \$4,000, \$3,500 and \$800,000 for the water, wastewater, sanitation and ambulance funds, respectively.

#### (2) Deposits and Investments

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

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

#### (2) Deposits and Investments (Continued)

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

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

As of December 31, 2017, the City had the following investments:

Investments	Credit Rating	Maturity	Fa	ir Value
Treasury Money Market	N/A	N/A	\$	75,546
Negotiable Certificates of Deposits	N/A	1-5 Years		979,078
			\$ 1	,054,624

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

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

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

#### (2) Deposits and Investments (Concluded)

#### Interest Rate Risk:

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

#### Credit Risk:

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

#### Custodial Credit Risk:

Custodial credit risk is the risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City will minimize custodial credit risk for deposits by requiring the financial institution to submit a copy of their collateralization report to the finance officer to determine whether the financial institution is in compliance with SDCL 4-6A and 51A-10-9. As of December 31, 2017, the City's deposits in financial institutions collateralized by securities held by the pledging financial institution were as follows:

	Ba	ank Balance
Insured - FDIC	\$	532,152
Uninsured, collateralized in accordance with SDCL 4-6A-3		4,219,528
Total Deposits	\$	4,751,680

#### Concentration Risk:

The City will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. More than five percent of the City's certificates of deposit are in: American Express (9.5 percent), Capital One Bank (11.9 percent), GE Capital (24.2 percent), Goldman Sachs (23.7 percent), and Discover Bank (23.7 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.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

#### (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 12/31/2016		Additions		Transfers/ Deletions	Balance 12/31/2017
Governmental Activities:		12/31/2010		Additions		Deletions	12/31/2017
Capital Assets, not being Depreciated:							
Land	\$	2,923,815	\$	_	\$	- \$	2,923,815
Construction Work in Progress	Ψ	382,541	Ψ	5,219,796	Ψ	(1,707,290)	3,895,047
Total Capital Assets, not being Depreciated		3,306,356		5,219,796		(1,707,290)	6,818,862
Capital Assets, being Depreciated:							
Buildings		13,389,430		_		141,774	13,531,204
Improvements Other Than Buildings		32,729,355		463,130		1,007,311	34,199,796
Machinery and Equipment		4,716,612		281,082		(19,498)	4,978,196
Total Capital Assets, being Depreciated		50,835,397		744,212		1,129,587	52,709,196
Less Accumulated Depreciation for:							
Buildings		4,682,314		302,770		_	4,985,084
Improvements Other Than Buildings		8,805,299		710,633		_	9,515,932
Machinery and Equipment		2,845,007		195,487		(19,498)	3,020,996
Total Accumulated Depreciation		16,332,620		1,208,890		(19,498)	17,522,012
Total Governmental Activities Capital Assets, being Depreciated, Net		34,502,777		(464,678)		1,149,085	35,187,184
Assets, being Deplectated, Net		34,302,777		(404,078)		1,149,063	33,167,164
Total Governmental Capital Assets, Net	\$	37,809,133	\$	4,755,118	\$	(558,205) \$	42,006,046
Depreciation expense was charged to function	ıs as	s follows:					

Public Works	\$ 544,336
Culture and Recreation	300,940
General Government	99,632
Public Safety	263,982
Total Depreciation Expense - Governmental	\$ 1,208,890

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

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

	Balance 12/31/2016	Additions	Transfers/ Deletions	Balance 12/31/2017
Business-Type Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 738,681	\$ -	\$ - \$	738,681
Construction Work in Progress	1,578,765	2,470,977	(1,780,734)	2,269,008
Total Capital Assets, not being Depreciated	2,317,446	2,470,977	(1,780,734)	3,007,689
				_
Capital Assets, being Depreciated:				
Buildings	2,123,285	-	-	2,123,285
Improvements Other Than Buildings	28,470,268	-	2,338,939	30,809,207
Machinery and Equipment	4,986,685	100,617	-	5,087,302
Total Capital Assets, being Depreciated	35,580,238	100,617	2,338,939	38,019,794
Less Accumulated Depreciation for:				
Buildings	612,261	60,635	-	672,896
Improvements Other Than Buildings	9,035,202	597,440	-	9,632,642
Machinery and Equipment	3,839,912	208,375	-	4,048,287
Total Accumulated Depreciation	13,487,375	866,450	-	14,353,825
				_
Total Business-Type Activities Capital				
Assets, being Depreciated, Net	22,092,863	765,833	2,338,939	23,665,969
Total Business-Type Capital Assets, Net	\$ 24,410,309	\$ 1,705,144	\$ 558,205 \$	26,673,658

Depreciation expense was charged to functions as follows:

Liquor Total Depreciation Expense - Business-Type	\$ 30,381 <b>866,450</b>
Sanitation	83,763
Water	384,028
Wastewater	272,562
Ambulance	\$ 95,716

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

#### (5) Long-Term Debt

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

	Balance 12/31/2016 Add		Additions	Deletions		Balance 12/31/2017	Due Within One Year	
Primary Government:								
Governmental Activities:								
2008 Revenue Bonds	\$	2,820,000	\$ -	\$	2,820,000	\$ -	\$	-
Tax Increment Financing Obligations		1,548,801	201,199		-	1,750,000		-
Notes Payable		997,421	4,333,313		241,492	5,089,242		243,595
Compensated Absences		216,865	297,456		299,774	214,547		214,547
Total Governmental Activities		5,583,087	4,831,968		3,361,266	7,053,789		458,142
Business-Type Activities: 2010 GO Crossover Refunding Bonds		600,000			600,000			
2010 Sales Tax Revenue Bond		738,954	-		11,423	727,531		11,281
2009 Drinking Water Revenue Bond		247,801	_		56,199	191,602		57,474
2009 Clean Water Revenue Bond		216,382	_		13,570	202,812		13,981
2011 Drinking Water Revenue Bond		3,111,512	_		42,765	3,068,747		44,132
2012 Drinking Water Revenue Bond		1,822,697	-		81,974	1,740,723		84,461
Wastewater Note Payable		712,501	2,107,428		-	2,819,929		123,834
Compensated Absences		86,676	132,017		141,157	77,536		77,536
Total Business-Type Activities		7,536,523	2,239,445		947,088	8,828,880		412,699
Total Primary Government	\$	13,119,610	\$ 7,071,413	\$	4,308,354	\$ 15,882,669	\$	870,841

The City has restricted reserves of \$28,686, and \$14,034 at December 31, 2017, in accordance with debt covenants.

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

	Water	V	Vastewater
	<u>Fund</u>		<u>Fund</u>
Current Year Principal and Interest	\$ 407,226	\$	627,907
Pledged Revenue	1.850.678		1.741.488

Subsequent to December 31, 2017, the City approved the issuance of \$4,600,000 of sales tax revenue bonds to finance public works improvement projects. The bonds carry interest at 3.50 percent and have a final maturity no later than forty years after issuance. The bonds will be repaid with sales tax collections.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

**Total Bonds, Notes Payable, and TIF Obligations** 

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

Long-term debt at December 31, 2017, is comprised of the following:

Long-term debt at December 31, 2017, is comprised of the following:	
Revenue Bonds 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.	727,531
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.	191,602
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.	202,812
Drinking Water Revenue Borrower Bond, 2011 Series for \$3,200,000, matures in September 2054, interest at a fixed 3.25 percent due in monthly installments of \$11,936. Water revenues pledged and financed through the Water Fund.	3,068,747
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.	1,740,723
Notes Payable  Note Payable to First Interstate Bank, matures with a balloon payment in 2019, interest at a fixed 3.75 percent, due in monthly installments of \$7,116. Financed through Capital Improvement Fund.	948,832
Note Payable to Pioneer Bank for \$3,052,000, matures with a balloon payment in 2036, interest at a fixed 3.85 percent, due in monthly installments of \$19,186. Financed through Wastewater Fund.	2,819,929
Note payable to Pioneer Bank for \$5,757,000, interest only payments at a 4 percent fixed rate through December 2018. Principal and interest payments at a fixed 4.00 percent rate beginning January 2019 and through May 2028. Financed through the Capital Improvements Fund.	3,513,813
Note Payable to SD Department of Transportation. Non-interest bearing and due in varying annual installments through 2021. Financed through the Capital Improvements Fund.	626,597
Tax Increment Financing Obligations  TIF #12 maximum borrowings of \$1,900,000, including interest not to exceed 10.00 percent per annum, due in varying installments within 30 days of property tax collections from the	
County. Financed through TIF Debt Service Funds.	1,750,000

15,590,586

Total Long-Term Debt

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

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

Compensated Absences:	
General Fund	214,547
Liquor Fund	892
Water Fund	25,967
Wastewater Fund	24,607
Sanitation Fund	21,596
Ambulance Fund	4,474
Total Compensated Absences	292,083

The annual requirements to amortize long-term debt outstanding as of December 31, 2017, except for compensated

\$ 15,882,669

The annual requirements to amortize long-term debt outstanding as of December 31, 2017, except for compensated absences are as follows:

		Bonds	TH OU	TIF Obligations		Notes Payable		Total Total
<u>Int</u>	terest_	<b>Principal</b>	<u>Interest</u>	<b>Principal</b>	<u>Interest</u>	Principal Principal	<u>Interest</u>	<u>Principal</u>
2018 \$ 1	189,832	\$ 211,329	\$ 118,905	\$ -	\$ 285,114	\$ 367,429	\$ 593,851	\$ 578,758
2019	183,626	217,483	126,137	-	251,950	1,532,750	561,713	1,750,233
2020	177,233	223,865	133,810	-	219,220	651,774	530,263	875,639
2021	171,342	183,754	141,042	-	200,101	525,879	512,485	709,633
2022	165,890	173,970	148,274	-	180,843	497,248	495,007	671,218
2023-2027	742,740	956,583	851,614	-	587,523	2,802,935	2,181,877	3,759,518
2028-2032	581,350	1,066,327	1,035,500	-	169,960	1,174,939	1,786,810	2,241,266
2033-2037	431,654	659,080	465,529	1,750,000	11,633	356,217	908,816	2,765,297
2038-2042	336,577	584,483	-	-	-	-	336,577	584,483
2043-2047	228,191	692,859	-	-	-	-	228,191	692,859
2048-2052	101,242	721,323	-	-	-	-	101,242	721,323
2053-2057	7,177	240,359	-	-	-	-	7,177	240,359
Total \$ 3,3	316,854	\$ 5,931,415	\$ 3,020,811	\$ 1,750,000	\$ 1,906,344	\$ 7,909,171	\$ 8,244,009	\$ 15,590,586

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

#### (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, 2017, TIF related property tax revenues were \$47,664. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$103,011 for the year ended December 31, 2017.

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

Interfund receivable and payable balances at December 31, 2017, are as follows:

	I	nterfund	Interfund	
Fund	Re	eceivables	Payables	
Major Funds:				
Ambulance Fund	\$	-	\$ 676,449	
Liquor Fund		-	48,934	
Capital Improvement Funds		259,625	-	
General Fund		633,599	-	
TIF Fund		-	167,841	
Total Interfund Receivable and Payable Balances	\$	893,224	\$ 893,224	

The General Fund lent money to the TIF funds to fund projects. The General Fund and Capital Improvement Fund loaned monies to the Liquor Fund and Ambulance Fund to help maintain a positive cash balance at year end. The balances will be repaid within the next year.

Interfund advances balances at December 31, 2017, are as follows:

Fund         Advance To         Advance From           Major Funds:         \$ 1,092,484         \$ -           General Fund         \$ 1,092,484         \$ -           Revolving Loan Fund         400,000         -           Water Fund         1,391,751         -           TIF Funds         -         2,074,235           Capital Improvement Fund         -         810,000           Total Interfund Receivable and Payable Balances         \$ 2,884,235         \$ 2,884,235			Interfund		Intertund
General Fund       \$ 1,092,484       \$ -         Revolving Loan Fund       400,000       -         Water Fund       1,391,751       -         TIF Funds       -       2,074,235         Capital Improvement Fund       -       810,000	Fund	A	Advance To		lvance From
Revolving Loan Fund       400,000       -         Water Fund       1,391,751       -         TIF Funds       -       2,074,235         Capital Improvement Fund       -       810,000	Major Funds:				
Water Fund       1,391,751       -         TIF Funds       -       2,074,235         Capital Improvement Fund       -       810,000	General Fund	\$	1,092,484	\$	-
TIF Funds       -       2,074,235         Capital Improvement Fund       -       810,000	Revolving Loan Fund		400,000		-
Capital Improvement Fund - 810,000	Water Fund		1,391,751		-
	TIF Funds		-		2,074,235
Total Interfund Receivable and Payable Balances \$ 2,884,235 \$ 2,884,235	Capital Improvement Fund		-		810,000
	Total Interfund Receivable and Payable Balances	\$	2,884,235	\$	2,884,235

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

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

#### (7) Interfund Transfers

	Transfers	Transfers Out		
	In			
Major Funds:				
General Fund	\$ 110,000	\$	87,975	
Capital Improvement Fund	75,975		-	
Wastewater Fund	-		100,000	
Sanitation Fund	12,000		10,000	
<b>Total Transfers</b>	\$ 197,975	\$	197,975	

Transfers between the funds were made to cover general operational costs of the City, to repair the Community Center roof, transfer proceeds from sale of land, and to transfer interest income to the General Fund in accordance with the City's policy.

#### (8) Pension Plan

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

#### Benefits Provided:

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

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

- If the SDRS market value funded ratio is 100% or more 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
  - o 90.0% to 99.9% funded 2.1% minimum and 2.8% maximum COLA
  - o 80.0% to 89.9% funded 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% 2.1% COLA

#### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

#### (8) Pension Plan (Continued)

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

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

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

#### Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2017, 2016, and 2015 were \$299,638, \$293,505 and \$291,141 respectively, equal to the required contributions each year.

<u>Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:</u>

At June 30, 2017, SDRS is 100.10 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the City as of June 30, 2017 are as follows:

	Governmental		Business-Type			
	Activities Acti			Activities		Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$	21,209,483	\$	8,171,768	\$ 2	9,381,251
Less: Proportionate Share of Total Pension Liability		(21,192,953)		(8,165,399)	(2	9,358,352)
Proportionate Share of Net Pension Asset	\$	16,530	\$	6,369	\$	22,899

At December 31, 2017, the City reported an asset of \$22,899 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension asset used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the City's proportion was 0.2523287 percent, which is a decrease of .0003 percent from its proportion measured as of June 30, 2016.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

#### (8) Pension Plan (Continued)

For the year ended December 31, 2017, the City recognized pension revenue of \$515,683. At December 31, 2017, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows Deferred In				
	of	Resources	of Resources		
Difference between Expected and Actual Experience	\$	366,908	\$	-	
Changes in Assumption		1,777,972		-	
Net Difference between Projected and Actual Earnings on					
Pension Plan Investments		(440,258)		-	
Changes in Proportion and Difference between City					
Contributions and Proportionate Share of Contributions		-		-	
City Contributions Subsequent to the Measurement Date		153,301		-	
Total	\$	1,857,923	\$	-	

Deferred outflow of resources includes \$153,301 resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

2018	\$ 462,340
2019	776,165
2020	570,675
2021	(104,558)
	\$ 1,704,622

#### **Actuarial Assumptions:**

The total pension asset in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 2.25 percent

Salary Increases Graded by years of service, from 6.50 percent at entry to 3.00 percent

Investment Rate of Return 6.50 percent, net of pension plan investment expense

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

#### (8) Pension Plan (Concluded)

#### Actuarial Assumptions (Continued):

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

	Target	Long-Term Expected
Asset Class	<u>Allocation</u>	Real Rate of Return
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
	100.0%	_

#### Discount Rate:

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

#### Sensitivity of Asset to Changes in the Discount Rate:

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

		Current Discount						
	19	6 Decrease		Rate	1% Increase			
City's Proportionate Share of the Net Pension								
(Asset)/Liability	\$	4,193,964	\$	(22,899)	\$	(3,456,797)		

#### Pension Plan Fiduciary Net Position:

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

#### (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, 2017, 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, 2017, the City has a fully vested balance in the cumulative reserve fund of \$135,844. Access to this balance is restricted by SDPAA.

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

#### Property and Building Insurance:

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

#### Worker's Compensation:

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

#### **Unemployment Benefits:**

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

# NOTES TO FINANCIAL STATEMENTS (CONCLUDED) DECEMBER 31, 2017

#### (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, 2017:

#### Governmental:

<u>Loan</u>	<u>Collateral</u>		<b>Maturity</b>	Balance
Fickbohm	None	0%	October 1, 2019	\$ 1,804
Knuckle Brewery	Real Estate	3%	August 5, 2024	17,482
Sturgis ATV	Real Estate	3%	August 5, 2024	17,478
Jake's Garage	Real Estate	3%	December 5, 2024	18,263
Dakota Hardware	Real Estate, Inventory, Equipment	2%	November 1, 2024	70,570
Baldwin	Real Estate	3%	February 5, 2025	18,912
Dominos Real Estate		3%	June 1, 2025	19,238
X-Treme Bikes Inventory, Equipment, Cash		3%	April 1, 2026	84,666
Discovery Kids	Discovery Kids Equipment, Cash		August 1, 2026	164,977
				\$ 413,390

#### (11) Operating Leases

The City leases buildings under non-cancelable operating leases. Rent expense under these leases was \$200,000 for the year ended December 31, 2017.

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

2018	\$ 200,000
2019	220,000
2020	220,000
	\$ 640,000



# BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS GENERAL FUND FOR THE YEAR ENDED DECEMBER 31, 2017

		Original <u>Budget</u>	Final <u>Budget</u>	Actual - Budgetary Basis	<u>Variance</u>
Revenue		Duaget	Duuget	Duugetary Dasis	<u>v ai ialice</u>
	axes:				
311	General Property Taxes	\$ 2,847,350	\$ 2,847,350	\$ 2,848,336	\$ 986
313	General Sales and Use Taxes	2,125,585	2,125,585	1,987,248	(138,337)
315	Amusement Taxes	2,123,383	2,125,365	1,092	852
319	Penalties and Interest on Delinquent Taxes	8,800	8,800	12,007	3,207
	icenses and Permits	576,100	576,100	643,482	67,382
	ntergovernmental Revenue:	370,100	370,100	043,402	07,302
331	Federal Grants	_	38,637	53,542	14,905
334	State Grants	_	-	6,107	6,107
335	Bank Franchise Tax	10,000	10,000	12,082	2,082
335	Liquor Tax Reversion	41,000	41,000	43,057	2,057
335	Motor Vehicle Licenses	80,800	80,800	91,834	11,034
335.1	Local Government Highway and Bridge Fund	145,500	145,500	145,663	163
338	County Highway and Bridge Reserve Tax (25%)	5,855	5,855	5,855	-
338	Port of Entry	12,400	12,400	29,046	16,646
339	Other	4,400	4,400	5,033	633
	Charges for Goods and Services:	,	,	,	
341	General Government	1,418,040	1,593,173	1,630,736	37,563
342	Public Safety	54,750	54,750	44,880	(9,870)
345	Health	1,800	1,800	7,981	6,181
346	Culture and Recreation	249,606	249,606	263,261	13,655
349	Other	_	_	7,787	7,787
F	ines and Forfeits:				
351	Court Fines and Costs	6,000	6,000	8,130	2,130
N	Iiscellaneous Revenue:				
361	Earnings on Deposits and Investments	175,000	175,000	125,934	(49,066)
362	Rentals/Airport Hangar Lease	29,700	29,700	17,716	(11,984)
367	Contributions and Donations - Private Sources	9,550	9,550	131,463	121,913
369	Other	1,200	1,200	10,196	8,996
Total Rev	venue	7,803,676	8,017,446	8,132,468	115,022

CITY OF STURGIS

# BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED) GENERAL FUND FOR THE YEAR ENDED DECEMBER 31,2017

	Original <u>Budget</u>	Final Budget	Actual - Budgetary Basis	Variance
Expenditures	<u>Duager</u>	<u>Daager</u>	Duageur y Dusis	<u>variance</u>
General Government:				
411 Legislative	265,547	269,047	215,933	53,114
414 Financial Administration	1,218,374	1,240,374	1,202,160	38,214
419 Other	1,572,710	1,771,710	1,688,466	83,244
Public Safety:				
421 Police	1,896,880	2,057,517	2,031,410	26,107
422 Fire	152,908	152,908	131,406	21,502
Public Works:				
431 Highway and Streets	866,733	866,733	808,168	58,565
435 Airport	58,425	60,925	60,879	46
437 Cemeteries	122,078	122,078	105,840	16,238
Culture and Recreation:				
451 Recreation	707,694	732,194	727,442	4,752
452 Parks	655,403	655,403	524,649	130,754
455 Library	341,639	341,639	330,688	10,951
456 Auditorium	27,850	27,850	21,922	5,928
485 Capital Outlay	263,733	263,733	217,350	46,383
Total Expenditures	8,149,974	8,562,111	8,066,313	495,798
Excess of Revenue Over (Under) Expenditures	(346,298)	(544,665)	66,155	610,820
Other Financing Sources (Uses)				
391.01 Transfers In	285,133	285,133	110,000	(175,133)
391.04 Compensation for Loss or				
Damage to Capital Assets	-	_	2,681	2,681
511 Transfers Out	(12,000)	(12,000)	(87,975)	(75,975)
<b>Total Other Financing Sources</b>	273,133	273,133	24,706	(248,427)
Net Change in Fund Balance	(73,165)	(271,532)	90,861	362,393
Fund Balance, December 31, 2016	2,750,286	2,750,286	2,750,286	-
Fund Balance, December 31, 2017	\$ 2,677,121	\$ 2,478,754	\$ 2,841,147	\$ 362,393

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, 2017

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Buc</u>	Actual - dgetary Basis	<u>Variance</u>
Revenue					
Taxes:					
313 General Sales and Use Taxes	\$ 1,571,085	\$ 1,571,085	\$	1,496,889	\$ (74,196)
Intergovernmental Revenue:					
331 Federal Grants	-	-		1,005,705	1,005,705
334 State Grants	-	-		665,695	665,695
Miscellaneous Revenue:					
341 Rally Property Leases	255,000	255,000		153,500	(101,500)
367 Contributions and Donations	-	-		27,000	27,000
369 Other	-	-		25,000	25,000
Total Revenue	1,826,085	1,826,085		3,373,789	1,547,704
Expenditures					
General Government:					
419 Other	230,000	230,000		177,066	52,934
Public Safety:					
422 Fire	21,000	21,000		21,297	(297)
Public Works:					
431 Highway and Streets	-	-		33,659	(33,659)
Culture and Recreation:					
451 Recreation	-	-		14,879	(14,879)
470 Debt Service	690,141	3,093,976		3,259,905	(165,929)
900 Capital Outlay	884,944	2,884,944		4,604,146	(1,719,202)
Total Expenditures	1,826,085	6,229,920		8,110,952	(1,881,032)
Excess of Revenue Over (Under) Expenditures	-	(4,403,835)		(4,737,163)	(333,328)
		(1,112,122)		(1,121,122)	(===,===)
Other Financing Sources (Uses)					
391.01 Transfers In	-	-		75,975	75,975
391.29 Long-Term Debt Issued	-	2,403,835		4,333,313	1,929,478
Total Other Financing Sources (Uses)	-	2,403,835		4,409,288	2,005,453
Net Change in Fund Balance	-	(2,000,000)		(327,875)	1,672,125
Fund Balance, December 31, 2016	(304,669)	(304,669)		(304,669)	-
Fund Balance, December 31, 2017	\$ (304,669)	\$ (2,304,669)	\$	(632,544)	\$ 1,672,125

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

# BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS REVOLVING LOAN FUND FOR THE YEAR ENDED DECEMBER 31, 2017

	Original <u>Budget</u>	Final <u>Budget</u>	Bu	Actual - dgetary Basis	<u> </u>	Variance
Revenue						
Miscellaneous Revenue:						
361 Investment Earnings	\$ 10,400	\$ 10,400	\$	9,606	\$	(794)
Total Revenue	10,400	10,400		9,606		(794)
Expenditures 419 Other	10,400	10,400		14,399		(3,999)
Net Change in Fund Balance	-	-		(4,793)		(4,793)
Fund Balance, December 31, 2016	1,312,610	1,312,610		1,312,610		-
Fund Balance, December 31, 2017	\$ 1,312,610	\$ 1,312,610	\$	1,307,817	\$	(4,793)

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

# SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET (LIABILITY) DECEMBER 31,2017

		2017	2016	2015
City's Proportion of the Net Pension Asset (Liability)	0	0.25232870%	0.25267720%	0.24867220%
City's Proportionate Share of Net Pension Asset (Liability)	\$	22,899	\$ (853,519)	\$ 1,054,689
City's Covered Payroll (Plan's Fiscal Year)	\$	4,699,493	\$ 4,639,694	\$ 4,346,273
City's Proportionate Share of the Net Pension Asset (Liability) as a Percentage of its Covered Payroll		0.49%	-18.40%	24.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset (Liability)		100.10%	96.89%	104.10%

# SCHEDULE OF THE CITY'S CONTRIBUTIONS DECEMBER 31, 2017

	2017			2016	2015		
Contractually Required Contribution	\$	299,638	\$	293,505		291,141	
Contributions in Relation to the Contractually Required Contribution Contribution Deficiency (Excess)	•	299,638	<u>•</u>	293,505	•	291,141	
• , ,	Φ	4.700.622	Ф	4.705.520	Ψ	4 696 244	
City's Covered Payroll	\$	4,789,633	\$	4,705,530		4,686,344	
Contributions as a Percentage of Covered Payroll		6.3%		6.2%		6.2%	

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2017

#### (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, 2017.
- 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).



#### COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS DECEMBER 31, 2017

			Special ales Tax <u>Fund</u>	Oc	Hotel cupancy <u>Fund</u>		Library <u>Fund</u>		BID <u>Fund</u>	A	Alice W. Dunn <u>Fund</u>		erpetual iintenance <u>Fund</u>		al Nonmajor vernmental <u>Funds</u>
Assets		Φ	101 505	ф	20.574	Φ	02.050	Ф	1.707	Φ	04.050	Ф	101.027	Ф	501.005
101	Cash	\$	121,737	\$	29,574	\$	83,858	\$	1,737	\$	84,052	\$	181,027	\$	501,985
105	Savings Certificates		-		-		-		-		427,535		-		427,535
108	Sales Tax Receivable		22,929		-		-		-		-		-		22,929
115	Accounts Receivable		2,500		3,018		2,077		54		-		-		7,649
121	Special Assessments Receivable		-		-		-		24,412		-		-		24,412
151	Investment Held for Sale		608,100		-		-		-		-		-		608,100
Total A	Assets	\$	755,266	\$	32,592	\$	85,935	\$	26,203	\$	511,587	\$	181,027	\$	1,592,610
	ties, Deferred Inflows of Resources Fund Balances ies	s,													
202	Accounts Payable	\$	288	\$	-	\$	-	\$	1,590	\$	-	\$	-	\$	1,878
216	Accrued Wages Payable		962		-		-		-		-		-		962
217	Accrued Taxes Payable		147		-		-		-		-		7		154
Total I	iabilities		1,397		-		-		1,590		-		7		2,994
Deferre 246	d Inflows of Resources Unavailable Revenue - Special Assessments		-		-		-		24,412		-		-		24,412
Fund B	alances														
	Nonspendable -														
203.31	Perpetual Care Cemetery		_		_		_		_		_		50,000		50,000
263 99	Nonspendable - Library Trust		_		_		_		_		327,535		50,000		327,535
	Restricted -										321,333				321,333
204.03	Perpetual Care Cemetery		_		_		_		_		_		131,020		131,020
264 04	Restricted - BBB Tax		753,869		_		_		_		_		-		753,869
	Restricted - Library Purposes				_		85,935		_		184,052		_		269,987
	Restricted - BID Tax		_		_		-		201		-		_		201
	Restricted - Hotel Occupation		_		32,592		_		-		_		_		32,592
	Fund Balances		753,869		32,592		85,935		201		511,587		181,020		1,565,204
Total I	iabilities, Deferred Inflows of urces, and Fund Balances	\$	755,266	\$	32,592	\$	85,935	\$	26,203	\$	511,587	\$	181,027	\$	1,592,610

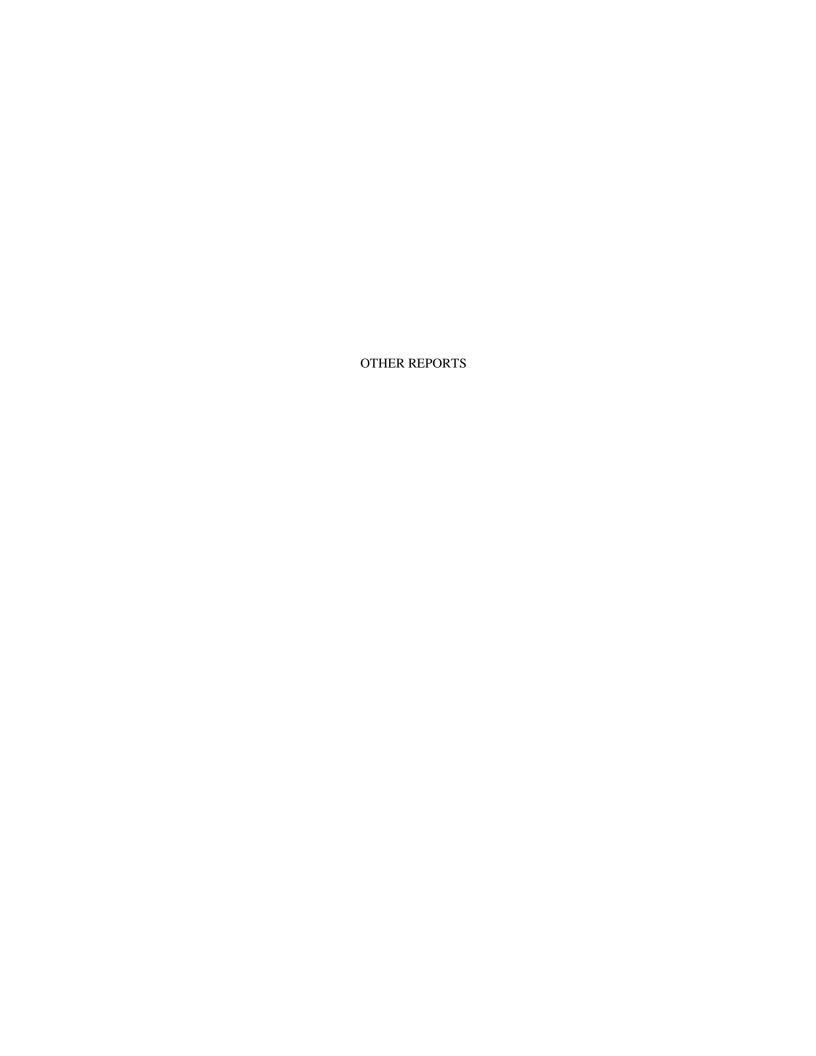
**CITY OF STURGIS** 

# COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2017

	Special Sales Tax <u>Fund</u>	Occ	Hotel supancy Fund	Library <u>Fund</u>	BID <u>Fund</u>	Alice W. Dunn <u>Fund</u>	Perpetual Maintenance <u>Fund</u>		al Nonmajor vernmental <u>Funds</u>
Revenue:									
313 General Sales and Use Taxes	\$ 344,353	\$	-	\$ -	\$ -	\$ -	\$ -	\$	344,353
315 Amusement Taxes	-		32,592	-	-	-	-		32,592
319 Penalties and Interest on									
Delinquent Taxes	-		-	-	204	-	-		204
341 Charges for Goods and									
Services - General Government	-		-	-	17,000	-			17,000
361 Investment Earnings	-		-	37	-	4,955	-		4,992
363 Special Assessments	-		-	-	25,051	-	-		25,051
369 Other	59,502		-	11,165	4,297	-	5,624		80,588
Total Revenue	403,855		32,592	11,202	46,552	4,955	5,624		504,780
Expenditures: 419 General Government - Other	_		_	-	54,842	_	_		54,842
460 Conservation and					ŕ				,
Development	376,373		-	-	-	-	-		376,373
Total Expenditures	376,373		-	-	54,842	-	=		431,215
Net Change in Fund Balances	27,482	,	32,592	11,202	(8,290)	4,955	5,624		73,565
Fund Balance, December 31, 2016	726,387		-	74,733	8,491	506,632	175,396		1,491,639
Fund Balance, December 31, 2017	\$ 753,869	\$ .	32,592	\$ 85,935	\$ 201	\$ 511,587	\$ 181,020	\$ :	1,565,204

# SCHEDULE OF RALLY ACTIVITIES (UNAUDITED) FOR THE YEAR ENDED DECEMBER 31, 2017

Revenue	
Taxes:	
313 Sales Tax	\$ 590,408
320 Licenses and Permits	381,289
Charges for Goods and Services:	
341 General Government	1,284,124
346 Culture & Recreation	9,298
344 Special Sanitation Fee	190,439
Total Revenue	2,455,558
Expenditures	
General Government:	
419 Other	(1,322,723)
Total Expenditures	(1,322,723)
Excess of Revenue over Expenditures	\$ 1,132,835



810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 □ e-mail: ktllp@ktllp.com

# 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 28, 2018

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

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as #2017-001 and #2017-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as #2017-003 and #2017-004 to be significant deficiencies.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance or other matters that are described in the Schedule of Findings as #2017-004 that are required to be reported under *Government Auditing Standards*.

#### City's Response to Findings

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

#### **Purpose of this Report**

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

KETEL THORSTENSON, LLP Certified Public Accountants

August 28, 2018

#### SCHEDULE OF FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2017

#### MATERIAL WEAKNESSES

#### 2017-001 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.

Repeat Finding from Prior Year: Yes, prior year finding 2016-001.

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

Response/Corrective Action Plan: See Corrective Action Plan.

#### 2017-002 FINDING: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed material audit adjustments that were approved and recorded. Adjustments included adjustments to rollforward equity, to record accrued interest on TIF #12 debt, to adjust governmental capital assets, to reclassify sales proceeds, to adjust notes receivable, to adjust the allowance for doubtful accounts in the ambulance fund, to record loan and grants for the Main Street reconstruction project, and to record adjustments for pension activity. Additionally, we proposed reclassification entries with no effect on net income. Furthermore, other entries were proposed as a part of the audit, but were not recorded due to the overall insignificance on the financial statements.

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

Repeat Finding from Prior Year: Yes, prior year finding 2016-002.

Recommendation: We recommend that management consider the following:

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

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

#### SCHEDULE OF FINDINGS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2017

#### SIGNIFICANT DEFICIENCIES

#### 2017-003 FINDING: Internal Controls

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

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

Repeat Finding from Prior Year: Yes, prior year finding 2016-004.

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

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

#### 2017-004 FINDING: Compliance with State Laws

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

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

Fund	Department	Overdraft
Capital Improvement	Fire	(297)
Capital Improvement	Highways and Streets	(33,659)
Capital Improvement	Recreation	(14,879)
Capital Improvement	Debt Service	(165,929)
Capital Improvement	Capital Outlay	(1,719,202)
Revolving Loan	Other	(3,999)

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

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

Repeat Finding from Prior Year: Partially repeated from prior year finding 2016-006.

Recommendation: We recommend the following:

- a. The City re-evaluate their investment policy and invest funds in investments allowed by SDCL 4-5-6.
- b. The City should assess whether the unsecured note payable needs to be re-financed to be in compliance with SDCL 9-25-12.
- c. The City should complete supplemental appropriations for unbudgeted expenditures.

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





### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2017

The City of Sturgis respectfully submits the following summary schedule of prior audit findings from December 31, 2016 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2016 Schedule of Findings.

#### 2016-001 FINDING: Financial Statement Preparation

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

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: As the City has accepted the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2017, see Corrective Action Plan.

#### 2016-002 FINDING: Audit Adjustments

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

Initial Year Report: Originally issued years ago.

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

#### 2016-003 FINDING: Liquor Store Internal Controls

*Status:* In 2016, the City implemented new liquor store software which caused pricing and quantity issues at year end. The City also had a deficiency in segregation of duties due to limited personnel.

*Initial Year Report:* Originally issued in 2015. During 2017, the liquor store internal controls were revised to address the 2016 audit finding. The finding is not repeated in 2017.

#### 2016-004 FINDING: Internal Controls

*Status:* During the course of the year, the Finance Officer had access to the general ledger, prepared and posted journal entries, had access to check stock, was a check signer and also reconciled the bank statement.

Initial Year Report: Originally issued years ago.

*Reasons for Recurrence and Corrective Action Plan:* During 2017, several internal controls were revised, however, not all recommendations were implemented. This finding is altered and repeated in 2017.



# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED) DECEMBER 31, 2017

#### 2016-005 FINDING: Bank Reconciliations

*Status*: The bank reconciliations for the First Interstate checking account did not agree to the general ledger by \$1,403. The Library bank account did not agree to the general ledger by \$615.

Initial Year Report: Originally issued in 2016.

#### 2016-006: FINDING: Certificates of Deposit

*Status:* The City is invested in participating and negotiable certificates of deposit which are in violation of South Dakota Codified Law 4-5-6.

Initial Year Report: Originally issued in 2016.

*Reasons for Recurrence and Corrective Action Plan:* The existing certificates of deposit have not matured. As the certificates of deposit mature, the City will re-evaluate the investment policy and determine if there is a more appropriate investment strategy.



### CORRECTIVE ACTION PLAN DECEMBER 31, 2017

The City respectfully submits the following corrective action plan regarding findings from December 31, 2017 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

2017-001 FINDING: Financial Statement Preparation

Responsible Officials: Fay Bueno, Finance Officer

Corrective Action Plan: The City has accepted the risk associated with Finding #2017-001 regarding the preparation of the financial statements, and will continue to have the independent auditor prepare the annual financial statements. For future audits, Finance Officer, Fay Bueno, and the Senior Accountant, Dotti Oldenkamp, will continue to monitor the financial statement preparation process.

Anticipated Completion Date: Ongoing

#### 2017-002 FINDING: Audit Adjustments

Responsible Officials: Fay Bueno, Finance Officer

Corrective Action Plan: The City will make every effort to make accurate accounting adjustments throughout the year. When recording a journal entry that is unfamiliar to the Finance Officer or Senior Accountant, they will request assistance of the auditor. Capital assets will be reviewed monthly by the Finance Officer and capitalized in a timely manner. The ambulance receivables are being analyzed and adjusted by the Senior Accountant on a monthly basis.

Anticipated Completion Date: Ongoing

#### 2017-003 FINDING: Internal Controls

Responsible Officials: Fay Bueno, Finance Officer

Corrective Action Plan: The Finance Officer and Senior Accountant will review each other's journal entries before posting. All appropriate documentation will be accompanied by a sign-off sheet.

Anticipated Completion Date: August 2018.

#### 2017-004 FINDING: State Law Violations

Responsible Officials: Fay Bueno, Finance Officer

Corrective Action Plan: As the certificates of deposit mature, the City will re-evaluate the investment policy and determine if there is a more appropriate investment strategy. In the future the City will perform supplemental appropriations for overspent budget line items. The City anticipates working in conjunction with South Dakota Municipal League to attempt to have permissive legislation passed by the Legislature.

Anticipated Completion Date: Certificates of deposit will be re-evaluated as they mature. Budgetary overdrafts will be addressed in the next fiscal year. The City will attempt to have Legislation passed in the next legislative session, with an effective date of July 1, 2019.