

CITY OF STURGIS

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2020**



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

ktllp.com

CITY OF STURGIS

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Sturgis
Sturgis, South Dakota

Report on the Financial Statements

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, 2020, 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, 2020, 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.

City Council

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 55, pension information on pages 56 through 57, and notes to required supplementary information on pages 58 and 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 schedule of expenditures of federal awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on page 67 and the combining nonmajor fund financial statements and schedule of rally activities on pages 61 through 65 are presented for purposes of additional analysis and are not a required part of the financial statements. The SEFA and 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 SEFA and 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 SEFA and combining nonmajor fund financial statement information are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule of rally activities on page 65 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2021, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

July 22, 2021

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020

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, 2020. 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 \$2,352,376 more than the \$11,356,289 governmental program expenditures. This includes any transfers in/out. The increase is due to receiving C.A.R.E.S. Act money and sales tax was up for the year.
- In the City's business-type activities, revenues exceeded expenses by \$2,477,107, which includes transfers and any activity due to the disposal of capital assets. The increase is due to receiving grant money from the State for our Wastewater project and our Liquor Store was up in sales during the year. There were contributions from the TIF projects to the enterprise funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
DECEMBER 31, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Figure A-1

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

Government-wide Statements

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

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Government-wide Statements (Continued)

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

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

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

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

Fund Financial Statements

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

The City has two kinds of funds:

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

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
DECEMBER 31, 2020

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position increased eight percent between fiscal year 2019 and 2020. (See Table A-1).

Table A-1 Summarized Statement of Net Position						
	Governmental Activities		Business-Type Activities		Total	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current and Other Assets	\$ 4,491,005	\$ 2,568,371	\$ 7,013,034	\$ 6,776,748	\$ 11,504,039	\$ 9,345,119
Capital Assets	50,633,753	50,460,760	35,717,809	28,142,646	86,351,562	78,603,406
Total Assets	55,124,758	53,029,131	42,730,843	34,919,394	97,855,601	87,948,525
Pension Related Deferred Outflows	87,400	388,445	52,607	212,577	140,007	601,022
Long-Term Debt	11,810,405	12,319,056	14,777,807	10,864,521	26,588,212	23,183,577
Other Liabilities	646,322	695,465	1,828,807	567,721	2,475,129	1,263,186
Total Liabilities	12,456,727	13,014,521	16,606,614	11,432,242	29,063,341	24,446,763
<i>Net Position:</i>						
Net Investment in Capital Assets	39,054,157	38,378,688	21,123,918	17,442,202	60,178,075	55,820,890
Restricted	3,333,536	3,445,097	240,582	401,520	3,574,118	3,846,617
Unrestricted	367,738	(1,420,730)	4,812,336	5,856,007	5,180,074	4,435,277
Total Net Position	42,755,431	40,403,055	26,176,836	23,699,729	68,932,267	64,102,784
Beginning Net Position	40,403,055	40,725,247	23,699,729	22,843,888	64,102,784	63,569,135
Change in Net Position	\$ 2,352,376	\$ (322,192)	\$ 2,477,107	\$ 855,841	\$ 4,829,483	\$ 533,649
Percentage of Change in Net Position	6%	-1%	10%	4%	8%	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.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
DECEMBER 31, 2020

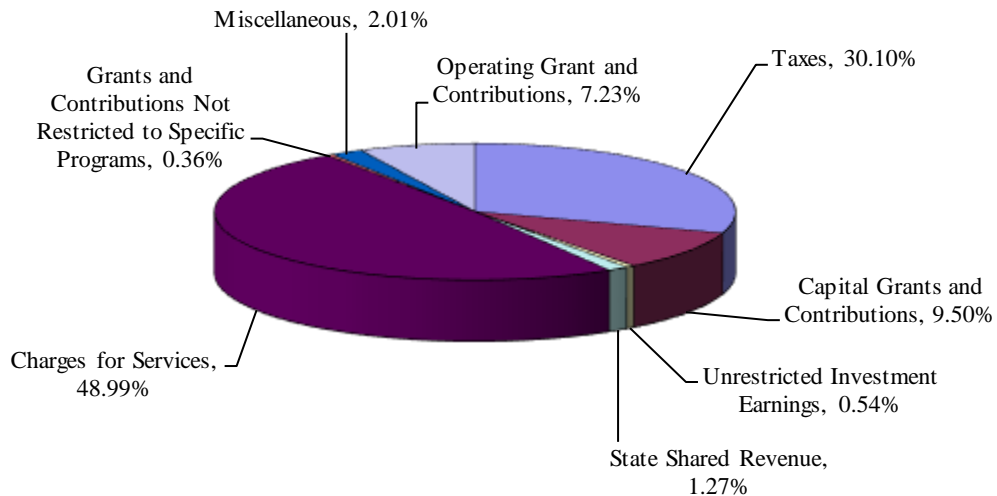
FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City's revenues totaled \$24,679,940 (See Table A-2). Nearly half of the City's revenue comes from charges for services and taxes, with 49 cents of every dollar raised coming from charges for services (primarily liquor and water operations) and 30 cents of every dollar raised coming from some type of tax (See Figure A-2). The other 21 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 \$19,850,507 (See Table A-2). The City's expenses cover a range of services, including road maintenance, parks and recreation services and utility system services. (See Figure A-3).

Figure A-2: Revenues for 2020

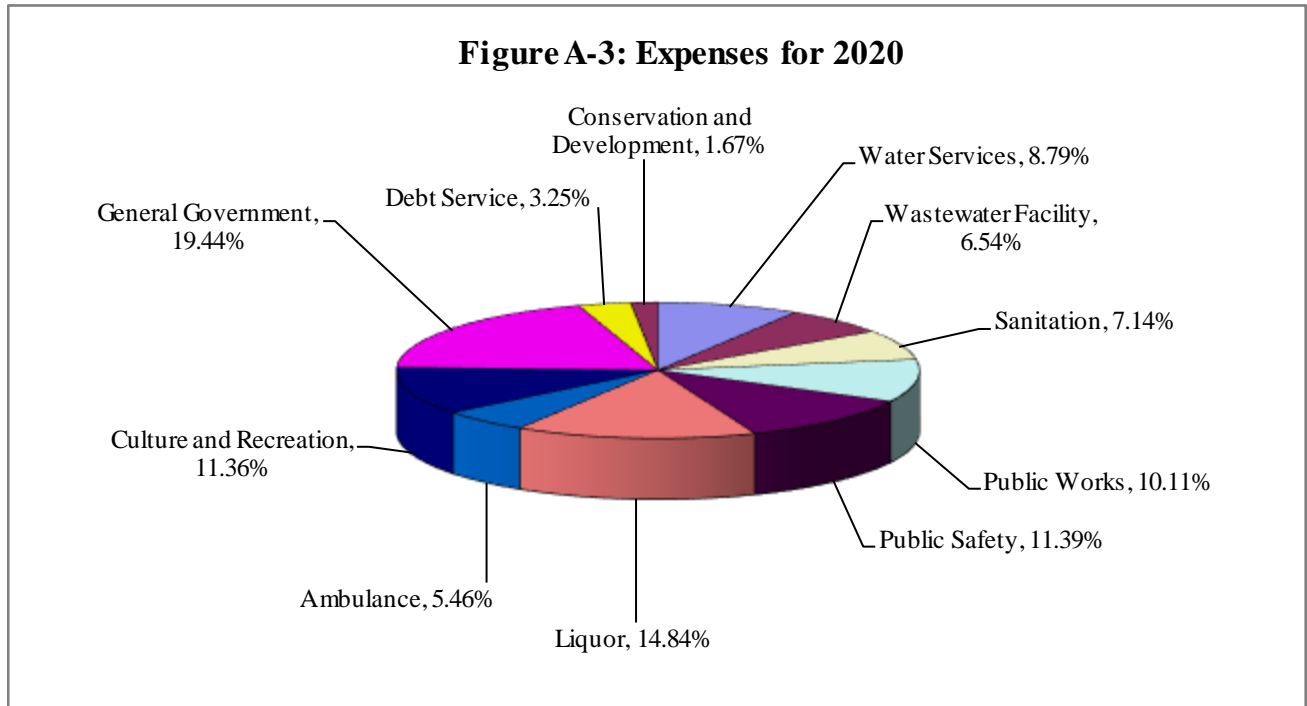


CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
DECEMBER 31, 2020

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)



CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
DECEMBER 31, 2020

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Concluded)

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

Table A-2 Changes in Net Position						
	Governmental Activities		Business - Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues						
Program Revenues						
Charges for Services	\$ 2,746,158	\$ 3,044,593	\$ 9,343,858	\$ 8,430,907	\$ 12,090,016	\$ 11,475,500
Operating Grants and Contributions	1,784,945	14,282	-	-	1,784,945	14,282
Capital Grants and Contributions	1,620,520	398,642	724,292	364,414	2,344,812	763,056
General Revenues						
Taxes	7,427,891	6,837,701	-	-	7,427,891	6,837,701
State Shared Revenue	314,038	291,139	-	-	314,038	291,139
Grants and Contributions not Program Specific	88,760	89,998	-	-	88,760	89,998
Unrestricted Investment Earnings	122,539	141,383	9,574	9,599	132,113	150,982
Miscellaneous	275,521	258,145	221,894	174,751	497,415	432,896
Total Revenues	14,380,372	11,075,883	10,299,618	8,979,671	24,679,990	20,055,554
Expenses						
General Government	3,858,357	3,630,322	-	-	3,858,357	3,630,322
Public Safety	2,257,137	2,408,520	-	-	2,257,137	2,408,520
Public Works	2,007,732	2,211,907	-	-	2,007,732	2,211,907
Culture and Recreation	2,255,553	2,236,927	-	-	2,255,553	2,236,927
Conservation and Development	331,664	323,943	-	-	331,664	323,943
Debt Service	645,846	562,631	-	-	645,846	562,631
Liquor	-	-	2,946,230	2,478,572	2,946,230	2,478,572
Water Services	-	-	1,745,324	1,697,358	1,745,324	1,697,358
Wastewater Services	-	-	1,302,006	1,148,948	1,302,006	1,148,948
Sanitation Services	-	-	1,417,391	1,593,066	1,417,391	1,593,066
Ambulance	-	-	1,083,267	1,229,711	1,083,267	1,229,711
Total Expenses	11,356,289	11,374,250	8,494,218	8,147,655	19,850,507	19,521,905
Excess Before Transfers	3,024,083	(298,367)	1,805,400	832,016	4,829,483	533,649
Transfers	(671,707)	(23,825)	671,707	23,825	-	-
Change in Net Position	2,352,376	(322,192)	2,477,107	855,841	4,829,483	533,649
Ending Net Position	\$ 42,755,431	\$ 40,403,055	\$ 26,176,836	\$ 23,699,729	\$ 68,932,267	\$ 64,102,784

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2020

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

Total revenues of the governmental activities for the City increased 30 percent compared to the prior year, while total expenses remained similar year over year. The overall increase in revenues is due to the grant and contributions for the Airport Improvement Program receiving more funds in 2020, than in 2019, and the City receiving Coronavirus Relief Fund grants in 2020. Sales tax was up 9.9 percent from 2019 to 2020.

Business-Type Activities

Operating revenues of the City's business-type activities increased by 15 percent compared to the prior year, while expenses increased by 4 percent. The overall increase in revenues is due to economic growth and grant money for the Wastewater project and Ambulance Fund in 2020. Increase in expenses is due to increased purchases at the liquor store and higher operating costs.

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

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
DECEMBER 31, 2020

CAPITAL ASSET ADMINISTRATION

By the end of 2020, the City had invested \$86,351,562 in a broad range of capital assets, including buildings, and construction work in progress. (See Table A-3). This amount represents a net increase (including additions and deductions) of \$7,748,156, primarily due to the completion of the Public Works Campus, 9th Street Bridge, Airport Fuel Farm System, and Wastewater Interceptor Project.

Table A-3 Capital Assets (net of depreciation)				
	Governmental Activities		Business-type Activities	
	2020	2019	2020	2019
Land	\$ 2,923,815	\$ 2,923,815	\$ 738,681	\$ 738,681
Construction Work in Progress	1,222,199	2,779,934	9,413,245	1,531,035
Buildings	14,970,291	13,460,441	1,198,109	1,254,645
Improvements Other Than Buildings	29,333,208	29,069,518	23,588,093	23,668,983
Machinery and Equipment	2,184,240	2,227,052	779,681	949,302
Total Capital Assets	\$ 50,633,753	\$ 50,460,760	\$ 35,717,809	\$ 28,142,646

LONG-TERM DEBT

At year-end the City had \$26,588,212 in Revenue Bonds, Notes Payable, and other long-term obligations. This is an increase of \$3,404,635 as shown on Table A-4 below.

Table A-4 Outstanding Debt and Obligations				
	Governmental Activities		Business-type Activities	
	2020	2019	2020	2019
Compensated Absences	\$ 230,809	\$ 236,984	\$ 93,363	\$ 91,057
Tax Increment Financing Obligations	1,867,624	1,900,000	-	-
Notes Payable	5,334,133	5,744,417	2,463,048	2,567,119
Revenue Bonds	4,377,839	4,437,655	12,221,396	8,206,345
Total Outstanding Debt and Obligations	\$ 11,810,405	\$ 12,319,056	\$ 14,777,807	\$ 10,864,521

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

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONCLUDED) DECEMBER 31, 2020

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 \$31,051.35. The City requested a .0204 percent increase in property tax for the year of 2020 payable in 2021. The growth factor of 2019 taxes payable in 2020 was 2.645 percent. The growth factor for 2020 taxes payable in 2021 was 1.827 percent.

The adopted 2021 general fund expenditures budget decreased by .0315 percent due to a reduction in contingency money and no budget for furnishing for the City Hall remodel.

The City's business-type activities, sanitation, wastewater, and water fees decreased by 10 percent and garbage increased by 23 percent in 2021. The Ambulance Fund anticipates a slight increase in revenue for 2021 due to not receiving Ft. Meade monies in 2020.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF STURGIS

**STATEMENT OF NET POSITION
DECEMBER 31, 2020**

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL
Assets					
Cash and Cash Equivalents (Note 2)	\$	3,808,654	\$	2,936,835	\$ 6,745,489
Receivables, Net		1,157,597		1,097,380	2,254,977
Notes Receivable (Note 10)		537,189		-	537,189
Internal Balances (Note 6)		(2,446,722)		2,446,722	-
Inventories		-		344,122	344,122
Other Assets		389,000		-	389,000
Investment Real Estate Held for Sale		608,100		-	608,100
Restricted Assets:					
Cash (Note 5)		64,260		184,212	248,472
Deposits (Note 9)		366,673		-	366,673
Net Pension Asset (Note 8)		6,254		3,763	10,017
Capital Assets (Note 4)					
Land and Construction Work in Progress		4,146,014		10,151,926	14,297,940
Other Capital Assets, Net of Depreciation		46,487,739		25,565,883	72,053,622
Total Assets		55,124,758		42,730,843	97,855,601
Deferred Outflows of Resources					
Pension Related Deferred Outflows of Resources (Note 8)		87,400		52,607	140,007
Total Assets and Deferred Outflows of Resources	\$	55,212,158	\$	42,783,450	\$ 97,995,608
Liabilities					
Accounts Payable	\$	493,286	\$	1,521,508	\$ 2,014,794
Other Current Liabilities		150,536		307,299	457,835
Unearned Revenue		2,500		-	2,500
Noncurrent Liabilities (Note 5):					
Due Within One Year		661,216		334,081	995,297
Due in More Than One Year		11,149,189		14,443,726	25,592,915
Total Liabilities		12,456,727		16,606,614	29,063,341
Net Position					
Net Investment in Capital Assets		39,054,157		21,123,918	60,178,075
Restricted for:					
Debt Service		64,260		184,212	248,472
SDPAA (Note 9)		366,673		-	366,673
Revolving Loans		987,757		-	987,757
BID Tax		93,529		-	93,529
BBB Tax		660,098		-	660,098
Library Purposes		24,316		-	24,316
SDRS Pension (Note 8)		93,654		56,370	150,024
Hotel Occupancy		122,132		-	122,132
Equipment Replacement		400,656		-	400,656
Permanently Restricted Purposes:					
Expendable		142,926		-	142,926
Nonexpendable		377,535		-	377,535
Unrestricted		367,738		4,812,336	5,180,074
Total Net Position		42,755,431		26,176,836	68,932,267
Total Liabilities and Net Position	\$	55,212,158	\$	42,783,450	\$ 97,995,608

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

CITY OF STURGIS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

	----- Program Revenues -----				Net (Expense) Revenue and ----- Changes in Net Position -----		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Primary Government							
Governmental Activities:							
General Government	\$ 3,858,357	\$ 2,462,984	\$ 186,781	\$ 1,385,449	\$ 176,857	\$ -	\$ 176,857
Public Safety	2,257,137	49,116	1,598,164	-	(609,857)	-	(609,857)
Public Works	2,007,732	19,125	-	211,336	(1,777,271)	-	(1,777,271)
Health and Welfare	-	4,316	-	-	4,316	-	4,316
Culture and Recreation	2,255,553	210,617	-	-	(2,044,936)	-	(2,044,936)
Conservation and Development	331,664	-	-	23,735	(307,929)	-	(307,929)
Interest on Long-Term Debt	645,846	-	-	-	(645,846)	-	(645,846)
Total Governmental Activities	11,356,289	2,746,158	1,784,945	1,620,520	(5,204,666)	-	(5,204,666)
Business-Type Activities:							
Liquor	2,946,230	3,222,615	-	-	-	276,385	276,385
Water	1,745,324	1,802,706	-	-	-	57,382	57,382
Wastewater	1,302,006	2,244,656	-	685,369	-	1,628,019	1,628,019
Sanitation	1,417,391	1,222,368	-	-	-	(195,023)	(195,023)
Ambulance	1,083,267	851,513	-	38,923	-	(192,831)	(192,831)
Total Business-Type Activities	8,494,218	9,343,858	-	724,292	-	1,573,932	1,573,932
Total Primary Government	\$ 19,850,507	\$ 12,090,016	\$ 1,784,945	\$ 2,344,812	(5,204,666)	1,573,932	(3,630,734)
General Revenues:							
Taxes:							
Property Taxes					3,205,675	-	3,205,675
Sales Taxes					4,222,216	-	4,222,216
State Shared Revenue					314,038	-	314,038
Grants and Contributions Not Restricted							
to Specific Programs					88,760	-	88,760
Unrestricted Investment Earnings					122,539	9,574	132,113
Miscellaneous Revenue					275,521	221,894	497,415
Transfers					(671,707)	671,707	-
Total General Revenues and Transfers					7,557,042	903,175	8,460,217
Change in Net Position					2,352,376	2,477,107	4,829,483
Net Position, Beginning					40,403,055	23,699,729	64,102,784
Net Position, Ending					\$ 42,755,431	\$ 26,176,836	\$ 68,932,267

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

CITY OF STURGIS

BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2020

	General Fund	Capital Improvement Fund	TIF Funds
Assets			
101 Cash (Note 2)	\$ 120,317	\$ -	\$ 550,773
105 Savings Certificates (Note 2)	1,355,550	-	-
107 Restricted Cash (Note 5)	-	64,260	-
108 Property Taxes Receivable	127,456	-	-
108 Sales Tax Receivable	187,154	165,875	-
115 Accounts Receivable, Net	47,501	-	-
121 Special Assessments Receivable	-	20,297	-
128 Notes Receivable (Note 10)	-	-	126,016
131 Due from Other Funds (Note 6)	1,395,649	-	-
132 Due from Federal/State Government	369,400	168,907	-
133 Advance to Other Funds (Note 6)	1,411,391	-	-
151 Investment Held for Sale	-	-	-
154.1 Restricted Deposits (Note 9)	366,673	-	-
155 Prepaid Expense	389,000	-	-
Total Assets	\$ 5,770,091	\$ 419,339	\$ 676,789
Liabilities, Deferred Inflows of Resources and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable	\$ 281,186	\$ 173,765	\$ 1,915
208 Due to Other Funds (Note 6)	-	1,702,884	249,576
216 Accrued Wages Payable	121,350	-	-
217 Accrued Taxes Payable	1,641	-	-
223 Unearned Revenue - Sponsorship	-	-	-
236 Advance from Other Funds (Note 6)	-	700,000	2,891,302
Total Liabilities	404,177	2,576,649	3,142,793
<i>Deferred Inflows of Resources</i>			
245 Unavailable Revenue - Property Taxes	51,556	-	-
246 Unavailable Revenue - Special Assessments	-	16,322	-
Total Deferred Inflows of Resources	51,556	16,322	-
<i>Fund Balances (Deficits) (Note 1)</i>			
263 Nonspendable	2,167,064	-	-
264 Restricted	-	64,260	-
265 Committed	160,066	-	-
266 Assigned	135,929	-	-
267 Unassigned	2,851,299	(2,237,892)	(2,466,004)
Total Fund Balances (Deficits)	5,314,358	(2,173,632)	(2,466,004)
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 5,770,091	\$ 419,339	\$ 676,789

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

Other Governmental Funds	Total Governmental Funds
\$ 1,512,404	\$ 2,183,494
269,610	1,625,160
-	64,260
-	127,456
38,751	391,780
7,844	55,345
24,412	44,709
411,173	537,189
-	1,395,649
-	538,307
290,000	1,701,391
608,100	608,100
-	366,673
-	389,000
\$ 3,162,294	\$ 10,028,513

\$ 36,420	\$ 493,286
-	1,952,460
-	121,350
13	1,654
2,500	2,500
-	3,591,302
38,933	6,162,552

-	51,556
24,412	40,734
24,412	92,290

667,535	2,834,599
2,431,414	2,495,674
-	160,066
-	135,929
-	(1,852,597)
3,098,949	3,773,671

\$ 3,162,294	\$ 10,028,513
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CITY OF STURGIS

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2020**

Total Fund Balances - Governmental Funds \$ 3,773,671

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

Capital assets used in governmental activities are not current financial resources and
therefore are not reported in the funds. 50,633,753

Net pension asset reported in governmental activities is not an available financial
resource and therefore is not reported in the funds. 6,254

Pension related deferred outflows are components of pension asset and therefore are
not reported in the funds. 87,400

Long-term liabilities, including bonds payable, tax increment financing obligations,
and compensated absences are not due and payable in the current period and
therefore not reported in the funds. (11,810,405)

Accrued interest on long-term debt is not due and payable in the current period and
therefore is not reported in the funds. (27,532)

Assets such as delinquent taxes receivable, special assessments, are not available to
pay for current period expenditures and therefore are deferred in the funds. 92,290

Total Net Position - Governmental Activities \$ 42,755,431

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

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

		<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>TIF Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenue						
	<i>Taxes:</i>					
311	General Property Taxes (Note 3)	\$ 2,864,677	\$ -	\$ 286,506	\$ -	\$ 3,151,183
313	General Sales and Use Taxes	1,946,694	1,756,173	-	519,349	4,222,216
315	Amusement Taxes	420	-	-	54,366	54,786
319	Penalties and Interest					
	on Delinquent Taxes	9,010	-	-	634	9,644
320	Licenses and Permits	732,407	-	-	-	732,407
	<i>Intergovernmental Revenue:</i>					
331	Federal Grants	1,978,634	1,094,399	-	-	3,073,033
334	State Grants	3,028	211,336	-	-	214,364
335	Bank Franchise Tax	23,212	-	-	-	23,212
335	Liquor Tax Reversion	47,854	-	-	-	47,854
335	Motor Vehicle Licenses	99,888	-	-	-	99,888
335.1	Local Government Highway					
	and Bridge Fund	143,084	-	-	-	143,084
338	County Highway and					
	Bridge Reserve Tax	5,855	-	-	-	5,855
338	Port of Entry	13,270	-	-	-	13,270
	<i>Charges for Goods and Services:</i>					
341	General Government	1,606,079	100,000	-	24,498	1,730,577
342	Public Safety	46,940	-	-	-	46,940
345	Health	4,316	-	-	-	4,316
346	Culture and Recreation	210,617	-	-	-	210,617
349	Other	115,462	-	-	-	115,462
	<i>Fines and Forfeits:</i>					
351	Court Fines and Costs	2,176	-	-	-	2,176
	<i>Miscellaneous Revenue:</i>					
361	Investment Earnings	107,420	-	6,016	9,103	122,539
362	Rentals/Airport Hangar Lease	22,102	-	-	-	22,102
363	Special Assessments	-	8,151	-	23,735	31,886
367	Contributions and Donations					
	from Private Sources	51,675	37,085	-	-	88,760
369	Other	23	-	-	12,786	12,809
Total Revenue		10,034,843	3,207,144	292,522	644,471	14,178,980

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>TIF Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Expenditures					
<i>General Government:</i>					
411 Legislative	214,634	-	-	-	214,634
414 Financial Administration	1,335,165	-	-	-	1,335,165
419 Other	1,783,719	850	-	81,533	1,866,102
<i>Public Safety:</i>					
421 Police	1,921,265	-	-	-	1,921,265
422 Fire	118,720	9,694	-	-	128,414
<i>Public Works:</i>					
431 Highway and Streets	952,592	29,840	-	-	982,432
435 Airport	133,645	-	-	-	133,645
437 Cemeteries	101,428	-	-	-	101,428
<i>Culture and Recreation:</i>					
451 Recreation	751,839	16,880	-	35,078	803,797
452 Parks	580,393	3,903	-	-	584,296
455 Library	356,634	-	-	-	356,634
456 Auditorium	81,195	-	-	-	81,195
460 Conservation and Development	-	-	-	331,664	331,664
470 Debt Service	-	838,212	324,916	-	1,163,128
485 Capital Outlay	70,510	2,723,337	510,000	44,839	3,348,686
Total Expenditures	8,401,739	3,622,716	834,916	493,114	13,352,485
Excess of Revenue Over (Under)					
Expenditures	1,633,104	(415,572)	(542,394)	151,357	826,495
Other Financing Sources (Uses)					
391 Transfers In (Note 7)	495,000	-	-	63,107	558,107
391 Compensation for Loss or Damage to Capital Assets	84,087	-	-	-	84,087
391 Sale of Municipal Property	125	691,592	-	9,643	701,360
511 Transfers Out (Note 7)	(122,000)	-	-	(63,107)	(185,107)
Total Other Financing Sources (Uses)	457,212	691,592	-	9,643	1,158,447
Net Change in Fund Balances (Deficit)	2,090,316	276,020	(542,394)	161,000	1,984,942
Fund Balance (Deficit), December 31, 2019	3,224,042	(2,449,652)	(1,923,610)	2,937,949	1,788,729
Fund Balance (Deficit), December 31, 2020	\$ 5,314,358	\$ (2,173,632)	\$ (2,466,004)	\$ 3,098,949	\$ 3,773,671

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

CITY OF STURGIS

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2020

Net Change in Fund Balances - Total Government Funds \$ 1,984,942

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

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

Capital Asset Purchases Capitalized	3,348,686
Depreciation Expense	(1,565,020)
	<u>1,783,666</u>

Capital assets contributed to the City are included in the Statement of Activities as capital outlay expenditures and capitalized in the Statement of Net Position. 94,333

Capital assets transferred to water and sewer proprietary funds. (1,044,707)

In the Statement of Activities, gains on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a gain is recognized. (660,299)

Governmental funds report property taxes and special assessments as revenue when funds become available, but the Statement of Activities includes the property tax and special assessments as revenue when earned. (18,089)

Repayment of bond principal, tax increment financing, and long-term debt are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 502,476

Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures. 6,175

Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported in the funds. The amount represents the change in accrued interest during the current period. 14,806

Changes in the pension related deferred outflows, pension asset and related pension expenses are not reported in the governmental fund statements. (310,927)

Change in Net Position of Governmental Activities \$ 2,352,376

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

CITY OF STURGIS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2020

	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Sanitation Fund</u>	<u>Ambulance Fund</u>	<u>Total Proprietary Funds</u>
Assets and Deferred Outflows of Resources						
Current Assets						
101 Cash (Note 2)	\$ 221,397	\$ 1,054,526	\$ 1,217,704	\$ 443,208	\$ -	\$ 2,936,835
107 Restricted Cash (Note 5)	40,980	143,232	-	-	-	184,212
115 Accounts Receivable, Net	450	151,970	203,310	87,760	601,745	1,045,235
131 Due from Other Funds (Note 6)	-	-	1,302,884	-	-	1,302,884
132 Due from Other Governments	-	-	52,145	-	-	52,145
142 Inventory of Supplies Purchased for Resale	344,122	-	-	-	-	344,122
Total Current Assets	606,949	1,349,728	2,776,043	530,968	601,745	5,865,433
Noncurrent Assets						
133 Advance to Other Funds (Note 6)	-	1,889,911	-	-	-	1,889,911
189 Net Pension Asset (Note 8)	423	733	525	979	1,103	3,763
Capital Assets (Note 4)						
160 Land	6,500	1,800	646,214	84,167	-	738,681
162 Buildings	826,042	181,183	377,613	243,350	359,809	1,987,997
163 Accumulated Depreciation - Buildings	(250,316)	(93,832)	(223,135)	(104,468)	(118,137)	(789,888)
164 Improvements Other Than Buildings	-	18,559,177	16,736,269	22,789	-	35,318,235
165 Accumulated Depreciation - Improvements Other Than Buildings	-	(6,696,446)	(5,015,071)	(18,625)	-	(11,730,142)
166 Machinery and Equipment	55,030	860,614	694,834	2,530,356	1,083,410	5,224,244
167 Accumulated Depreciation - Machinery and Equipment	(37,358)	(727,091)	(647,277)	(2,151,546)	(881,291)	(4,444,563)
168 Construction in Progress	-	478,648	8,934,597	-	-	9,413,245
Total Noncurrent Assets	600,321	14,454,697	21,504,569	607,002	444,894	37,611,483
Total Assets	1,207,270	15,804,425	24,280,612	1,137,970	1,046,639	43,476,916
Deferred Outflows of Resources						
196 Pension Related Deferred Outflows (Note 8)	5,911	10,250	7,341	13,687	15,418	52,607
Total Assets and Deferred Outflows of Resources	\$ 1,213,181	\$ 15,814,675	\$ 24,287,953	\$ 1,151,657	\$ 1,062,057	\$ 43,529,523

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

Liabilities and Net Position	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Sanitation Fund</u>	<u>Ambulance Fund</u>	<u>Total Proprietary Funds</u>
Current Liabilities						
202 Accounts Payable	\$ 163,134	\$ 150,023	\$ 1,127,316	\$ 49,164	\$ 31,871	\$ 1,521,508
208 Due to Other Funds (Note 6)	-	-	-	-	746,073	746,073
215 Accrued Interest Payable	12,486	15,252	29,932	-	-	57,670
216 Accrued Wages Payable	6,478	13,457	7,592	13,841	18,676	60,044
217 Accrued Taxes Payable	21,634	108	-	-	-	21,742
220 Customer Deposits	-	167,843	-	-	-	167,843
226 Bonds Payable - Current (Note 5)	12,641	141,030	87,047	-	-	240,718
233 Accrued Leave Payable (Note 5)	2,533	6,788	32,154	36,407	15,481	93,363
Total Current Liabilities	218,906	494,501	1,284,041	99,412	812,101	2,908,961
Long-Term Liabilities						
231 Bonds Payable (Note 5)	677,810	4,270,411	9,495,505	-	-	14,443,726
Total Liabilities	896,716	4,764,912	10,779,546	99,412	812,101	17,352,687
Net Position						
253.10 Net Investment in Capital Assets	-	8,152,612	11,921,492	606,023	443,791	21,123,918
253.21 Restricted for Revenue Bond Debt Service (Note 5)	40,980	143,232	-	-	-	184,212
253.29 Restricted for SDRS Pension Purposes (Note 8)	6,334	10,983	7,866	14,666	16,521	56,370
253.9 Unrestricted (Deficit)	269,151	2,742,936	1,579,049	431,556	(210,356)	4,812,336
Total Net Position	316,465	11,049,763	13,508,407	1,052,245	249,956	26,176,836
Total Liabilities and Net Position	\$ 1,213,181	\$ 15,814,675	\$ 24,287,953	\$ 1,151,657	\$ 1,062,057	\$ 43,529,523

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Sanitation Fund</u>	<u>Ambulance Fund</u>	<u>Total Proprietary Funds</u>
Total Operating Revenue						
380 Charges for Goods and Services (Note 5)	\$ 3,222,615	\$ 1,802,706	\$ 2,244,656	\$ 1,222,368	\$ 851,513	\$ 9,343,858
Operating Expenses						
410 Personal Services	268,660	503,223	319,715	615,392	806,040	2,513,030
420 Other Current Expense	241,560	685,617	410,285	730,705	203,960	2,272,127
426.2 Materials (Cost of Goods Sold)	2,377,729	-	-	-	-	2,377,729
457 Depreciation (Note 4)	30,381	414,950	364,203	71,294	73,267	954,095
Total Operating Expenses	2,918,330	1,603,790	1,094,203	1,417,391	1,083,267	8,116,981
Operating Income (Loss)	304,285	198,916	1,150,453	(195,023)	(231,754)	1,226,877
Nonoperating Revenue (Expense)						
331 Federal Grants	-	-	-	-	38,923	38,923
334 State Grants	-	-	643,029	-	-	643,029
361 Investment Earnings (Note 2)	9,574	-	-	-	-	9,574
369 Other	1,110	-	-	29,273	138,163	168,546
442 Interest Expense	(27,900)	(141,534)	(207,803)	-	-	(377,237)
Total Nonoperating Revenue (Expense)	(17,216)	(141,534)	435,226	29,273	177,086	482,835
Income before Transfers and Contributions	287,069	57,382	1,585,679	(165,750)	(54,668)	1,709,712
391.04 Compensation for Loss	-	32,366	10,491	10,491	-	53,348
391.07 Capital Contributions	-	703,062	383,985	-	-	1,087,047
391.10 Transfers In (Note 7)	-	-	-	12,000	110,000	122,000
511 Transfers Out (Note 7)	(285,000)	-	(150,000)	(60,000)	-	(495,000)
Total Transfers and Contributions	(285,000)	735,428	244,476	(37,509)	110,000	767,395
Change in Net Position	2,069	792,810	1,830,155	(203,259)	55,332	2,477,107
Net Position, December 31, 2019	314,396	10,256,953	11,678,252	1,255,504	194,624	23,699,729
Net Position, December 31, 2020	\$ 316,465	\$ 11,049,763	\$ 13,508,407	\$ 1,052,245	\$ 249,956	\$ 26,176,836

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

CITY OF STURGIS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Liquor Fund	Water Fund	Wastewater Fund
Cash Flows from Operating Activities			
Receipts from Customers	\$ 3,222,350	\$ 1,807,204	\$ 2,238,907
Payments to Suppliers	(2,592,176)	(552,881)	701,126
Payments to Employees	(251,433)	(472,893)	(288,205)
Net Cash Flows Provided by (Used in) Operating Activities	378,741	781,430	2,651,828
Cash Flows from Noncapital Financing Activities			
Internal Activity, Net	(285,000)	19,481	26,888
Net Cash Flows Provided by (Used in) Noncapital Financing Activities	(285,000)	19,481	26,888
Cash Flows from Capital and Related Financing Activities			
Purchases of Capital Assets	-	(38,649)	(2,749,892)
Principal Paid on Debt	(12,848)	(136,780)	(132,348)
Interest Paid	(28,131)	(142,191)	(222,248)
Other Receipts	1,110	32,366	140,661
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(39,869)	(285,254)	(2,963,827)
Cash Flows Provided by Investing Activities			
Cash Received from Investment Earnings	9,574	-	-
Increase (Decrease) in Cash and Cash Equivalents	63,446	515,657	(285,111)
Cash and Cash Equivalents, 2019	198,931	682,101	1,502,815
Cash and Cash Equivalents, 2020	\$ 262,377	\$ 1,197,758	\$ 1,217,704
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating Income (Loss)	\$ 304,285	\$ 198,916	\$ 1,150,453
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by (Used in) Operating Activities:</i>			
Depreciation Expense	30,381	414,950	364,203
Change in Assets and Liabilities:			
Accounts Receivable	(265)	1,990	(5,749)
Inventory of Supplies Purchased for Resale	26,221	-	-
Prepaid Expenses	2,930	2,413	1,206
Pension Asset	372	1,071	926
Pension Related Deferred Outflows	13,232	33,178	27,595
Accounts Payable	(6,957)	130,232	1,110,205
Accrued Wages Payable	2,432	5,382	1,405
Accrued Taxes Payable	4,919	91	-
Customer Deposits	-	2,508	-
Accrued Leave Payable	1,191	(9,301)	1,584
Net Cash Flows Provided by (Used in) Operating Activities	\$ 378,741	\$ 781,430	\$ 2,651,828
Noncash Capital and Related Financing Activities			
Capital Assets Contributed	\$ -	\$ 703,062	\$ 383,985
Purchase of Capital Assets with Long-term Debt	-	-	4,653,670
Long-Term Debt Forgiveness	-	-	460,714

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

Sanitation Fund	Ambulance Fund	Total Proprietary Funds
\$ 1,210,423	\$ 623,497	\$ 9,102,381
(727,524)	(182,587)	(3,354,042)
(559,250)	(757,611)	(2,329,392)
(76,351)	(316,701)	3,418,947
152,902	139,615	53,886
152,902	139,615	53,886
-	-	(2,788,541)
-	-	(281,976)
-	-	(392,570)
39,764	177,086	390,987
39,764	177,086	(3,072,100)
-	-	9,574
116,315	-	410,307
326,893	-	2,710,740
\$ 443,208	\$ -	\$ 3,121,047

\$ (195,023) \$ (231,754) \$ 1,226,877

71,294	73,267	954,095
(11,945)	(228,016)	(243,985)
-	-	26,221
3,619	1,810	11,978
1,586	1,111	5,066
48,074	37,891	159,970
(438)	19,563	1,252,605
2,767	4,310	16,296
-	-	5,010
-	-	2,508
3,715	5,117	2,306
\$ (76,351)	\$ (316,701)	\$ 3,418,947

\$ - \$ - \$ 1,087,047
- - 4,653,670
- - 460,714

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

(1) Summary of Significant Accounting Policies

Reporting Entity

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

Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020

(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.

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

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

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

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

Proprietary Funds:

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Concluded)

Proprietary Funds (Continued):

Proprietary Funds include:

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

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

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

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

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

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020

(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, 2020 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.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2020

(1) Summary of Significant Accounting Policies (Continued)

Interfund Eliminations and Reclassifications (Continued)

Fund Financial Statements:

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

Capital Assets

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

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

Government-wide Financial Statements:

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

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

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

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

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

Land is an inexhaustible capital asset and is not depreciated.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Fund Financial Statements:

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

Long-Term Liabilities

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

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

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

Program Revenues

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

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

Proprietary Funds Revenue and Expense Classifications

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

Cash and Cash Equivalents

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020

(1) Summary of Significant Accounting Policies (Continued)

Equity Classifications

Government-wide Financial Statements:

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

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

Fund Financial Statements:

The City classifies governmental fund balance as follows:

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

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

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

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

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

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020

(1) Summary of Significant Accounting Policies (Continued)

Equity Classifications (Continued)

Fund Financial Statements (Continued):

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

As of December 31, 2020, the City had the following governmental fund classifications:

		General Fund	Capital Improvement Fund	TIF Funds	Other Governmental Funds	Total Governmental Funds
263	Nonspendable:					
263.02	Nonspendable - Prepaid Expenses	\$ 389,000	\$ -	\$ -	\$ -	\$ 389,000
263.04	Nonspendable - Advances	1,411,391	-	-	290,000	1,701,391
263.49	Nonspendable - SDPAA Reserve (Note 9)	366,673	-	-	-	366,673
263.51	Nonspendable - Perpetual Care Cemetery	-	-	-	50,000	50,000
263.99	Nonspendable - Library Trust	-	-	-	327,535	327,535
		2,167,064	-	-	667,535	2,834,599
264	Restricted:					
264.01	Restricted - Debt Service	-	64,260	-	-	64,260
264.03	Restricted - Perpetual Care Cemetery	-	-	-	142,926	142,926
264.04	Restricted - BBB Tax	-	-	-	660,098	660,098
264.05	Restricted - Library Purposes	-	-	-	24,316	24,316
264.09	Restricted - BID Tax	-	-	-	93,529	93,529
264.97	Restricted - Revolving Loan	-	-	-	987,757	987,757
264.99	Restricted - Hotel Occupancy	-	-	-	122,132	122,132
264.99	Restricted - Equipment Replacement	-	-	-	400,656	400,656
		-	64,260	-	2,431,414	2,495,674
265	Committed					
265.97	Committed - Brick Fund	160,066	-	-	-	160,066
266	Assigned					
266.01	Assigned - Subsequent Year's Budget	135,929	-	-	-	135,929
267	Unassigned	2,851,299	(2,237,892)	(2,466,004)	-	(1,852,597)
Total Fund Balances		\$ 5,314,358	\$ (2,173,632)	\$ (2,466,004)	\$ 3,098,949	\$ 3,773,671

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020

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

Receivables and Payables

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year. Included in accounts receivable at December 31, 2020 is an allowance for doubtful accounts totaling \$10,000 for the general fund. Included in utility accounts receivable at December 31, 2020 are allowances for doubtful accounts totaling approximately \$2,500, \$4,000, \$3,500, and \$1,142,320 for the water, wastewater, sanitation, and ambulance funds, respectively.

Emerging Accounting Standard

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

Subsequent Events

The City has assessed subsequent events through July 22, 2021, the date which the financial statements were available to be issued.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020

(2) Deposits and Investments

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

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

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

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

As of December 31, 2020, the City had the following investments:

Investments	Credit Rating	Maturity	Fair Value
External Investment Pools: SD FIT	N/A	N/A	\$ 804,408
			804,408
Nonnegotiable Certificates of Deposit			2,537,457
			\$ 3,341,865

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts, and counties. SDFIT, as well as the U.S. Government Securities, are measured as Level 2 recurring fair value measurements according to the fair value hierarchy.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020

(2) Deposits and Investments (Continued)

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

Interest Rate Risk:

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

Credit Risk:

State law limits eligible investments for the City as discussed above. The City will further reduce credit risk by limiting the portfolio to interest bearing checking accounts, savings accounts, US Treasury bills, bonds, notes, US Government Agencies, certificates of deposit, certificates of deposit purchased through CDARS, money market mutual funds, 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, 2020, the City's deposits in financial institutions collateralized by securities held by the pledging financial institution were as follows:

	Bank Balance
Insured - FDIC	\$ 556,451
Uninsured, collateralized in accordance with SDCL 4-6A-3	5,711,419
Total Deposits	\$ 6,267,870

Concentration Risk:

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

(3) Property Taxes

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020

(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 12/31/2019	Additions	Transfers/ Deletions	Balance 12/31/2020
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 2,923,815	\$ -	\$ -	\$ 2,923,815
Construction Work in Progress	2,779,934	2,717,993	(4,275,728)	1,222,199
Total Capital Assets, not being Depreciated	5,703,749	2,717,993	(4,275,728)	4,146,014
Capital Assets, being Depreciated:				
Buildings	19,123,923	-	1,977,192	21,101,115
Improvements Other Than Buildings	40,220,004	542,195	593,530	41,355,729
Machinery and Equipment	5,621,135	182,831	-	5,803,966
Total Capital Assets, being Depreciated	64,965,062	725,026	2,570,722	68,260,810
Less Accumulated Depreciation for:				
Buildings	5,663,482	467,342	-	6,130,824
Improvements Other Than Buildings	11,150,486	872,035	-	12,022,521
Machinery and Equipment	3,394,083	225,643	-	3,619,726
Total Accumulated Depreciation	20,208,051	1,565,020	-	21,773,071
Total Governmental Activities Capital Assets, being Depreciated, Net	44,757,011	(839,994)	2,570,722	46,487,739
Total Governmental Capital Assets, Net	\$ 50,460,760	\$ 1,877,999	\$ (1,705,006)	\$ 50,633,753

Depreciation expense was charged to functions as follows:

Public Works	\$ 763,259
Culture and Recreation	365,293
General Government	335,430
Public Safety	101,038
Total Depreciation Expense - Governmental	\$ 1,565,020

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020

(4) Changes in Capital Assets (Continued)

	Balance 12/31/2019	Additions	Transfers/ Deletions	Balance 12/31/2020
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 738,681	\$ -	\$ -	\$ 738,681
Construction Work in Progress	1,531,035	7,442,210	440,000	9,413,245
Total Capital Assets, not being Depreciated	2,269,716	7,442,210	440,000	10,151,926
Capital Assets, being Depreciated:				
Buildings	1,987,997	-	-	1,987,997
Improvements Other Than Buildings	34,671,187	42,341	604,707	35,318,235
Machinery and Equipment	5,243,180	-	(18,936)	5,224,244
Total Capital Assets, being Depreciated	41,902,364	42,341	585,771	42,530,476
Less Accumulated Depreciation for:				
Buildings	733,352	56,536	-	789,888
Improvements Other Than Buildings	11,002,204	727,938	-	11,730,142
Machinery and Equipment	4,293,878	169,621	(18,936)	4,444,563
Total Accumulated Depreciation	16,029,434	954,095	(18,936)	16,964,593
Total Business-Type Activities Capital Assets, being Depreciated, Net	25,872,930	(911,754)	604,707	25,565,883
Total Business-Type Capital Assets, Net	\$ 28,142,646	\$ 6,530,456	\$ 1,044,707	\$ 35,717,809

Depreciation expense was charged to functions as follows:

Liquor	\$ 30,381
Water	414,950
Sanitation	71,294
Wastewater	364,203
Ambulance	73,267
Total Depreciation Expense - Business-Type	\$ 954,095

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2020

(5) Long-Term Debt

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

	Balance 12/31/2019	Additions	Deletions	Balance 12/31/2020	Due Within One Year
Primary Government:					
Governmental Activities:					
Tax Increment Financing Obligations	\$ 1,900,000	\$ -	\$ 32,376	\$ 1,867,624	\$ 179,946
2018 Public Works Building Debt	4,437,655	-	59,816	4,377,839	61,948
Notes Payable	5,744,417	-	410,284	5,334,133	188,513
Compensated Absences	236,984	352,282	358,457	230,809	230,809
Total Governmental Activities	12,319,056	352,282	860,933	11,810,405	661,216
Business-Type Activities:					
2010 Sales Tax Revenue Bond	703,299	-	12,848	690,451	12,641
2011 Drinking Water Revenue Bond	2,978,983	-	47,116	2,931,867	48,646
2012 Drinking Water Revenue Bond	1,569,238	-	89,664	1,479,574	92,384
Wastewater Note Payable	2,567,119	-	104,071	2,463,048	87,047
2018 Clean Water Revenue Bond	2,954,825	4,653,670	488,991	7,119,504	-
Compensated Absences	91,057	140,000	137,694	93,363	93,363
Total Business-Type Activities	10,864,521	4,793,670	880,384	14,777,807	334,081
Total Primary Government	\$ 23,183,577	\$ 5,145,952	\$ 1,741,317	\$ 26,588,212	\$ 995,297

The City has restricted reserves of \$40,980, \$143,232, and \$64,260 at December 31, 2020, in accordance with debt covenants.

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

	Water Fund	Wastewater Fund	2010 and 2018 Sales Tax Bonds
Current Year Principal and Interest	\$ 278,314	\$ 340,151	\$ 254,924
Pledged Revenue	1,802,706	2,244,656	4,222,216

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020

(5) Long-Term Debt (Continued)

Long-term debt at December 31, 2020, is comprised of the following:

Revenue Bonds

Sales Tax Revenue Bonds, Series 2010 (Build America Bonds - Direct Pay), for \$811,000, matures in July 2050, interest at a fixed 4.00 percent, due in annual installments of \$40,980. Sales tax revenues pledged and financed through the Liquor Fund. The City will receive a credit from the Federal government for 35 percent of the interest paid on the bonds. \$ 690,451

Drinking Water Revenue Borrower Bond, 2011 Series for \$3,200,000, matures in September 2054, interest at a fixed 3.25 percent, due in monthly installments of \$11,936. Water revenues pledged and financed through the Water Fund. 2,931,867

Drinking Water Revenue Borrower Bond, Series 2012 for \$2,035,893, matures in July 2034, interest at a fixed 3.00 percent, due in quarterly installments of \$33,935. Water revenues pledged and financed through the Water Fund. 1,479,574

Clean Water Revenue Borrower Bond, Series 2018 for borrowings up to \$16,247,000, with 9.90 percent principal forgiveness not to exceed \$1,600,000, matures in May 2048, interest at a fixed 2.50 percent, payment amounts will be finalized in the future. Wastewater revenue pledged and financed through the Wastewater Fund. 7,119,504

Public Works Building Debt, Series 2018, for \$4,600,000, matures September 2058, interest at a fixed 3.50 percent, due in monthly installments of \$17,848. Sales tax revenues pledged and financed through the Capital Improvements Fund for construction of the Public Works Campus. 4,377,839

Notes Payable

Note Payable to Pioneer Bank for \$3,052,000, matures May 2040, interest at a fixed 3.85 percent, due in monthly installments of \$15,029. Financed through Wastewater Fund. 2,463,048

Note payable to Pioneer Bank for \$5,757,000, interest at a 3.85 percent fixed rate, with principal and interest payments of \$32,547 through May 2040. Financed through the Capital Improvements Fund. 5,334,133

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. 1,867,624

Total Bonds, Notes Payable, and TIF Obligations 26,264,040

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2020

(5) Long-Term Debt (Concluded)*Compensated Absences:*

General Fund	230,809
Liquor Fund	2,533
Water Fund	6,788
Wastewater Fund	32,154
Sanitation Fund	36,407
Ambulance Fund	15,481
Total Compensated Absences	324,172

Total Long-Term Debt	\$ 26,588,212
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The annual requirements to amortize long-term debt outstanding as of December 31, 2020, except for compensated absences are as follows:

	Revenue Bonds		TIF Obligations		Notes Payable		Total	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2021	\$ 166,204	\$ 215,619	\$ 67,534	\$ 179,946	\$ 295,349	\$ 275,560	\$ 529,087	\$ 671,125
2022	161,278	222,736	66,517	180,964	284,550	286,358	512,345	690,058
2023	156,193	230,089	59,113	188,368	273,329	297,579	488,635	716,036
2024	151,060	237,686	51,557	195,924	262,416	308,492	465,033	742,102
2025	145,657	245,536	43,392	204,089	249,579	321,329	438,628	770,954
2026-2030	640,936	1,354,889	86,646	918,333	1,049,509	1,805,033	1,777,091	4,078,255
2031-2035	482,595	1,351,315	-	-	666,855	2,187,686	1,149,450	3,539,001
2036-2040	374,992	1,107,834	-	-	206,317	2,315,144	581,309	3,422,978
2041-2045	283,791	1,316,301	-	-	-	-	283,791	1,316,301
2046-2050	160,698	8,665,130	-	-	-	-	160,698	8,665,130
2051-2055	31,798	1,451,094	-	-	-	-	31,798	1,451,094
2056-2058	-	201,006	-	-	-	-	-	201,006
Total	\$ 2,755,202	\$ 16,599,235	\$ 374,759	\$ 1,867,624	\$ 3,287,904	\$ 7,797,181	\$ 6,417,865	\$ 26,264,040

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, 2020, TIF related property tax revenues were \$286,506. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$292,540 for the year ended December 31, 2020.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020

(6) Individual Fund Interfund Receivable and Payable Balances

Interfund receivable and payable balances at December 31, 2020, are as follows:

Fund	Interfund Receivables	Interfund Payables
<i>Major Funds:</i>		
General Fund	\$ 1,395,649	\$ -
Capital Improvement Fund	-	1,702,884
Ambulance Fund	-	746,073
Wastewater Fund	1,302,884	-
TIF Fund	-	249,576
Total Interfund Receivable and Payable Balances	\$ 2,698,533	\$ 2,698,533

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

Interfund advances balances at December 31, 2020, are as follows:

Fund	Interfund Advance To	Interfund Advance From
<i>Major Funds:</i>		
General Fund	\$ 1,411,391	\$ -
Water Fund	1,889,911	-
TIF Funds	-	2,891,302
Capital Improvement Fund	-	700,000
Nonmajor Funds	290,000	-
Total Interfund Receivable and Payable Balances	\$ 3,591,302	\$ 3,591,302

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 and Water Funds advanced monies to the TIF Funds to assist in funding for TIF #11. The balance will be repaid through 2033 and bears interest at 4.00 percent. The General Fund advanced monies to the TIF Funds to assist in funding for TIF #13. The balance will be repaid through 2025 and bears interest at 5.00 percent. The Water Fund advanced monies to the TIF Funds to assist in funding for TIF #15. The balance will be repaid through 2035 and bears interest at 5.00 percent. The Water Fund advanced monies to the TIF Funds to assist with funding for the Dolan Creek note receivable. The balance will be repaid when the long-term debt on TIF #12 has been repaid by the City. The General and Water Funds advanced monies to the TIF Funds to assist in funding for TIF #16. The balance will be repaid through 2040 and bears interest at 5.00 percent. The General Fund advanced monies to the TIF Funds to assist in funding for TIF #17. The balance will be repaid through 2040 and bears interest at 5.00 percent.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2020

(7) Interfund Transfers

	Transfers In	Transfers Out
General Fund	\$ 495,000	\$ 122,000
Special Sales Tax Fund	-	48,000
BID Fund	48,000	-
Library Fund	-	15,107
Alice Wiggins Dunn (Library)	15,107	-
Liquor Fund	-	285,000
Wastewater Fund	-	150,000
Sanitation Fund	12,000	60,000
Ambulance Fund	110,000	-
Total Transfers	\$ 680,107	\$ 680,107

Transfers between the funds were made to cover general operational costs of the City and to transfer interest income to the General Fund in accordance with the City's policy. Transfers were also made from the Library Fund and to the Alice Wiggins Dunn Fund to close out the Library Fund. Additionally, transfers were also made from the General Fund to the Sanitation Fund to pay back the loan for the Community Center Roof.

(8) Pension Plan

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

Benefits Provided:

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

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

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2020

(8) Pension Plan (Continued)

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2020, 2019, and 2018 were **\$308,000**, \$297,836 and \$302,492 respectively, equal to the required contributions each year.

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

At June 30, 2020, SDRS is 100.04 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, 2020 and reported by the City as of December 31, 2020, are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 17,707,161	\$ 10,658,359	\$ 28,365,520
Less: Proportionate Share of Total Pension Liability	(17,700,907)	(10,654,596)	(28,355,503)
Proportionate Share of Net Pension Asset	\$ 6,254	\$ 3,763	\$ 10,017

At December 31, 2020, the City reported an asset of \$10,017 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2020, 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, 2020, the City's proportion was 0.23066390 percent, which is a decrease of .005 percent from its proportion measured as of June 30, 2019.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020

(8) Pension Plan (Continued)

For the year ended December 31, 2020, the City recognized pension expense of \$787,398. At December 31, 2020, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 38,323	\$ -
Changes in Assumption	(978,699)	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	923,247	-
Changes in Proportion and Difference between City Contributions and Proportionate Share of Contributions	-	-
City Contributions Subsequent to the Measurement Date	157,136	-
Total	\$ 140,007	\$ -

Deferred outflow of resources includes \$157,136 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, 2021. 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:

2021	\$ (115,632)
2022	(89,161)
2023	14,083
2024	173,581
	\$ (17,129)

Actuarial Assumptions:

The total pension asset in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	6.50 percent at entry to 3.00 percent after 25 years of service
Investment Rate of Return	6.50 percent, net of pension plan investment expense
Future COLAS	1.41 percent

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

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

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.).

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2020

(8) Pension Plan (Concluded)

Actuarial Assumptions (Continued):

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	2.0%	1.0%
	<u>100.0%</u>	

Discount Rate:

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

Sensitivity of Asset to Changes in the Discount Rate:

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's Proportionate Share of the Net Pension (Asset)/Liability	\$ 3,886,199	\$ (10,017)	\$ (3,197,046)

Pension Plan Fiduciary Net Position:

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

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2020, the City managed its risks as follows:

Employee Health Insurance:

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2020

(9) Risk Management (Continued)

Liability Insurance:

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

Effective January 1, 2018, the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA a member may withdraw. Within 120 days of withdrawal, or as soon thereafter as the next Annual Budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool's total contributions, along with the member's total contributions, current losses, unpaid losses, and loss expenses, the member's loss ratio, and number of membership years.

A member who withdraws from the SDPAA shall receive a calculated portion of their contributions refunded for unpaid casualty losses, based on the following schedule:

<u>Years</u>	<u>Percentage</u>
1	55%
2	50%
3	40%
4	35%
5	30%
6+	20%

All refunds shall be paid to the withdrawing Member over a five-year term.

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

As of December 31, 2020, the City's balance available to be refunded per the SDPAA was \$366,673, which was an increase of \$16,946 from the previous year. The change in amount available for refund was accounted for as a decrease in insurance expenditures.

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

Property and Building Insurance:

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

Worker's Compensation:

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

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONCLUDED) DECEMBER 31, 2020

(9) Risk Management (Continued)

Worker's Compensation (Continued):

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

Unemployment Benefits:

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

(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, 2020:

Governmental:

<u>Loan</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
Legend Suspensions	Real Estate	3%	August 1, 2029	\$ 66,258
D&M Rentals	Equipment	2%	June 1, 2029	43,210
Jake's Garage	Real Estate	3%	December 5, 2024	10,900
Baldwin	Real Estate	3%	February 5, 2025	11,577
Dominos	Real Estate	3%	June 1, 2025	11,967
Little Promises	Equipment, Cash	2%	December 1, 2027	128,103
Dolan Creek, LLC	Real Estate	5%	December 1, 2032	126,016
A&A Sturgis	Inventory, Equipment	2%	April 1, 2030	93,959
M&S Financial	Real Estate	2%	June 1, 2030	22,671
Strain Morman Law Firm	Real Estate	2%	July 1, 2029	22,528
				\$ 537,189

(11) Operating Lease

The City leases buildings under a non-cancelable operating lease. Rent expense under this lease was \$180,000 for the year ended December 31, 2020.

Future minimum lease payments under the terms of the non-cancelable operating lease is as follows for the years ending December 31, 2021 and 2022: \$180,000.

(12) Current Economic Conditions

The City has been impacted by the effects of the world-wide coronavirus pandemic. The City's revenue consists primarily of funding provided by the State of South Dakota, the federal government, and local counties. The continued uncertainty regarding the local and national economy and labor markets as a result of the coronavirus pandemic could have a significant impact on the City's ability to maintain staffing and continue to provide services to citizens of the City. The City is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the City's financial position is not known.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STURGIS

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
311 General Property Taxes	\$ 2,848,362	\$ 2,848,362	\$ 2,864,677	\$ 16,315
313 General Sales and Use Taxes	1,721,802	1,721,802	1,946,694	224,892
315 Amusement Taxes	750	750	420	(330)
319 Penalties and Interest on Delinquent Taxes	8,325	8,325	9,010	685
320 Licenses and Permits	614,900	614,900	732,407	117,507
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	1,978,634	1,978,634
334 State Grants	-	-	3,028	3,028
335 Bank Franchise Tax	14,550	14,550	23,212	8,662
335 Liquor Tax Reversion	41,675	41,675	47,854	6,179
335 Motor Vehicle Licenses	94,340	94,340	99,888	5,548
335.1 Local Government Highway and Bridge Fund	135,291	135,291	143,084	7,793
338 County Highway and Bridge Reserve Tax (25%)	5,855	5,855	5,855	-
338 Port of Entry	20,595	20,595	13,270	(7,325)
339 Other	1,300	1,300	-	(1,300)
<i>Charges for Goods and Services:</i>				
341 General Government	2,235,570	2,235,570	1,606,079	(629,491)
342 Public Safety	44,551	44,551	46,940	2,389
345 Health	7,885	7,885	4,316	(3,569)
346 Culture and Recreation	257,559	257,559	210,617	(46,942)
349 Other	90,000	90,000	115,462	25,462
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	4,370	4,370	2,176	(2,194)
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	110,031	110,031	107,420	(2,611)
362 Rentals/Airport Hangar Lease	17,500	17,500	22,102	4,602
367 Contributions and Donations - Private Sources	22,836	22,836	51,675	28,839
369 Other	3,900	3,900	23	(3,877)
Total Revenue	8,301,947	8,301,947	10,034,843	1,732,896

CITY OF STURGIS

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
Expenditures				
<i>General Government:</i>				
411 Legislative	702,819	702,819	214,634	488,185
414 Financial Administration	1,196,123	1,430,123	1,335,165	94,958
419 Other	1,807,744	1,807,744	1,783,719	24,025
<i>Public Safety:</i>				
421 Police	2,142,412	2,142,412	1,961,788	180,624
422 Fire	144,491	144,491	118,720	25,771
<i>Public Works:</i>				
431 Highway and Streets	899,248	984,248	952,592	31,656
435 Airport	130,841	175,841	163,632	12,209
437 Cemeteries	125,505	125,505	101,428	24,077
<i>Culture and Recreation:</i>				
451 Recreation	787,576	787,576	751,839	35,737
452 Parks	720,793	720,793	580,393	140,400
455 Library	377,311	377,311	356,634	20,677
456 Auditorium	27,071	92,071	81,195	10,876
Total Expenditures	9,061,934	9,490,934	8,401,739	1,089,195
Excess of Revenue Over (Under) Expenditures	(759,987)	(1,188,987)	1,633,104	2,822,091
Other Financing Sources (Uses)				
391.01 Transfers In	495,000	495,000	495,000	-
391.04 Compensation for Loss or Damage to Capital Assets	84,087	84,087	84,087	-
391 Sale of Municipal Property	-	-	125	125
511 Transfers Out	(110,000)	(110,000)	(122,000)	(12,000)
Total Other Financing Sources	469,087	469,087	457,212	(11,875)
Net Change in Fund Balance	(290,900)	(719,900)	2,090,316	2,810,216
Fund Balance, December 31, 2019	3,224,042	3,224,042	3,224,042	-
Fund Balance, December 31, 2020	\$ 2,933,142	\$ 2,504,142	\$ 5,314,358	\$ 2,810,216

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, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 1,549,621	\$ 1,549,621	\$ 1,756,173	\$ 206,552
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	1,094,399	1,094,399
334 State Grants	-	-	211,336	211,336
<i>Charges for Goods and Services:</i>				
341 General Government	150,000	150,000	100,000	(50,000)
<i>Miscellaneous Revenue:</i>				
363 Special Assessments	-	-	8,151	8,151
367 Contributions and Donations	-	-	37,085	37,085
Total Revenue	1,699,621	1,699,621	3,207,144	1,507,523
Expenditures				
<i>General Government:</i>				
419 Other	-	2,500	850	1,650
<i>Public Safety:</i>				
422 Fire	-	10,000	9,694	306
<i>Public Works:</i>				
431 Highway and Streets	-	30,000	29,840	160
<i>Culture and Recreation:</i>				
451 Recreation	-	17,000	16,880	120
452 Parks	-	4,000	3,903	97
455 Library	-	-	-	-
470 Debt Service	629,991	629,991	838,212	(208,221)
900 Capital Outlay	1,069,630	3,872,630	2,723,337	1,149,293
Total Expenditures	1,699,621	4,566,121	3,622,716	943,405
Excess of Revenue Over (Under) Expenditures	-	(2,866,500)	(415,572)	2,450,928
Other Financing Sources (Uses)				
391 Sale of Municipal Property	-	-	691,592	691,592
Total Other Financing Sources (Uses)	-	-	691,592	691,592
Net Change in Fund Balance	-	(2,866,500)	276,020	3,142,520
Fund Balance, December 31, 2019	(2,449,652)	(2,449,652)	(2,449,652)	-
Fund Balance, December 31, 2020	\$ (2,449,652)	\$ (5,316,152)	\$ (2,173,632)	\$ 3,142,520

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

CITY OF STURGIS

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET (LIABILITY)
DECEMBER 31, 2020**

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

CITY OF STURGIS

**SCHEDULE OF THE CITY'S CONTRIBUTIONS
DECEMBER 31, 2020**

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

CITY OF STURGIS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020

(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, 2020.
7. Formal budgetary integration is employed as a management control device during the year for the general fund and major special revenue funds.
8. The financial statements prepared in conformity with US GAAP applied within the context of the modified accrual basis of accounting present capital outlay expenditure information in a separate category of expenditures. For the general fund, under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

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

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

Changes from Prior Valuation: The June 30, 2020 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2019 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

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

Benefit Provision Changes: Legislation enacted in 2020 established a Qualified Benefit Preservation Arrangement (QBPA) under Section 415(m) of the Internal Revenue Code (IRC). The QBPA is effective July 1, 2020 and pays a portion of SDRS benefits that are restricted by IRC Section 415(b). The total benefits paid from SDRS and the QBPA will be limited to the applicable 415(b) annual limit, unreduced for early commencement if Members retire prior to age 62 and actuarially increased for late retirement up to age 70 if Members retire after age 65. The Actuarial Valuation considers benefits payable from both SDRS and the QBPA.

CITY OF STURGIS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2020**

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

Legislation enacted in 2020 also brought the assets and the liabilities of the South Dakota Department of Labor and Regulation Plan into SDRS effective July 1, 2020. With the exception of the accounting results presented in Section 6 of this report, all exhibits include the assets, liabilities, and member counts of the former Department of Labor and Regulation Plan Members.

Actuarial Assumption Changes: The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2019 and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019 and is 1.41% as of June 30, 2020.

The changes in actuarial assumptions due to the 1.41% restricted maximum COLA decreased the Actuarial Accrued Liability by \$595 million, or 4.6% of the Actuarial Accrued Liability based on the 1.88% restricted maximum COLA.

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

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF STURGIS

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2020

	Special Sales Tax <u>Fund</u>	Hotel Occupancy <u>Fund</u>	Revolving Loan <u>Fund</u>	Equipment Replacement <u>Fund</u>	BID <u>Fund</u>	Alice W. Dunn <u>Fund</u>
Assets						
101 Cash	\$ 29,427	\$ 122,132	\$ 301,897	\$ 385,076	\$ 129,082	\$ 351,851
105 Savings Certificates	-	-	269,610	-	-	-
108 Sales Tax Receivable	23,171	-	-	15,580	-	-
115 Accounts Receivable	-	-	5,077	-	2,767	-
121 Special Assessments Receivable	-	-	-	-	24,412	-
128 Notes Receivable	-	-	411,173	-	-	-
133 Advance to Other Funds	-	-	290,000	-	-	-
151 Investment Held for Sale	608,100	-	-	-	-	-
Total Assets	\$ 660,698	\$ 122,132	\$ 1,277,757	\$ 400,656	\$ 156,261	\$ 351,851
Liabilities, Deferred Inflows of Resources, and Fund Balances						
<i>Liabilities</i>						
202 Accounts Payable	\$ 600	\$ -	\$ -	\$ -	\$ 35,820	\$ -
217 Accrued Taxes Payable	-	-	-	-	-	-
223 Unearned Revenue - Sponsorship	-	-	-	-	2,500	-
Total Liabilities	600	-	-	-	38,320	-
<i>Deferred Inflows of Resources</i>						
246 Unavailable Revenue - Special Assessments	-	-	-	-	24,412	-
Total Deferred Inflows of Resources	-	-	-	-	24,412	-
<i>Fund Balances</i>						
263.04 Nonspendable - Advances	-	-	290,000	-	-	-
263.51 Nonspendable - Perpetual Care Cemetery	-	-	-	-	-	-
263.99 Nonspendable - Library Trust	-	-	-	-	-	327,535
264.03 Restricted - Perpetual Care Cemetery	-	-	-	-	-	-
264.04 Restricted - BBB Tax	660,098	-	-	-	-	-
264.05 Restricted - Library Purposes	-	-	-	-	-	24,316
264.09 Restricted - BID Tax	-	-	-	-	93,529	-
264.97 Restricted - Revolving Loan	-	-	987,757	-	-	-
264.99 Restricted - Hotel Occupation	-	122,132	-	-	-	-
264.99 Restricted - Equipment Replacement	-	-	-	400,656	-	-
Total Fund Balances	660,098	122,132	1,277,757	400,656	93,529	351,851
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 660,698	\$ 122,132	\$ 1,277,757	\$ 400,656	\$ 156,261	\$ 351,851

Perpetual Maintenance Fund	Total Nonmajor Governmental Funds
\$ 192,939	\$ 1,512,404
-	269,610
-	38,751
-	7,844
-	24,412
-	411,173
-	290,000
-	608,100
\$ 192,939	\$ 3,162,294

\$ -	\$ 36,420
13	13
-	2,500
13	38,933

-	24,412
-	24,412

-	290,000
50,000	50,000
-	327,535
142,926	142,926
-	660,098
-	24,316
-	93,529
-	987,757
-	122,132
-	400,656
192,926	3,098,949

\$ 192,939	\$ 3,162,294
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CITY OF STURGIS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Special Sales Tax Fund	Hotel Occupancy Fund	Revolving Loan Fund	Equipment Replacement Fund	Library Fund	BID Fund
Revenue:						
313 General Sales and Use Taxes	\$ 326,199	\$ -	\$ -	\$ 193,150	\$ -	\$ -
315 Amusement Taxes	-	54,366	-	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	-	-	-	634
341 Charges for Goods and Services - General Government	-	-	-	-	-	24,498
361 Investment Earnings	-	-	9,103	-	-	-
363 Special Assessments	-	-	-	-	-	23,735
369 Other	-	-	-	-	-	3,662
Total Revenue	326,199	54,366	9,103	193,150	-	52,529
Expenditures:						
419 General Government - Other	500	-	-	-	-	81,033
451 Culture and Recreation	-	35,078	-	-	-	-
460 Conservation and Development	287,348	-	44,316	-	-	-
485 Capital Outlay	-	-	-	44,839	-	-
Total Expenditures	287,848	35,078	44,316	44,839	-	81,033
Other Financing Sources (Uses)						
391 Transfers In	-	-	-	-	-	48,000
391 Sale of Municipal Property	-	-	-	9,643	-	-
511 Transfers Out	(48,000)	-	-	-	(15,107)	-
Total Other Financing Sources (Uses)	(48,000)	-	-	9,643	(15,107)	48,000
Net Change in Fund Balances	(9,649)	19,288	(35,213)	157,954	(15,107)	19,496
Fund Balance, December 31, 2019	669,747	102,844	1,312,970	242,702	15,107	74,033
Fund Balance, December 31, 2020	\$ 660,098	\$ 122,132	\$ 1,277,757	\$ 400,656	\$ -	\$ 93,529

Alice W. Dunn Fund	Perpetual Maintenance Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 519,349
-	-	54,366
-	-	634
-	-	24,498
-	-	9,103
-	-	23,735
6,755	2,369	12,786
6,755	2,369	644,471
-	-	81,533
-	-	35,078
-	-	331,664
-	-	44,839
-	-	493,114
15,107	-	63,107
-	-	9,643
-	-	(63,107)
15,107	-	9,643
21,862	2,369	161,000
329,989	190,557	2,937,949
\$ 351,851	\$ 192,926	\$ 3,098,949

CITY OF STURGIS

**SCHEDULE OF RALLY ACTIVITIES (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

Revenue

Taxes:

313 Sales Tax \$ 587,913

320 Licenses and Permits 321,887

Charges for Goods and Services:

341 General Government 1,220,816

344 Special Sanitation Fee 149,014

Total Revenue 2,279,630

Expenditures

General Government:

419 Other (1,140,684)

Special Sanitation:

419 Other (92,570)

Donations to Charities:

419 Other (48,911)

Total Expenditures (1,282,165)

Excess of Revenue over Expenditures \$ 997,465

SINGLE AUDIT SECTION

CITY OF STURGIS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Identifying Number	CFDA Number	Amount
<i>U.S. Department of Transportation:</i>			
Pass-Through the S.D. Department of Transportation			
Airport Improvement Program - Airport Dev/Noise			
Program Implementation	3-46-0054-15-2019	20.106	\$ 61,631
COVID-19 - Airport Improvement Program - T-Hangar	3-46-0054-16-2020	20.106	1,032,768
COVID-19 - Airport Improvement Program	3-46-0054-17-2020	20.106	30,000
Total U.S. Department of Transportation			1,124,399
<i>U.S. Department of Treasury:</i>			
Pass-Through the S.D. Bureau of Finance and Management			
COVID-19 - Coronavirus Relief Fund	N/A	21.019	1,781,917
<i>U.S. Department of Homeland Security:</i>			
Pass-Through the S.D. Department of Public Safety - Office of			
Emergency Management			
Disaster Grants - Public Assistance (Flooding)	N/A	97.036	142,025
Homeland Security Grant Program	N/A	97.067	48,732
Total U.S. Department of Homeland Security			190,757
Total			\$ 3,097,073

Note 1: This schedule is presented on the modified accrual basis of accounting.

Note 2: The City did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.



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

City Council
City of Sturgis
Sturgis, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **CITY OF STURGIS** (the City) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 22, 2021.

Internal Control over Financial Reporting

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

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 and Questioned Costs as #2020-001 and #2020-002 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as #2020-003 to be a significant deficiency.

Compliance and Other Matters

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

City Council
City of Sturgis

City's Response to Findings

The City's response to the findings identified in our audit is described in the Corrective Action Plan. 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.

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

KETEL THORSTENSON, LLP
Certified Public Accountants

July 22, 2021



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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

City Council
City of Sturgis
Sturgis, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the City's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

City Council
City of Sturgis

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



KETEL THORSTENSON, LLP
Certified Public Accountants

July 22, 2021

CITY OF STURGIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2020

A. SUMMARY OF AUDIT RESULTS

1. The Independent Auditor's Report expresses unmodified opinions on all of the financial statements of the City of Sturgis (the City).
2. Material weaknesses and a significant deficiency disclosed during the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the City's financial statements were disclosed during the audit.
4. No material weaknesses were disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses unmodified opinions on all major programs, as listed in #7.
6. No audit findings relative to the major federal award programs for the City are reported in part C of this schedule.
7. The programs tested as major programs were Airport Improvement Program and Coronavirus Relief Fund (CFDA #20.106 and #21.019).
8. The threshold for distinguishing type A and B programs was \$750,000.
9. The City was not determined to be a low-risk auditee.

B. FINDINGS -- FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

#2020-001 FINDING: Financial Statement Preparation

Federal Program Affected: None

Compliance Requirement: None

Questioned Costs: None

Condition and Cause: 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 and presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for municipalities of your size.

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

Repeat Finding from Prior Year: Yes, prior year finding #2019-001.

CITY OF STURGIS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

#2020-001 FINDING: Financial Statement Preparation (Continued)

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

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

#2020-002 FINDING: Audit Adjustments

Federal Program Affected: None

Compliance Requirement: None

Questioned Costs: None

Condition and Cause: During the course of our engagement, we proposed material audit adjustments that were approved and recorded. Adjustments included an entry to rollforward fund balance/net position, to adjust sponsorship revenue, to adjust receivables and deferrals, to adjust special assessment revenue and receivable, to record state grant revenue and receivable, to record loan forgiveness, to adjust prepaid expenses, to record capital contributions from TIF #16, to adjust governmental capital assets, to record retainage payable on construction in progress, to record loan payments and grants, to record adjustments on uncollectible receivables and write-offs, to record the removal of bank accounts not belonging to the City, 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 2019-002.

Recommendation: We recommend that management consider the following:

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

CITY OF STURGIS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONCLUDED)

MATERIAL WEAKNESSES (CONCLUDED)

#2020-002 FINDING: Audit Adjustments (Continued)

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

SIGNIFICANT DEFICIENCY

#2020-003 FINDING: Budgetary Overdraft

Federal Program Affected: None

Compliance Requirement: None

Questioned Costs: None

Condition and Cause: The City has a budgetary overdraft in the following department:

Fund	Department	Overdraft
Capital Improvement	Debt Service	\$ (208,221)

Criteria and Effect: The City did not follow state law, which could result in additional inquiries from state officials regarding such violation. Specifically, South Dakota Codified Law 9-21-9 limits expenditures to appropriated amounts.

Repeat Finding from Prior Year: Partially repeated from prior year finding #2019-004.

Recommendation: 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.

MANAGEMENT RESPONSE



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2019

The City of Sturgis respectfully submits the following summary schedule of prior audit findings from December 31, 2019 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2019 Schedule of Findings.

#2019-001 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 2020, see Corrective Action Plan.

#2019-002 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.

#2019-003: FINDING: Ambulance Fund

Status: The City made efforts to ensure that review of billing processes are in place to ensure that all ambulance billings are recorded in the Billing Bridge software and reconciled to the general ledger.

Initial Year Report: 2019

Reasons for Recurrence and Corrective Action Plan: The finding is not repeated in 2020.

#2019-004: FINDING: Compliance with State Laws

Status: The City is in violation of two state laws:

- a. The City is invested in participating and negotiable certificates of deposit, during the year ended December 31, 2020 the City has made revisions and the comment is not repeated in 2020.
- b. The City has budgetary overdrafts.

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

Reasons for Recurrence and Corrective Action Plan: The City did not perform supplemental appropriations for overspent budget line items. This finding is partially repeated in 2019, see Corrective Action Plan.



**CORRECTIVE ACTION PLAN
DECEMBER 31, 2020**

The City respectfully submits the following corrective action plan regarding findings from December 31, 2020 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

#2020-001 FINDING: Financial Statement Preparation

Responsible Officials: Fay Bueno, Finance Officer

Corrective Action Plan: The City has accepted the risk associated with Finding #2020-001 regarding the preparation of the financial statements and will continue to have the independent auditor prepare the annual financial statements. For future audits, Finance Officer Fay Bueno will continue to monitor the financial statement preparation and determine if any modification is necessary.

Anticipated Completion Date: Ongoing

#2020-002 FINDING: Audit Adjustments

Responsible Officials: Fay Bueno, Finance Officer

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

Anticipated Completion Date: Ongoing

#2020-003 FINDING: Budgetary Overdraft

Responsible Officials: Fay Bueno, Finance Officer

Corrective Action Plan: Every effort will be made to supplement the budget as needed.

Anticipated Completion Date: An ongoing effort to make sure there is no budgetary overdrafts in the departments.