

MUNICIPALITY OF DELL RAPIDS
AUDIT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2018



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

October 30, 2019

Justin Weiland, City Administrator
Municipality of Dell Rapids
PO Box 10
Dell Rapids, SD 57022

We have reviewed and accepted your audit report on the:

Municipality of Dell Rapids
(For the Year Ended December 31, 2018)

Our review was limited to the report and did not include a review of the working papers.

It is our understanding that the Dell Rapids Tribune is the official newspaper for the Municipality of Dell Rapids. If this is not the case, please inform me of the name of the current official newspaper.

Please present a copy of this letter to the governing board to indicate our acceptance of the audit report.

Yours very truly,

Martin L. Guindon, CPA
Auditor General

MLG:sld

cc: KMWF & Associates, PC
Certified Public Accountants
301 East 4th Street, Suite #2
Dell Rapids, SD 57022-0165

MUNICIPALITY OF DELL RAPIDS
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KMWF & Associates, PC
Certified Public Accountants

**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
Municipality of Dell Rapids
Dell Rapids, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 the Municipality of Dell Rapids, South Dakota (Municipality), as of December 31, 2018 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated September 20, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality'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 have not been identified. However, as described in the accompanying Schedule of Current Audit Findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

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 Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described

in the accompanying Schedule of Current Audit Findings as item 2018-001 to be a material weakness.

Compliance and Other Matters

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

Municipality's Response to Findings

The Municipality's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. The Municipality's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Municipality's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the entity'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.

KMWF & Associates, PC

Dell Rapids, South Dakota
September 20, 2019

MUNICIPALITY OF DELL RAPIDS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

Prior Audit Findings

Finding No. 2017-001:

A lack of segregation of duties existed for the accounting department. This finding has not been corrected and is restated as current audit finding number 2018-001.

Finding No. 2017-002:

Noncompliance with SDCL 9-21-9 by incurring expenditures in excess of the budgeted amounts. This finding has not been corrected and is restated as current audit finding number 2018-002.

MUNICIPALITY OF DELL RAPIDS
SCHEDULE OF CURRENT AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

Current Audit Findings:

Internal Control – Related Findings – Material Weaknesses:

Finding No. 2018-001:

Criteria: Internal controls should be in place that provide reasonable assurance that management directives are carried out in regards to the recording and processing of financial data. This is the sixteenth consecutive audit report in which this finding has appeared.

Condition Found: A lack of segregation of duties exists for the accounting department. This comment is a result of the size of the entity which precludes staffing at a level sufficient to provide an ideal environment for internal controls.

Effect: Because of the size of the entity and lack of segregation of duties, employees perform related functions.

Recommendation: Implementation of compensating controls.

Management's Response: The City agrees with this finding and is aware of the weakness. Due to the small size of the entity, management will continue to provide close scrutiny to financial accuracy. The council has started matching both checks and vouchers before approving the invoice for payment. The City also started segregating check signing responsibilities to help segregate some of the duties within the accounting department.

Compliance and Other Matters:

Finding No. 2018-002:

Criteria: South Dakota Codified Law (SDCL) 9-21-9 requires that expenditures be limited to appropriated amounts. This is the fifth consecutive audit report in which this finding has appeared.

Condition Found: The City of Dell Rapids incurred expenditures in excess of the budgeted amounts.

Effect: The City is not in compliance with SDCL 9-21-9 and incurred expenditures without proper authority.

Recommendation: We recommend that the City stay within its budget and if necessary, use supplemental appropriations as allowed by state statute.

Management's Response: The City agrees that budget amounts were exceeded. The council will ensure appropriate oversight is in place within the Finance and Utilities Committee, Administration and the Finance Office to take appropriate action to prevent reoccurrence.



KMWF & Associates, PC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

City Council
Municipality of Dell Rapids
Dell Rapids, 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 Municipality of Dell Rapids, South Dakota (Municipality) as of December 31, 2018 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 of 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 Municipality'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 Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Dell Rapids as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 7 through 19, the Budgetary Comparison Schedules on pages 51 through 53, and the Pension Schedules on pages 54 through 56 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 about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2019 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 effectiveness of the Municipality's 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 Municipality's internal control over financial reporting and compliance.

KMWF + Associates, PC

Dell Rapids, South Dakota
September 20, 2019

MUNICIPALITY OF DELL RAPIDS MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2018

This section of Municipality of Dell Rapids (Municipality) financial report presents our discussion and analysis of the Municipality's financial performance during the fiscal year ended on December 31, 2018. Please read it in conjunction with the Municipality's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the Municipality's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$2,877,701 and \$2,468,587 governmental expenditures. This is a decrease from the prior year when revenue exceeded expenditures by \$616,820.
- In the Municipality's business-type activities, revenues were \$3,532,916 and \$2,494,563 business-type expenditures. This is a decrease from the prior year when revenue exceeded expenditures by \$3,052,929.
- The combined net position of the Municipality from prior year is an increase of \$1,447,468.

OVERVIEW OF THE FINANCIAL STATEMENTS

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 Municipality:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Municipality's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Municipal government, reporting the Municipality'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- and long-term financial information about the activities that the Municipality operates like businesses. The Municipality has three proprietary funds – the Water Fund, the Sewer Fund, and the Liquor 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.

Figure A-2 summarizes the major features of the Municipality's financial statements, including the portion of the Municipal 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-2

Major Features of Municipality of Dell Rapids's Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire municipal government	The activities of the municipality that are not proprietary, such as finance office, street department and parks	Activities the Municipality operates similar to private businesses, the water and sewer systems and liquor fund
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *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 Municipality as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

- **Governmental Activities** -- This category includes the most of the Municipality's basic services, such as finance office, 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 Municipality charges a fee to customers to help cover the costs of certain services it provides. The Municipality's water and sewer systems are included here as well as the Municipality's Liquor Fund.

Fund Financial Statements

The fund financial statements provide more detailed information about the Municipality's most significant funds -- not the Municipality as a whole. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The Municipal 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 Municipality has two kinds of funds:

- **Governmental Funds** -- Most of the Municipality'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 Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** -- Services for which the Municipality charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Municipality's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

The Municipality's combined net position increased by 5.87% between fiscal year 2017 and 2018 – or an increase of \$1,447,469 (See Table A-1).

	Governmental Activities		Business-Type Activities		Total		Total % Changed
	2017	2018	2017	2018	2017	2018	
Current and Other Assets	3,704,892	3,700,838	3,085,705	3,188,406	6,790,597	6,889,244	1.45%
Capital Assets	11,743,930	12,174,444	13,858,908	15,169,451	25,602,838	27,343,895	6.80%
Total Assets	15,448,822	15,875,282	16,944,613	18,357,857	32,393,435	34,233,139	5.68%
AP and Other Current							
Liabilities	124,876	159,160	660,364	810,292	785,240	969,452	23.46%
Noncurrent Liabilities	426,083	409,146	6,512,358	6,737,320	6,938,441	7,146,467	3.00%
Total Liabilities	550,959	568,306	7,172,722	7,547,612	7,723,681	8,115,919	5.08%
Net Position:							
Net Investment in							
Capital Assets	11,334,930	11,782,348	7,026,700	8,095,081	18,361,630	19,877,429	8.26%
Restricted	324,068	302,641	714,740	681,005	1,038,808	983,646	-5.31%
Unrestricted	3,238,865	3,221,987	2,030,451	2,034,159	5,269,316	5,256,146	-0.25%
Total Net Position	14,897,863	15,306,976	9,771,891	10,810,245	24,669,754	26,117,221	5.87%

The Statement of Net Position presents the assets and liabilities in order of relative liquidity. 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. Long-term liabilities of the Municipality, consisting of compensated absences payable, sales tax revenue bonds payable and water revenue bonds payable, have been reported in this manner on the Statement of Net Position. The difference between the Municipality's assets and liabilities is its net position.

The Municipality's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The increase in net position invested in capital assets, net of related debt relates to the Municipality's purchase of multiple improvement projects, library furniture and equipment, library books, and new street department equipment for use by the appropriate Municipal Departments.

The Municipality's restricted net position represent resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statute, federal regulations or debt covenants. There was an increase in restricted net position due to additional debt service and new GASB 68 standards of reporting SDRS Pension on the face of the financial statements.

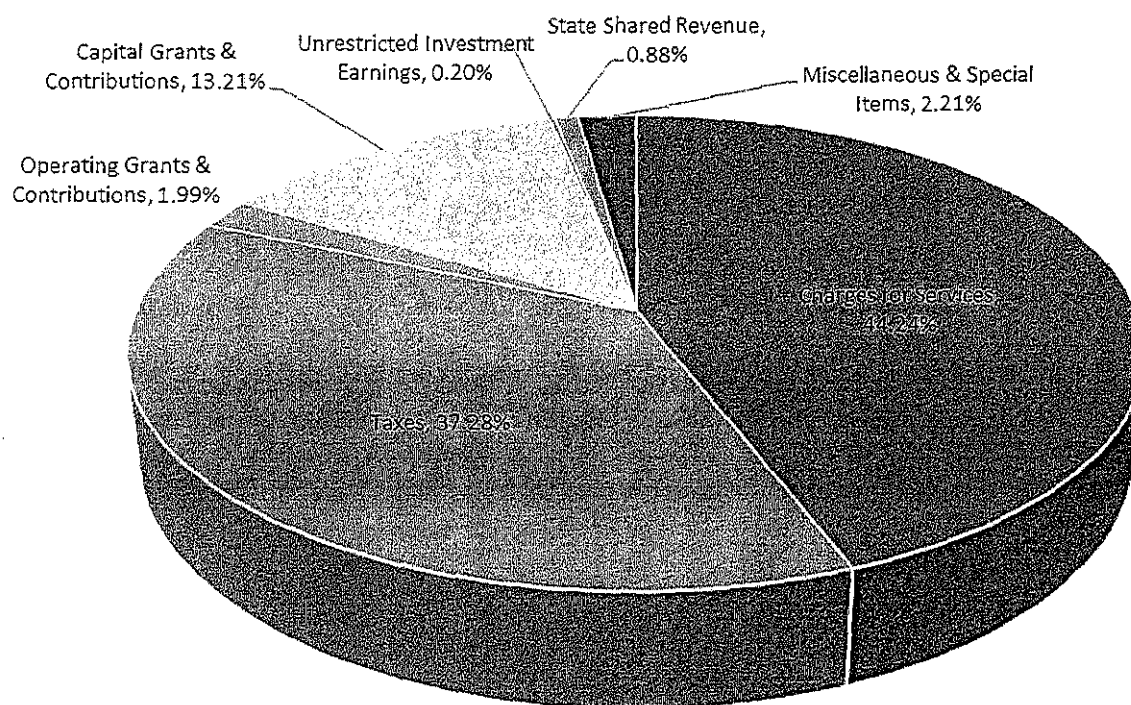
The remaining balance of net position are unrestricted and may be used to meet the Municipality's ongoing obligations to citizens and creditors.

At the end of the current year, the Municipality is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

Changes in Net Position

The Municipality's revenues totaled \$6,410,616. (See Table A-2.) Three quarters of the Municipality's revenue comes from charges for services and taxes, with 44.24 cents of every dollar raised coming from charges for services (primarily water, sewer, and liquor operations) and 37.28 cents of every dollar raised comes from some type of tax. (See Figure A-3). The remaining 18.49% comes from capital grants and contributions, operating grants and contributions, state-shared revenues, interest earnings and miscellaneous and special items.

Figure A-3, Municipality of Dell Rapids Sources of Revenues for Fiscal Year 2018



The Municipality's expenses cover a range of services, with almost half related to Business-type Activities (Water, Sewer, and Liquor Funds). (See Figure A-4)

Figure A-4, Municipality of Dell Rapids, Functional Expenses for Fiscal Year 2018

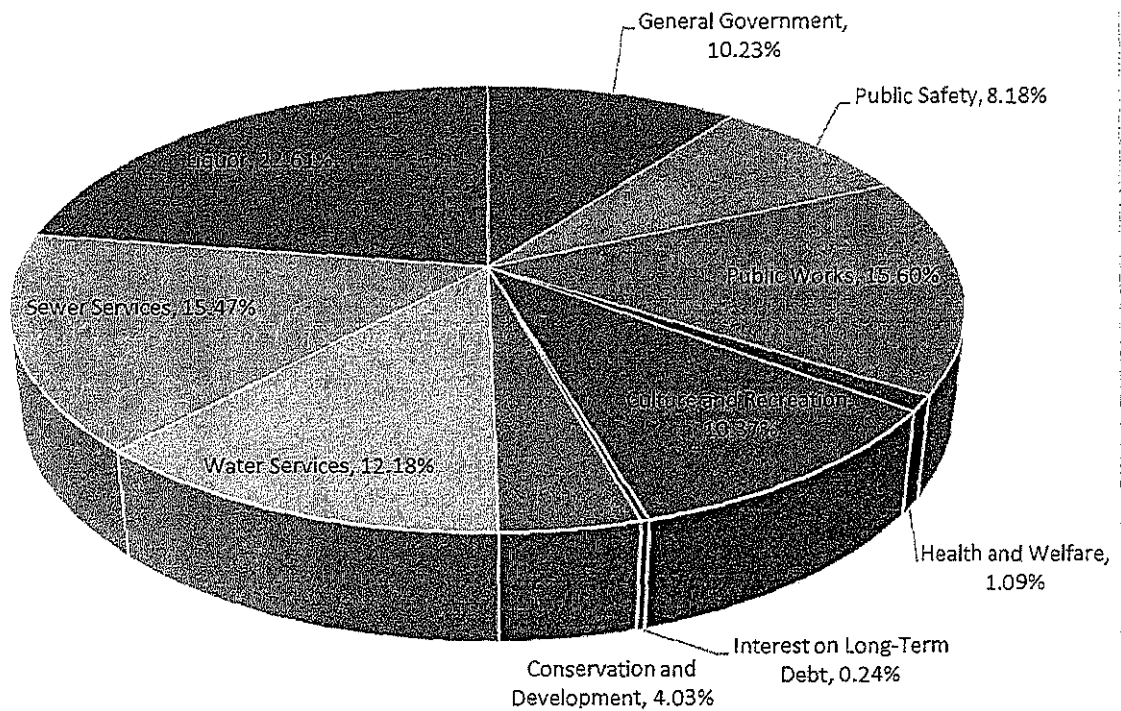


Table A-2
MUNICIPALITY OF Dell Rapids
Changes in Net Position

	Governmental		Business-Type		Total		Total
	Activities		Activities		Total		%
	2017	2018	2017	2018	2017	2018	Change
Revenues							
Program Revenues							
Charges for Services	111,423	120,012	2,702,042	2,715,975	2,813,465	2,835,987	0.80%
Operating Grants	228,537	127,428	-	-	228,537	127,428	-44.24%
Capital Grants and Contributions	67,277	96,066	2,574,205	750,994	2,641,482	847,059	-67.93%
General Revenues					-	0	
Taxes	2,332,506	2,389,962	-	-	2,332,506	2,389,962	2.46%
Revenue State Sources	54,088	56,143	-	-	54,088	56,143	3.80%
Unrestricted Investment Earnings	5,894	7,704	3,587	4,900	9,481	12,603	32.93%
Miscellaneous	25,730	40,394	93,467	101,040	119,197	141,434	18.66%
Total Revenues	2,825,455	2,837,708	5,373,301	3,572,908	8,198,756	6,410,616	-21.81%
Expenses							
General Government	462,110	507,779	0	0	462,110	507,779	9.88%
Public Safety	374,105	405,897	0	0	374,105	405,897	8.50%
Public Works	729,923	774,463	0	0	729,923	774,463	6.10%
Health and Welfare	46,354	54,042	0	0	46,354	54,042	16.59%
Culture and Recreation	459,442	514,641	0	0	459,442	514,641	12.01%
Conservation and Development	180,907	199,864	0	0	180,907	199,864	10.48%
Interest on Long-Term Debt	11,786	11,901	0	0	11,786	11,901	0.00%
Water Services	0	0	559,632	604,564	559,632	604,564	8.03%
Sewer Services	0	0	546,342	767,826	546,342	767,826	40.54%
Liquor	0	0	1,158,406	1,122,172	1,158,406	1,122,172	-3.13%
Total Expenses	2,264,627	2,468,587	2,264,380	2,494,562	4,529,007	4,963,149	9.59%
Excess (Deficiency) Before Special	560,828	369,121	3,108,921	1,078,346	3,669,749	1,447,467	-60.56%
Contributions	0	0	0	0	0	0	
Special Items	0	0	0	0	0	0	
Extraordinary Items	0	0	0	0	0	0	
Transfers	55,992	39,992	-55,992	-39,992	0	0	
Increase (Decrease) in Net Position	616,820	409,113	3,052,929	1,038,354	3,669,749	1,447,467	-60.56%
Ending Net Position	14,897,863	15,306,976	9,771,891	10,810,245	24,669,754	26,117,221	5.87%

Governmental Activities

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

Governmental revenues for the Municipality remained relatively static, an increase of only .43% from prior year, while Governmental expenses increased by 9.01%. The City did see an increase in capital grants and contributions of 42.79%. This is a direct result of the special assessments

received from the 10th Street Project. The City also saw an increase in tax revenue in 2018 of \$57,456 or 2.46%.

The majority of the Governmental expenditure departments saw substantial increases as a result of increased subsidies and/or capital asset projects. The General Government departments increased 9.01%; most of this increase is due to the upgrade to main street lighting and the costs associated with the software upgrade to accept online payments. The Public Safety departments saw an increase of 8.50% in expenditures. This increase is a result of a \$6,166.16 increase in law enforcement fees and a 5% increase in the Fire Department subsidy of \$2,286. Health and Welfare increased 16.59% as a result of a \$5,000 increase in funding to the Ambulance and additional use of the Sioux Falls Area Humane Society, up 60% from prior year. Finally, The Municipality noticed a 12.01% increase in the Culture and Recreation departments. All of this increase can be attributed to the Dell Rapids Trailways and the expansion of the Dell Rapids Campground/Comfort station.

Business-type Activities

Revenues of the Municipality's business-type activities decreased by 33.51% or \$1,800,393 and expenses increased by 10.17%. The factor contributing to the substantial decrease in revenue is the Operating Grants received in prior year for the waste water treatment facility. The project was complete during 2018, however most of the funds received and spent were in 2017. The City did see an increase of 7.71% for charges for services. The City's expenses in the Water and Liquor funds remained relatively static at 8.03% and -3.13%, respectively. However, sewer expenses increased substantially, up 40.54% from prior year. The increase is substantially due to the increase in costs to run the waste water treatment facility. The increase from prior year in Wastewater supplies and utilities was 22% and 37%, respectively.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

The financial analyses of the Municipality's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The Municipality maintains four governmental funds - General, Gross Receipts, Library Fines and Fees, and the Library Donations Funds and only three business type funds – Water, Sewer and Liquor Funds.

General Fund Budgetary Highlights

Over the course of the year, the Municipal Council revised the Municipal budget one time. These amendments fall into two categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriation line items, primarily by contingency transfer, to prevent budget overruns.

The Snow and Transit Departments were approved for \$3,000 and \$3,500, respectively for additional fees incurred throughout the year. The Recreation Department was approved for a \$13,000 increase for a portion of electrical work and fire rings for each new campsite location. The pool department was approved for an additional \$1,500 of utility as the City started tracking water usage during 2018. The Parks department was approved for an additional \$91,000 - \$72,000 was for the comfort station, \$10,000 was for trees, \$5,000 for gravel, and \$4,000 for wages. The community support department was approved for a supplemental appropriation of \$100 to account for the TIF#1 funds being received and subsequently paid out. Finally, a supplemental

appropriation of \$370.64 was approved to transfer to the Library Fines and Fees Fund to cover expenses in that were spent out of the incorrect account.

CAPITAL ASSET ADMINISTRATION

By the end of 2018, the Municipality had invested \$7,000,487 in a broad range of capital assets, including, various projects, improvements, and machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$2,741,768, or 8.06%, over the last year.

Table A-3
Dell Rapids - Capital Assets

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2017	2018	2017	2018		
Land	\$ 1,003,064	\$ 1,003,064	\$ 85,157	\$ 85,157	\$ -	0.00%
Construction in Progress	101,062	374,952	4,352,969	985,488	(3,093,591.00)	-3061.08%
Buildings	4,738,359	4,738,359	6,571,366	11,424,448	4,853,082	102.42%
Improvements Other Than Buildings	7,932,360	8,618,019	6,243,412	6,467,186	909,433	11.46%
Machinery and Equipment	2,368,124	2,422,362	608,813	627,419	72,844	3.08%
Total Capital Assets	16,142,969	17,156,756	17,861,717	19,589,698	2,741,768	8.06%

This year's major capital asset additions included:

- Governmental fund additions were the completion of the paving Garfield Ave. South of Centennial \$385,443, Dell Rapids Trailway (Scenic Overlook) of \$83,142 and the 2018 street sealing project of \$131,510
- Business-type major additions were the completion of the Wastewater Treatment Facility of \$4,853,082 and the Rehabilitation of the 10th Street Water Tower of \$223,774.

LONG-TERM DEBT

At the year-end the Municipality had \$7,529,484 in Sales Tax Revenue Bonds, Water and Wastewater SRF loans, and other long-term obligations. This is an increase of 2.89% as shown on Table A-4 below.

Table A-4						
Dell Rapids - Outstanding Debt and Obligations						
	Governmental		Business-type		Total	Total
	Activities		Activities		Dollar	Percentage
	2017	2018	2017	2018	Change	Change
Compensated Absences	\$33,987	\$34,547	\$ 42,638	\$ 28,472	\$ (13,606)	-17.76%
Sales Tax Revenue Bond	409,000	392,096	-	-	(16,904)	
Water SRF Loans	-	-	1,664,776	1,849,500	184,724	11.10%
Waste Water SRF Loans	-	-	5,167,434	5,224,869	57,435	1.11%
Total Outstanding Debt						
and Obligations	442,987	426,643	6,874,848	7,102,841	211,649	2.89%

The Municipality is liable for 25% of unused accrued sick leave hours to all full-time employees who have accumulated the maximum number of allowed sick leave hours. The decrease is due to two long term employees retiring in 2018.

The Municipality has one Sales Tax Revenue Bond associated with the Quartzite Street Project. This bond is secured and paid for by sales tax revenue.

The Municipality has six outstanding SRF Drinking Water Loans totaling \$1,849,500. The loans are secured and paid for from the Water Fund. These bonds were used for various projects and the last one began repayment in 2018 and will be fully paid off in 2048.

The Municipality has seven outstanding SRF Clean Water Loans totaling \$5,224,869. The bonds are secured and paid for from the Wastewater Fund. These bonds were used for various projects and the last one will begin payment in 2019 be fully paid off in 2049.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality's current economic position has shown minor changes. The Municipality experienced an increase in total property tax of \$99,998 or 9.06% from the prior year. The increase in property valuation allows the Municipality the ability to increase the amount of revenue generated from property taxes. State law limits the increase a taxing district may levy to the combined total of the Consumer Price Index (CPI) and Growth. The 2019 Growth Projections is 2.2% (\$24,995) and the CPI is 2.1% (\$23,649). These numbers were provided to the City by the Minnehaha County Auditor's office. The City automatically receives the Growth projection of 2.2%, however the City has the option to either accept or deny the CPI increase. Combined, the Growth of 2.2% and 2.1% CPI, will increase property tax revenue a total of \$48,645. – for a total property tax base of \$1,174,578. Backing this property tax total into the total City valuation, it is estimated the Mill Levy for 2018 will increase slightly from its current rate of 5.05 to 5.25.

One of the primary sources of revenue to the Municipality is based on taxable retail sales in the community (sales tax). A 1% municipal sales tax was enacted to help fund day-to-day City operations. Sales tax revenue estimates are based upon previous years' revenues and are revised during the year. In 2000, a 2nd Penny municipal sales tax was enacted in accordance with State law to fund capital projects within the City. As of January 1, 2004, revenue from this additional sales tax is to be credited to the General Fund as restrictions on its use were removed by the Legislature. The Municipality has experienced an increase in taxable sales of 1.00% over the prior years. However, to remain conservative the Municipality budgets low at \$900,000 as not to overestimate revenue.

The 2019 proposed spending for all funds is \$11,506,439 as compared to \$8,821,780 in the 2017. These figures are all inclusive of personnel and operational expenditures as well as capital improvements, debt service, equipment replacement and the proprietary; liquor, water and sewer funds.

A 2% Cost of Living Adjustment (COLA) and a 3% merit increase for employees are included in the budget (total 5%). The actual Merit increase provided to employees is generally less than the 3% budgeted based upon the performance of individual employees. However, as personnel costs are one of the greatest expenses within our organization it does allow for flexibility within the fiscal year to make adjustments. The City is fortunate to have a great group of dedicated employees with a very low turnover rate. Our employees continue to meet the needs of our growing City without requesting large increases to departmental budgets or requests for additional personnel when not justified.

The General Fund accounts for 31% (\$3,535,692) of total proposed spending in 2019, which is attributed to the wide array of programs contained within the fund. The 2019 budget reflects another strong year of spending on City services and infrastructure. Several expenses that have become standard for the General Fund will continue in 2019. The budget reflects a continued commitment of \$150,000 towards the maintenance of street infrastructure in the form of crack sealing, chip sealing and asphalt overlaying. The City has been aggressive the past three years of catching up with deferred maintenance and this will continue in 2019. A large commitment is also being directed towards 10th Street. The discussion of the Council at the Capital Improvement Plan meeting resulted in the Council making a commitment to fixing the surface of 10th Street. The surface is continuing to deteriorate. The Council opted to move forward with a mill and overlay of the surface and to purposely leave the utilities in place. This is not a long term solution, however the need for this improvement has been magnified by the increased traffic counts and reliance of 10th Street as a major east west route. \$200,000 has been budgeted for the improvement of 10th Street. The other major street budget item is \$400,000 to cover the portion of the SE Infrastructure

project not eligible for SRF Funding. Administration is seeking grant funding from the DOT Community Access Grant fund to offset a portion of these General Fund costs.

This budget also reflects a continued commitment towards increasing the quality of life for our citizens. The majority of the funds in the general fund beyond the typical wages, benefits, supplies of departments and commitments of public safety, are geared toward quality of life projects. The City is again committing a major expense (\$428,000) towards the expansion of the Sioux River Red Rock Trail. This is another half-mile of trail to extend to the historic Dam Site. The SRRT committee has committed \$220,000 in funding, the City received a \$100,000 grant from the Game Fish and Parks and the City will fund the remaining portion of the project.

The 2019 budget includes a dedication to the Dell Rapids Economic Development Corporation by honoring their request of \$100,000. A total of \$63,600 is reflected in the General Fund and \$36,400 is reflected in the 3rd Penny Sales Tax Fund. This would be the fourth year funding the DREDC at this level (previously \$45,000) The other significant community group related request for funding is the Chamber of Commerce with a request of \$35,000. The City Council approved the \$35,000 request in the 2017 and 2018 budget. This same level level has again been reflected in the 2019 budget. The Chamber has hired a Full-Time Director Position. This individual has been providing a very positive service to the organizations, its members and the community. City Administration is seeking to potentially incorporate Economic Development assistance to this Chamber Director. The Fire Department did not request an increase in their contribution in 2019. The independent Dell Rapids Ambulance organization has requested a \$45,000 in 2019, the same as the 2018 budget. Future funding of the Ambulance organization will be a continued discussion with the County in 2019. An increase in Ambulance funding is anticipated in future years. The Dell Rapids Historic Society requested an increase of their annual stipend from \$2,000 to \$5,000 to cover costs of needed repairs in their Museum building on 4th Street.

The City is beginning the undertaking of a two-year project in 2019. The South East Infrastructure project will be bid in February with the first phase to begin in the spring of 2019 and completed the fall of 2020. The project area is 7th Street south to 3rd Street inclusive of all streets east of Garfield Avenue (4th, 5th and 6th Street and Washington and Beach Avenue) east to Beach Avenue. This project also includes the replacement of the water main on Sunset Drive and the replacement of water main under the railroad at Orleans Avenue. The City will budget 60% of the project to be completed in 2019. The total cost of the water eligible portion is \$1,491,600 and waste water portion of the project in the amount of \$2,797,000. The water portion will be 100% funded through a DENR SRF Water Loan. And financing the waste water portion through a DENR SRF Wastewater Loan of \$1,597,000 and a DENR Grant in the amount of \$1,200,000. This project is a large undertaking that will require high level of communication with affected property owners to be successful. This project emphasizes the City's commitment towards replacing outdated infrastructure.

It is necessary to adjust rates in 2019 to cover the SRF loan for the South East Infrastructure project.

Current Rate = \$54.39 per 5,000 gallons (Raised by 9% in 2018)

The City implemented an \$8.60 surcharge to pay for the new WWTF.

The City will keep the per 1,000 gallon usage rate at \$5.06 per 1,000 gallons

The City will keep the base rate at \$16.00.

The City will implement a new surcharge of \$7.20 to cover the SE Infrastructure Project.

The total cost for 5,000 gallons with inclusive of the additional \$7.20 surcharge will be \$61.60. An increase of 13%.

The Equipment Replacement Fund reflects the purchase of multiple items that will spend down the current cash balance. Budgeted for 2019 is a Utility Tractor with several attachments creating a diverse piece of equipment that will save hours and wear and tear on mowing equipment as well as the skid steer and the loader. Also requested for the Public Works Department is a Jetter and Vacuum trailer and a mower. Finally, City Hall is requesting to budget \$20,000 for the replacement the current City car.

To continue to plan for future purchases, the City will either have to increase annual funding of the fund or scale back future scheduled purchases. This should continue to be a discussion item of the Council as the current pattern funding is unsustainable.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors/creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Dell Rapids Finance Office, 302 E. 4th Street, Po Box 10, Dell Rapids, SD 57022. 605-428-3595.

MUNICIPALITY OF DELL RAPIDS
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 3,342,445	\$ 2,730,000	\$ 6,072,445
Receivables	95,614	315,029	410,643
Inventories	32,394	47,845	80,239
Deposits	52,502		52,502
Prepaid Expenses	24,584	7,676	32,260
Net Pension Asset	488	270	758
Capital Assets:			
Land and Construction in Progress	1,378,016	1,070,646	2,448,662
Other Capital Assets, Net of Depreciation	10,796,428	14,098,805	24,895,233
TOTAL ASSETS	\$ 15,722,471	\$ 18,270,271	\$ 33,992,742
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	\$ 152,811	\$ 87,586	\$ 240,397
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 152,811	\$ 87,586	\$ 240,397
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 15,875,282	\$ 18,357,857	\$ 34,233,139
LIABILITIES:			
Accounts Payable	\$ 88,982	\$ 313,048	\$ 402,030
Other Current Liabilities	11,488	108,111	119,599
Noncurrent Liabilities:			
Due Within One Year	17,497	365,520	383,017
Due in More than One Year	409,146	6,737,321	7,146,467
TOTAL LIABILITIES	\$ 527,113	\$ 7,524,000	\$ 8,051,113
DEFERRED INFLOWS OF RESOURCES:			
Pension Related Deferred Inflows	\$ 41,193	\$ 23,612	\$ 64,805
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 41,193	\$ 23,612	\$ 64,805
NET POSITION:			
Net Investment in Capital Assets	\$ 11,782,348	\$ 8,095,081	19,877,429
Restricted for:			
Debt Service Purposes	31,730	616,762	648,492
Library	4,750		4,750
City Promotion	101,553		101,553
Insurance Cumulative Reserve	52,502		52,502
SDRS Pension Purposes	112,106	64,244	176,350
Unrestricted	3,221,987	2,034,158	5,256,145
TOTAL NET POSITION	\$ 15,306,976	\$ 10,810,245	\$ 26,117,221
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 15,875,282	\$ 18,357,857	\$ 34,233,139

The notes to the financial statements are an integral part of this statement

MUNICIPALITY OF DELL RAPIDS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
General Government	\$ 507,779	\$ 4,397	\$ -	\$ -	\$ (503,382)	\$ -	\$ (503,382)
Public Safety	405,897	35,726			(370,171)		(370,171)
Public Works	774,463	25,731	127,428	96,066	(525,238)		(525,238)
Health and Welfare	54,042				(54,042)		(54,042)
Culture and Recreation	514,641	54,158			(460,483)		(460,483)
Conservation and Development	199,864				(199,864)		(199,864)
Interest on Long-Term Debt	11,901				(11,901)		(11,901)
Total Governmental Activities	2,468,587	120,012	127,428	96,066	(2,125,081)	-	(2,125,081)
Business-type Activities:							
Water	604,564	648,884				44,320	44,320
Wastewater	767,827	823,310		750,994		806,477	806,477
Liquor	1,122,172	1,243,781				121,609	121,609
Total Business-type Activities:	2,494,563	2,715,975	-	750,994	-	972,406	972,406
TOTAL PRIMARY GOVERNMENT	\$ 4,963,150	\$ 2,835,987	\$ 127,428	\$ 847,060	(2,125,081)	972,406	(1,152,675)
General Revenues:							
Taxes:							
Property Taxes					1,204,897		1,204,897
Sales Tax					1,185,065		1,185,065
State Shared Revenues					56,143		56,143
Unrestricted Investment Earnings					7,704	4,900	12,604
Miscellaneous Revenue					40,394	101,040	141,434
Transfers					39,992	(39,992)	-
Total General Revenues and Transfers					2,534,195	65,948	2,600,143
Change in Net Position					409,114	1,038,354	1,447,468
Net Position-Beginning					14,897,862	9,771,891	24,669,753
NET POSITION - ENDING					\$ 15,306,976	\$ 10,810,245	\$ 26,117,221

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF DELL RAPIDS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	General Fund	Nonmajor Funds	Governmental Funds
ASSETS:			
Cash and Cash Equivalents	\$ 2,638,495	\$ 107,131	\$ 2,745,626
Taxes Receivable - Current	11,482		11,482
Taxes Receivable - Delinquent	13,764		13,764
Accounts Receivable, Net	29,058		29,058
Special Assessments Receivable - Current	401		401
Interest Receivable - Special Assessments	32		32
Inventory of Supplies	32,215	179	32,394
Deposits	52,502		52,502
Prepaid Expenses	24,584		24,584
Due from State Government	39,790	1,087	40,877
TOTAL ASSETS	<u>\$ 2,842,323</u>	<u>\$ 108,397</u>	<u>\$ 2,950,720</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	\$ 86,888	\$ 2,094	\$ 88,982
Accrued Interest Payable	953		953
Accrued Wages Payable	8,023		8,023
Accrued Taxes Payable	1,858		1,858
Unapplied Credit	655		655
TOTAL LIABILITIES	<u>98,377</u>	<u>2,094</u>	<u>100,471</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable Revenue - Property Taxes	13,764		13,764
Unavailable Revenue - Special Assessments	433		433
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>14,197</u>	<u>-</u>	<u>14,197</u>
FUND BALANCES:			
Nonspendable			
Deposits	52,502		52,502
Inventory	32,215	179	32,394
Prepaid Expenses	24,584		24,584
Restricted			
City Promotion		101,553	101,553
Debt Service	31,730		31,730
Library		4,571	4,571
Unassigned	2,588,718		2,588,718
TOTAL FUND BALANCES	<u>2,729,749</u>	<u>106,303</u>	<u>2,836,052</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 2,842,323</u>	<u>\$ 108,397</u>	<u>\$ 2,950,720</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF DELL RAPIDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2018

Total Fund Balances - Governmental Funds		✓ \$ 2,836,052
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.		✓ 11,868,683
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds		✓ 152,811
Assets such as taxes receivable, special assessment receivables, and grants receivable are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property Taxes	\$ 13,764	
Special Assessments	<u>433</u>	
		14,197
Long-term liabilities, including bonds payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds.		
Bonds	\$ 392,096	
Accrued Leave	<u>34,547</u>	
Total long-term liabilities		(426,643)
Net pension asset reported in governmental activities is not due and payable in the current period and therefore is not reported in the funds.		✓ 488
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.		✓ (41,193)
Internal service funds are used by management to charge the cost of activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.		✓ <u>902,581</u>
Net Position - Governmental Activities		<u><u>\$ 15,306,976</u></u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF DELL RAPIDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

	General Fund	Nonmajor Funds	Governmental Funds
REVENUES:			
Taxes:			
General Property Taxes	\$ 1,200,877	\$ -	\$ 1,200,877
General Sales and Use Taxes	1,128,910	56,155	1,185,065
Gross Receipts Business Taxes	432		432
Penalties and Interest on Delinquent Taxes	1,835		1,835
Licenses and Permits	30,936		30,936
Intergovernmental Revenue	183,571		183,571
Charges for Goods and Services	75,856		75,856
Fines and Forfeits	3,787	4,398	8,185
Special Assessments	96,701		96,701
Investment Earnings	6,433	200	6,633
Contributions from Private Sources	30	2,805	2,835
Miscellaneous Revenue	26,472	121	26,593
TOTAL REVENUE	2,755,840	63,679	2,819,519
EXPENDITURES:			
Current:			
General Government	439,328		439,328
Public Safety	371,216		371,216
Public Works	421,614		421,614
Health and Welfare	54,042		54,042
Culture and Recreation	367,509	11,400	378,909
Conservation and Development	149,792	50,073	199,865
Debt Service	28,804		28,804
Capital Outlay	1,002,399		1,002,399
TOTAL EXPENDITURES	2,834,704	61,473	2,896,177
Excess of Revenue Over (Under) Expenditures	(78,864)	2,206	(76,658)
Other Financing Sources:			
Transfer In	120,000	371	120,371
Transfer Out	(80,379)		(80,379)
TOTAL OTHER FINANCING SOURCES (USES)	39,621	371	39,992
Net Changes in Fund Balance	(39,243)	2,577	(36,666)
Fund Balance - Beginning	2,768,992	103,726	2,872,718
FUND BALANCE - ENDING	\$ 2,729,749	\$ 106,303	\$ 2,836,052

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF DELL RAPIDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

Net Change in Fund Balances - Total Governmental Funds \$ (36,666)

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

This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government wide statements. ✓ 1,002,399

This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources. ✓ (524,950)

Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net assets. ✓ 16,904

The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in that the fund financial statements require the amounts to be "available". ✓ 1,752

Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises. ✓ (635)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds (35,880)

Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits. ✓ (560)

Internal service funds are used by management to charge the cost of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. (13,250)

Change in Net Position of Governmental Activities \$ 409,114

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF DELL RAPIDS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018

	Enterprise Funds			Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund	Totals
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 1,133,304	\$ 1,370,551	\$ 226,145	\$ 2,730,000
Accounts Receivable, Net	47,557	71,770	125,968	245,295
Due from Other Governments	33,368	36,367		69,735
Inventory of Supplies	42,172	5,673		47,845
Prepaid Expenses	4,375	2,937	364	7,676
Total Current Assets	<u>1,260,776</u>	<u>1,487,298</u>	<u>352,477</u>	<u>3,100,551</u>
Noncurrent Assets:				
Net Pension Asset	135	135		270
Capital Assets:				
Land	45,128	37,029	3,000	85,157
Buildings	2,625,463	8,633,927	165,058	11,424,448
Improvements Other than Buildings	2,488,221	3,978,964		6,467,185
Machinery and Equipment	477,680	80,675	69,063	627,418
Construction Work in Progress	481,680	503,808		985,488
Less: Accumulated Depreciation	(2,115,158)	(2,119,946)	(185,142)	(4,420,246)
Total Noncurrent Assets	<u>4,003,149</u>	<u>11,114,592</u>	<u>51,979</u>	<u>15,169,720</u>
TOTAL ASSETS	<u>\$ 5,263,925</u>	<u>\$ 12,601,890</u>	<u>\$ 404,456</u>	<u>\$ 18,270,271</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related Deferred Outflows	43,793	43,793		87,586
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>43,793</u>	<u>43,793</u>	<u>-</u>	<u>87,586</u>
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 101,767	\$ 106,431	\$ 104,850	\$ 313,048
Customer Deposits	8,675			8,675
Accrued Interest Payable	10,257	81,944		92,201
Accrued Wages Payable	1,375	2,876		4,251
Accrued Taxes Payable	1,487	1,497		2,984
Bonds Payable Current:				
Revenue	124,771	240,211		364,982
Compensated Absences Payable - Current	269	269		538
Total Current Liabilities	<u>248,601</u>	<u>433,228</u>	<u>104,850</u>	<u>786,679</u>
Noncurrent Liabilities:				
Revenue Bonds Payable	1,724,729	4,984,658		6,709,387
Accrued Leave Payable	13,257	14,677		27,934
Total Noncurrent Liabilities	<u>1,737,986</u>	<u>4,999,335</u>	<u>-</u>	<u>6,737,321</u>
TOTAL LIABILITIES	<u>1,986,587</u>	<u>5,432,563</u>	<u>104,850</u>	<u>7,524,000</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Related Deferred Inflows	11,806	11,806		23,612
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>11,806</u>	<u>11,806</u>	<u>-</u>	<u>23,612</u>
NET POSITION:				
Net Investment in Capital Assets	2,153,514	5,889,588	51,979	8,095,081
Restricted for:				
Revenue Bond Debt Service	198,167	418,595		616,762
SDRS Pension Purposes	32,122	32,122		64,244
Unrestricted Net Position	<u>925,522</u>	<u>861,009</u>	<u>247,627</u>	<u>596,819</u>
TOTAL NET POSITION	<u>\$ 3,309,325</u>	<u>\$ 7,201,314</u>	<u>\$ 299,606</u>	<u>\$ 10,810,245</u>

The notes to the financial statements are an integral part of this statement

MUNICIPALITY OF DELL RAPIDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	Enterprise Funds			Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund	Totals
Operating Revenue:				
Charges for Goods and Services	\$ 633,432	\$ 817,226	\$ 1,180,068	\$ 2,630,726
Lottery Sales			63,713	63,713
Miscellaneous	15,452	6,084		21,536
TOTAL OPERATING REVENUE	648,884	823,310	1,243,781	2,715,975
Operating Expenses:				
Personal Services	161,336	178,691		340,027
Other Current Expense	79,147	139,564	3,768	222,479
Materials	152,758		1,110,207	1,262,965
Depreciation	153,832	284,752	8,198	446,782
TOTAL OPERATING EXPENSES	547,073	603,007	1,122,173	2,272,253
Operating Income (Loss)	101,811	220,303	121,608	443,722
				(14,321)
Nonoperating Revenue (Expense):				
Investment Earnings	2,291	2,144	465	4,900
Rental Revenue	80,091		15,000	95,091
Sale of Surplus Property	-		1,000	1,000
Interest Expense and Fiscal Charges	(57,491)	(164,820)		(222,311)
Other	2,475	2,475		4,950
TOTAL NONOPERATING REVENUE (EXPENSE)	27,366	(160,201)	16,465	(116,370)
Income (Loss) Before Contributions and Transfers	129,177	60,102	138,073	327,352
				(13,250)
Capital Contributions		750,994		750,994
Transfers In		80,008		80,008
Transfers Out			(120,000)	(120,000)
Change in Net Position	129,177	891,104	18,073	1,038,354
Net Position - Beginning	3,180,148	6,310,210	281,533	9,771,891
NET POSITION - ENDING	\$ 3,309,325	\$ 7,201,314	\$ 299,606	\$ 10,810,245
				\$ 902,581

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF DELL RAPIDS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
DECEMBER 31, 2018

	Enterprise Funds				Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund	Total	
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 602,967	\$ 820,630	\$ 1,227,810	\$ 2,651,407	\$ -
Receipts for Interfund Services Provided					44,000
Payments to Employees for Services	(161,372)	(175,243)		(336,615)	
Payments to Suppliers of Goods and Services	(168,361)	(134,801)	(1,104,651)	(1,407,813)	
Net Cash Provided (Used) by Operating Activities	273,234	510,586	123,159	906,979	44,000
Cash Flows from Noncapital Financing Activities:					
Transfers to / from Other Funds	-	80,008	(120,000)	(39,992)	-
Net Cash Provided (Used) by Noncapital Financing Activities	-	80,008	(120,000)	(39,992)	-
Cash Flows from Capital and Related Financing Activities:					
Proceeds from Capital Debt	299,099	271,201		570,300	
Proceeds from Sale of Capital Assets			1,000	1,000	
Proceeds from Capital Grants		1,099,943		1,099,943	
Purchase of Capital Assets	(621,731)	(1,113,973)	(21,620)	(1,757,324)	(11,385)
Principal Paid on Capital Debt	(114,375)	(213,765)		(328,140)	
Interest Paid on Capital Debt	(56,192)	(105,532)		(161,724)	
Other Receipts (Payments)	82,566	2,474	15,000	100,040	
Net Cash Provided (Used) by Capital and Related Financing Activities	(410,633)	(59,652)	(5,620)	(475,905)	(11,385)
Cash Flows from Investing Activities:					
Interest Earnings	2,291	2,144	465	4,900	1,071
Net Cash Provided by Investing Activities	2,291	2,144	465	4,900	1,071
Net Increase (Decrease) in Cash and Cash Equivalents	(135,108)	533,086	(1,996)	395,982	33,686
Cash and Cash Equivalents at Beginning of Year	1,268,412	837,465	228,141	2,334,018	563,133
Cash and Cash Equivalents at End of Year	\$ 1,133,304	\$ 1,370,551	\$ 226,145	\$ 2,730,000	\$ 596,819
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ 101,811	\$ 220,303	\$ 121,608	\$ 443,722	\$ (14,321)
Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	153,832	284,752	8,198	446,782	58,321
Change in Assets and Liabilities:					
Receivables	(445)	(5,046)	(15,970)	(21,461)	
Due From Other Governments	(33,368)			(33,368)	
Customer Deposits	400			400	
Inventory of Supplies	(12,504)	2,366		(10,138)	
Prepaid Expenses	(4,375)	(2,907)	(364)	(7,646)	
Net Pension Asset	370	370		740	
Pension Related Deferred Outflow of Resources	8,102	8,102		16,204	
Accounts and Other Payables	67,919	7,670	9,687	85,276	
Accrued Leave Payable	(7,793)	(6,373)		(14,166)	
Accrued Taxes Payable	2	(1)		1	
Accrued Wages Payable	(2,164)	(97)		(2,261)	
Pension Related Deferred Inflows of Resources	1,447	1,447		2,894	
Net Cash Provided (Used) by Operating Activities	\$ 273,234	\$ 510,586	\$ 123,159	\$ 906,979	\$ 44,000

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity

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

b. Basis of Presentation

Government-wide Financial Statements:

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality'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 Municipality or it meets the following criteria:

1. Total assets, liabilities, 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, 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.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

The funds of the Municipality financial reporting entity are described below:

Governmental Funds:

General Fund – the General Fund is the general operating fund of the Municipality. 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.

Liquor, Lodging and Dining Gross Receipts Tax Fund - to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the city (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is not a major fund.

The remaining Special Revenue funds are also not considered major funds:
Library Fines and Fees Fund and Library Donation Fund. These funds are reported on the fund financial statements as "Other Governmental Funds".

Proprietary Funds:

Enterprise Funds – enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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

MUNICIPALITY OF DELL RAPIDS NOTES TO THE FINANCIAL STATEMENTS

Liquor Fund – financed primarily by the markup of liquor. The Municipality has entered into an operating lease agreement allowing the operator to operate an on-sale bar and an off-sale liquor store on the real property owned by the Municipality. The Municipality owns lottery machines maintained in the establishment. The lessee purchases all liquor from the Municipality at cost plus ten (10) percent. The operator pays the Municipality \$15,000 per year for the rent of the building and 65% of the video lottery profits. This is a major fund.

Internal Service Funds – internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary governments, or to other governments, on a cost-reimbursement basis. The particular types of goods or services provided to other funds consist of equipment purchases. Internal service funds are never considered to be major funds. The Equipment Replacement Fund is the only internal service fund maintained by the Municipality.

c. Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

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 fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary funds.

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 Municipality is 30 days. The revenues which are accrued at December 31, 2018 are sales taxes, property taxes, state shared revenues and miscellaneous other revenues.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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 revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

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

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

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

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

1. 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.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the Internal Service Fund, so that expenses are reported only by the function to which they relate.

e. Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificate of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

f. 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 normally can be preserved for significantly greater number of years than most capital assets.

The accounting treatment of 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.

MUNICIPALITY OF DELL RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

Government-wide Financial Statements

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

The total December 31, 2018 balance of governmental activities capital assets includes approximately 1.1 percent for which the costs were determined by estimates of the original costs. The total December 31, 2018 balance of business-type capital assets are all valued at original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

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 Municipality. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements Other than Buildings."

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position.

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 and land rights	All	----N/A----	----N/A----
Improvements other than Buildings	\$ 15,000	Straight-line	20 yrs.
Water/Sewer Lines	\$ 25,000	Straight-line	50 yrs.
Roads	\$ 50,000	Straight-line	15-75 yrs.
Other Improvements	\$ 10,000	Straight-line	15-50 yrs.
Buildings	\$ 50,000	Straight-line	50 yrs.
Machinery and Equipment	\$ 5,000	Straight-line	5-20 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as 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 financial statements.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

g. 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 financial statements. The long-term liabilities primarily consist of revenue bonds 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 financial statements.

h. Program Revenues

Program revenues derive directly from the program itself or from parties other than the Municipality'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.

i. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial 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.

In addition to liabilities, the statement of financial position 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.

j. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses and Changes in 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.

k. Cash and Cash Equivalents

The Municipality 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

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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.

I. 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:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned" and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

m. Application of Net Position:

It is the Municipality'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.

n. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Municipality classifies governmental fund balances 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.
- 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 Municipal Council 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.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

The Nonspendable Fund Balance is comprised of the following:

- Amount reported in non-spendable form such as inventory and prepaid expenses.
- Amount legally or contractually required to be maintained intact such as the South Dakota Public Assurance Alliance Cumulative Reserve Fund.

The Municipality uses *restricted/committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use *committed, then assigned, and lastly unassigned amounts* of unrestricted fund balance when expenditures are made.

The Municipality does not have a formal minimum fund balance policy.

o. Pensions:

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension revenue and expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. Municipal contributions and net pension asset are recognized on an accrual basis of accounting.

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISION

The Municipality is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations:

Year Ended
12/31/2018

General Fund:

Activity

Economic Development and Assistance

\$ 4,092

The Municipality plans to address this violation by more closely monitoring the actual to budget amounts during the year and using supplemental budgets when legal authority allows.

3. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The Municipality 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 Municipality'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 authorized to do business in South Dakota.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

Deposits are reported at cost, plus interest, if the account is of the add-on type. It is the Municipality's policy to deposit all interest revenue to the fund making the investment.

The actual bank balances at December 31, 2018 were as follows:

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 500,000
Uninsured, collateral jointly held by state's/Municipality's agent in the name of the state and the pledging financial institution.	5,566,717
Uninsured, uncollateralized	<u>-</u>
Total Deposits	<u>\$ 6,066,717</u>

The carrying amount of deposits on the December 31, 2018 Government-wide Statement of Net Position was \$6,072,445. The reconciliation of deposits to Government-wide Statement of Net Position is as follows:

Cash and cash equivalents	\$ 6,072,445
Carrying amount	6,072,445
Less Petty Cash	(150)
Less Lottery Cash	(10,000)
Add outstanding transactions	4,422
	<u>\$ 6,066,717</u>

Investments - In general, SDCL 4-5-6 permits Municipality 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. There were no investments held as of December 31, 2018.

Credit Risk – State law limits eligible investments for the Municipality, as discussed above. The Municipality has an investment policy that would further limit its investment choices.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the Municipality's deposits may not be returned to it. The Municipality will minimize credit risk by limiting the portfolio to the types of investments that are authorized and suitable to diminish the impact of potential losses from any one type of investment or from any one issuer. As of December 31, 2018, the Municipality's deposits in financial institutions were fully insured or collateralized and were not exposed to custodial credit risk.

Custodial Credit Risk – Investments – The risk that, in the event of the counterparty to a transaction, the Municipality will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of December 31, 2018, the Municipality does not have any investments.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

Concentration of Credit Risk – The Municipality requires Qualified Public Depositories to furnish collateral in the sum equal to one hundred percent (100%) of the public deposit accounts that exceed deposit insurance. The financial institution shall submit a copy of their collateralization report to the Finance Officer.

Interest Rate Risk – The Municipality strives to maintain a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is secondary compared to the safety and liquidity objectives.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Municipality's policy is to credit all income from investments to the fund making the investment.

4. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The Municipality expects all receivables to be collected within one year. No allowance has been made for estimated uncollectible amounts.

5. INVENTORY

Inventory in the General Fund and special revenue funds consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory in the proprietary funds is recorded as an asset when acquired. The consumption of inventories is charged to expense as it is consumed. Inventories are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements:

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories are off-set by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

6. PROPERTY TAXES

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

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

**MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS**

7. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2018 is as follows:

	Balance 1/1/2018	Increases	Decreases	Balance 12/31/2018
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 1,003,064	\$ -	\$ -	\$ 1,003,064
Construction Work in Progress	101,063	798,029	(524,140)	374,952
Total Capital Assets, Not Being Depreciated	1,104,127	798,029	(524,140)	1,378,016
Capital Assets, Being Depreciated				
Buildings & Structures	4,738,359	-	-	4,738,359
Improvements Other Than Buildings	7,932,361	685,658	-	8,618,019
Machinery and Equipment	2,368,124	54,238	-	2,422,362
Total Capital Assets, Being Depreciated	15,038,844	739,896	-	15,778,740
Less Accumulated Depreciation for:				
Buildings & Structures	(1,401,582)	(105,009)	-	(1,506,591)
Improvements Other Than Buildings	(1,408,085)	(321,290)	-	(1,729,375)
Machinery and Equipment	(1,589,374)	(156,972)	-	(1,746,346)
Total Accumulated Depreciation	(4,399,041)	(583,271)	-	(4,982,312)
Total Governmental Activities Capital Assets, Being Depreciated, Net	10,639,803	156,625	-	10,796,428
Governmental Activities Capital Assets, Net	\$ 11,743,930	\$ 954,654	\$ (524,140)	\$ 12,174,444

Changes in capital assets as shown above include activities of the internal service fund. Purchases within the equipment replacement fund for the year ended December 31, 2018 were \$11,385 and disposals were \$0.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

Depreciation expense was charged to functions as follows:

	Balance 12/31/2018
Governmental Activities:	
General Government	\$ 57,640
Public Safety	31,095
Public Works	366,157
Culture & Recreation	128,379
	<u>128,379</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 583,271</u>

	Balance 1/1/2018	Increases	Decreases	Balance 12/31/2018
Business-Type Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 85,157	\$ -	\$ -	\$ 85,157
Construction Work in Progress	4,352,969	1,485,600	(4,853,080)	985,489
Total Capital Assets, Not Being Depreciated	4,438,126	1,485,600	(4,853,080)	1,070,646
Capital Assets, Being Depreciated				
Buildings	6,571,366	4,853,082	-	11,424,448
Improvements Other Than Buildings	6,243,412	223,773	-	6,467,185
Machinery and Equipment	608,813	47,950	(29,345)	627,418
Total Capital Assets, Being Depreciated	13,423,591	5,124,805	(29,345)	18,519,051
Less Accumulated Depreciation for:				
Buildings	(2,757,095)	(194,734)	-	(2,951,829)
Improvements Other Than Buildings	(967,723)	(224,027)	-	(1,191,750)
Machinery and Equipment	(277,991)	(28,021)	29,345	(276,667)
Total Accumulated Depreciation	(4,002,809)	(446,782)	29,345	(4,420,246)
Total Business-Type Activity Capital Assets, Being Depreciated, Net	9,420,782	4,678,023	-	14,098,805
Business-Type Activity Capital Assets, Net	\$ 13,858,908	\$ 6,163,623	\$ (4,853,080)	\$ 15,169,451

Depreciation expense was charged to functions as follows:

	Balance 12/31/2018
Business-Type Activities:	
Water	\$ 153,832
Wastewater	284,752
Liquor	8,198
Total Depreciation Expense - Business-Type Activities	<u>\$ 446,782</u>

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

Construction Work in Progress at December 31, 2018 is composed of the following:

Project Name	Project Authorization	Expended thru 12/31/2018
SD Highway 115	\$ 1,100,000	\$ 660,237
SE Infrastructure Project Phase 1	7,410,000	325,251
Sioux River Red Rock Trailway	265,841	52,203
Campground Improvements	220,000	182,170
Rickeman Comfort Station	195,000	140,580
Total	\$ 9,115,841	\$ 1,360,441

8. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

Primary Government:

	Balance 1/1/2018	Additions	Deletions	Balance 12/31/2018	Due Within One Year
Governmental Activities:					
Sales Tax Revenue Bond	\$ 409,000	\$ -	\$ (16,904)	\$ 392,096	\$ 17,406
Accrued Compensated Absences-Governmental Funds	33,987	34,547	(33,987)	34,547	91
Total Governmental Activity	442,987	34,547	(50,891)	426,643	17,497
Business-Type Activities:					
SRF 2003 Drinking Water	275,011		(33,930)	241,081	35,133
SRF 2006 Clean Water	312,019		(28,512)	283,507	29,450
SRF 2006 Drinking Water	88,096		(8,303)	79,793	8,576
SRF 2007 Clean Water	680,124		(50,935)	629,189	52,610
SRF 2009 Clean Water	663,316		(43,756)	619,560	45,196
SRF 2011 Drinking Water	344,229		(18,462)	325,767	19,022
SRF 2011 Clean Water	276,662		(14,838)	261,824	15,288
SRF 2012 Drinking Water	142,565		(27,248)	115,317	27,866
SRF 2013 Drinking Water	559,603		(25,168)	534,435	25,931
SRF 2013 Clean Water	547,913		(24,642)	523,271	25,390
SRF 2014 Clean Water	983,216		(51,083)	932,133	52,633
SRF 2016 Drinking Water	255,272	299,099	(1,264)	553,107	8,242
SRF 2017 Clean Water	1,704,184	271,201		1,975,385	19,645
Total Debt	6,832,210	570,300	(328,141)	7,074,369	364,982
Accrued Compensated Absences-Business-Type Funds	42,638	28,472	(42,638)	28,472	538
Total Business-Type Activities	6,874,848	598,772	(370,779)	7,102,841	365,520
TOTAL PRIMARY GOVERNMENT	\$ 7,317,835	\$ 633,319	\$ (421,670)	\$ 7,529,484	\$ 383,017

**MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS**

Debt payable at December 31, 2018 is comprised of the following:

State Revolving Fund (SRF) Loan 2003 Drinking Water:

Note dated April 30, 2003 including an interest rate of 3.5% per annum and a maturity date of January 15, 2025. Principal payments to be made by Water Fund. \$ 241,081

State Revolving Fund (SRF) Loan 2006 Clean Water:

Note dated March 31, 2006 including an interest rate of 3.25% per annum and a maturity date of April 15, 2027. Principal payments to be made by Wastewater Fund. \$ 283,507

State Revolving Fund (SRF) Loan 2006 Drinking Water:

Note dated March 31, 2006 including an interest rate of 3.25% per annum and a maturity date of January 15, 2027. Principal payments to be made by Water Fund. \$ 79,793

State Revolving Fund (SRF) Loan 2007 Clean Water:

Note dated December 2, 2008 including an interest rate of 3.25% per annum and a maturity date of January 15, 2029. Principal payments to be made by Wastewater Fund. \$ 629,190

State Revolving Fund (SRF) Loan 2009 Clean Water:

Note dated January 15, 2010 with a maturity date of January 15, 2030 and an interest rate of 3.25% per annum. Principal payments to be made by the Wastewater Fund. \$ 619,560

State Revolving Fund (SRF) Loan 2011 Drinking Water:

Note dated April 15, 2011 with a maturity date of January 15, 2031 and an interest rate of 3.00% per annum. Principal payments to be made by the Water Fund. \$ 325,767

State Revolving Fund (SRF) Loan 2011 Clean Water:

Note dated April 15, 2011 with a maturity date of October 15, 2032 and an interest rate of 3.00% per annum. Principal payments to be made by the Wastewater Fund. \$ 261,823

State Revolving Fund (SRF) Loan 2012 Drinking Water:

Note dated June 27, 2012 with a maturity date of October 15, 2022 and an interest rate of 2.25% per annum. Principal payments to be made by the Water Fund. \$ 115,317

State Revolving Fund (SRF) Loan 2013 Drinking Water:

Note dated October 18, 2013 with a maturity date of January 15, 2035 and an interest rate of 3.00% per annum. Principal payments to be made by the Water Fund. \$ 534,435

State Revolving Fund (SRF) Loan 2013 Clean Water:

Note dated October 18, 2013 with a maturity date of January 15, 2035 and an interest rate of 3.00% per annum. Principal payments to be made by the Wastewater Fund. \$ 523,270

State Revolving Fund (SRF) Loan 2014 Clean Water:

Note dated April 7, 2014 with payments starting on January 15, 2016, a maturity date of April 15, 2033, and an interest rate of 3.00% per annum. Principal payments to be made by the Wastewater Fund. \$ 932,046

State Revolving Fund (SRF) Loan 2016 Drinking Water:

Note dated August 10, 2016 with payments starting on July 15, 2018, a maturity date of July 15, 2048, and an interest rate of 3.25% per annum. Principal payments to be made by the Water Fund \$ 553,107

State Revolving Fund (SRF) Loan 2017 Clean Water:

Note dated February 1, 2017 with payments starting on July 15, 2019, a maturity date of April 15, 2049, and an interest rate of 3.25% per annum. Principal payments to be made by the Wastewater Fund \$ 1,975,384

Sales Tax Revenue Bond 2016 General Fund:

Bond dated July 6, 2016 with payments starting on June 1, 2018, a maturity date of June 1, 2036, and an interest rate of 2.95% per annum. Principal payments to be made by the General Fund. \$ 392,096

Compensated Absences:

Accrued vacation and sick leave payable from the General Fund and Enterprise Funds \$ 63,019

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

The annual requirements to amortize all debt outstanding as of December 31, 2018, except for compensated absences but including interest payments of \$2,504,911 are as follows:

Annual Requirements to Amortize Long-Term Debt
December 31, 2018

Year Ending Dec. 31,	State Revolving Loans		Sales Tax Revenue Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	364,982	186,132	17,406	11,439	382,388	197,571
2020	399,465	206,765	17,923	10,922	417,388	217,687
2021	412,117	194,113	18,456	10,389	430,573	204,502
2022	425,098	181,131	19,005	9,841	444,103	190,972
2023	408,009	167,994	19,569	9,276	427,578	177,270
2024-2028	1,995,096	646,416	106,923	37,305	2,102,019	683,721
2029-2033	1,372,582	373,987	123,784	20,444	1,496,366	394,431
2034-2038	536,844	227,602	69,030	3,084	605,874	230,686
2039-2043	512,627	148,723			512,627	148,723
2044-2048	596,508	58,725			596,508	58,725
2049-2053	51,041	623			51,041	623
TOTAL	<u>\$ 7,074,369</u>	<u>\$ 2,392,211</u>	<u>\$ 392,096</u>	<u>\$ 112,700</u>	<u>\$ 7,466,465</u>	<u>\$ 2,504,911</u>

9. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2018 were as follows:

Transfer To:

<u>Transfer From:</u>	<u>General Fund</u>	<u>Library Fines and Fees Fund</u>	<u>Wastewater Fund</u>
General Fund		371	80,008
Liquor Fund	120,000		
	<u>\$ 120,000</u>	<u>\$ 371</u>	<u>\$ 80,008</u>

The transfers the Municipality budgeted for this year were for excess Liquor revenue to the General Fund, General Fund to Wastewater – SE Sewer Extension – Sales Tax Dedication transfer (Yearly CW#7 P&I payment), transfer from General Fund to Library Fines & Fees Fund.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

10. PENSION PLAN:

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer hybrid 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 survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in 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://sdrs.sd.gov/publications.aspx> 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. 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 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 the Cost-of-Living Adjustment.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Municipality's share of contributions to the SDRS for the calendar years ended December 31, 2018, 2017, and 2016, equal to the required contributions each year, were as follows:

<u>Year</u>	<u>Amount</u>
2018	\$40,223.95
2017	\$37,867.32
2016	\$36,358.27

Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2018, SDRS is 100.02% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of this measurement period ending June 30, 2018 and reported by the Municipality as of December 31, 2018 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 3,971,079
Less proportionate share of total pension liability	<u>3,971,837</u>
Proportionate share of net pension liability (asset)	<u>\$ (758)</u>

At December 31, 2018, the Municipality reported an asset of \$ 758 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018 and the total pension liability used to calculate the net pension asset was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the Municipality's proportion was 0.03246100%, which is an increase of 0.0011840% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the Municipality recognized pension expense (reduction of expense) of \$55,719. At December 31, 2018 the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience	28,614	
Changes in assumption	192,206	
Net difference between projected and actual earnings on pension plan investments		57,216
Changes in proportion and difference between Municipality contributions and proportionate share of contributions	87	7,589
Municipality contributions subsequent to the measurement date	19,490	
TOTAL	240,397	64,805

\$19,490.47 reported as deferred outflow of resources related to pensions resulting from Municipality contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of expense) as follows:

Year Ending Dec. 31,	
2019	100,578
2020	74,551
2021	(11,980)
2022	(6,930)
TOTAL	\$ 156,219

Actuarial Assumptions:

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2017, 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, projected generationally with Scale MP-2017.

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

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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

Discount Rate:

The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member 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 liability.

Sensitivity of liability (asset) to changes in the discount rate:

The following presents the Municipality's proportionate share of net pension asset calculated using the discount rate of 6.50%, as well as what the Municipality'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%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension liability (asset)	571,797	(758)	(428,482)

Pension Plan Fiduciary Net Position:

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

11. SIGNIFICANT CONTINGENCIES – LITIGATION:

At December 31, 2018, the Municipality was not involved in any litigation.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

12. TAX ABATEMENTS

The Municipality of Dell Rapids has created tax increment districts under the authority granted by South Dakota Codified Law section 11-9. The tax increment districts were created to stimulate and develop the general economic welfare and prosperity of the Municipality through the promotion and advancement of industrial, commercial, manufacturing, agricultural, or natural resources; and the improvement of the area will likely enhance significantly the value of substantially all the other real property in the tax increment district.

The county, municipal, and other local general property taxes levied on all taxable property within a tax increment district on the increase in assessed value of the taxable property is allocated to pay for the cost of improvements in the tax increment district. The tax increments are allocated until all cost of the tax increment district project has been repaid; however, it cannot exceed 20 years.

The Municipality of Dell Rapids has one active tax increment district. Because the general property taxes on tax increment districts are allocated to the districts, the taxes are not available to the Municipality of Dell Rapids during the life of the tax increment district.

The amount of general property taxes collected from the tax increment that were not available to the Municipality of Dell Rapids during the calendar year ended December 31, 2018 was approximately \$10,289.

13. SUBSEQUENT EVENTS

In August 2019, the Municipality began construction on the Southeast Area Infrastructure Project. The project was awarded to H&W Contracting with a total estimated cost of \$7,410,000. The project is scheduled to be completed in November 2020.

The Municipality has evaluated subsequent events to September 20, 2019, the date which the financial statements were available to be issued, and determined that there are no other events occurring subsequent to the end of the year that merit recognition or disclosure in these statements.

14. RISK MANAGEMENT:

The Municipality 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, 2018, the Municipality managed its risks as follows:

Employee Health Insurance

The Municipality joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Municipality pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes an unlimited lifetime maximum payment per person.

The Municipality does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

Liability Insurance

The Municipality 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 Municipality'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 Municipality. The Municipality pays a Member's Annual Operating Contribution, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The Municipality pays an annual premium to the pool to provide coverage for general liability, auto liability, property damage, and wrongful acts.

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 following 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 expense, 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 Municipality is considered a deposit for financial reporting purposes.

As of December 31, 2018, the Municipality's balance available to be refunded per the SDPAA was \$52,502, which was an increase of \$11,877 from the previous year. The change in the amount available for refund was accounted for as an increase (decrease) in the insurance expenditures/expenses.

The Municipality carries a \$500 deductible for wrongful acts coverage and \$500 deductible on a per item basis for building, contents, and equipment coverage.

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

Worker's Compensation

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for

MUNICIPALITY OF DELL RAPIDS NOTES TO THE FINANCIAL STATEMENTS

South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality'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 Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program 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 statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

Unemployment Benefits

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

During the year ended December 31, 2018 no claims for unemployment benefits were paid. At December 31, 2018 no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF DELL RAPIDS
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues:				
Revenue from Local Sources:				
Taxes:				
General Property Taxes	\$ 1,171,133	\$ 1,171,233	\$ 1,200,877	\$ 29,644
General Sales and Use Taxes	850,000	850,000	1,128,910	278,910
Amusement Taxes	400	400	432	32
Penalties and Interest on Delinquent Taxes	1,000	1,000	1,835	835
Licenses and Permits	22,350	22,350	30,936	8,586
Intergovernmental Revenue:				
Federal Grants	307,275	307,275	24,764	(282,511)
State Grants	82,104	82,104	7,358	(74,746)
State Shared Revenue:				
Bank Franchise Tax	25,000	25,000	33,293	8,293
Prorate License Fees	2,000	2,000	3,055	1,055
Liquor Tax Reversion	15,000	15,000	22,850	7,850
Motor Vehicle Licenses (5%)	20,000	20,000	36,385	16,385
Local Government Highway and Bridge Fund	30,000	30,000	49,019	19,019
Other	500	500	-	(500)
County Shared Revenue:				
County Wheel Tax	4,000	4,000	6,847	2,847
Other County Shared Revenue				-
Other Intergovernmental Revenues	2,000	2,000		(2,000)
Charges for Goods and Services:				
General Government	500	500	1,800	1,300
Public Safety	1,500	1,500	1,400	(100)
Highways and Streets	7,104	7,104	14,227	7,123
Sanitation	8,000	8,000	11,504	3,504
Culture and Recreation	44,600	44,600	46,925	2,325
Fines and Forfeits:				
Court Fines and Costs	500	500	125	(375)
Animal Control Fines				-
Parking Meter Fines	1,500	1,500	3,265	1,765
Other	300	300	397	97
Miscellaneous Revenue:				
Investment Earnings	3,000	3,000	6,433	3,433
Rentals	2,000	2,000	2,200	200
Special Assessments	6,795	6,795	96,701	89,906
Maintenance Assessments				-
Contributions and Donations from Private Sources	50,000	50,000	30	(49,970)
Other	15,100	15,100	24,272	9,172
Total Revenue	\$ 2,673,661	\$ 2,673,761	\$ 2,755,840	\$ 82,079

The notes to the required supplementary schedules are an integral part of this schedule.

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF DELL RAPIDS
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Expenditures:				
General Government:				
Legislative	\$ 60,350	\$ 60,350	\$ 48,666	\$ 11,684
Contingency	30,000	30,000		30,000
Amount Trasferred		(30,000)		(30,000)
Executive	177,166	177,166	166,761	10,405
Elections	1,300	1,300	25	1,275
Financial Administration	129,550	129,550	120,098	9,452
Other	177,880	177,880	133,248	44,632
Total General Government	576,246	546,246	468,798	77,448
Public Safety:				
Police	261,551	261,551	261,551	-
Fire	66,821	66,821	64,557	2,264
Protective Inspection	65,270	65,270	45,783	19,487
Total Public Safety	393,642	393,642	371,891	21,751
Public Works:				
Highways and Streets	1,039,845	1,042,845	815,514	227,331
Sanitation	13,970	13,970	10,176	3,794
Transit	68,258	71,758	71,439	319
Total Public Works	1,122,073	1,128,573	897,129	231,444
Health and Welfare:				
Health	7,640	7,640	6,172	1,468
Humane Society	2,700	2,700	2,870	(170)
Ambulance	45,000	45,000	45,000	-
Total Health and Welfare	55,340	55,340	54,042	1,298
Culture and Recreation:				
Recreation	429,341	442,341	409,545	32,796
Parks	329,360	421,860	258,391	163,469
Libraries	208,735	208,735	196,312	12,423
Total Culture and Recreation	967,436	1,072,936	864,248	208,688
Conservation and Development:				
Economic Development and Assistance	145,600	145,700	149,792	(4,092)
Miscellaneous				
Debt Service	28,846	28,846	28,804	42
Total Expenditures	3,289,183	3,371,283	2,834,704	536,579
Excess of Revenue Over (Under) Expenditures	(615,522)	(697,522)	(78,864)	618,658
Other Financing Sources (Uses):				
Transfers In	120,000	120,000	120,000	-
Transfer Out	(108,008)	(108,379)	(80,379)	28,000
Total Other Financing Sources (Uses)	11,992	11,621	39,621	28,000
Net Changes in Fund Balances	(603,530)	(685,901)	(39,243)	646,658
Fund Balance Beginning	2,768,992	2,768,992	2,768,992	-
FUND BALANCE - ENDING	\$ 2,165,462	\$ 2,083,091	\$ 2,729,749	\$ 646,658

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

Note 1. Budgets and Budgetary Accounting:

The Municipality follows these procedures in establishing the budgetary data reflected in the schedules:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board/Municipal Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board/Municipal Commission, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a 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. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States (USGAAP).

Note 2. GAAP/Budgetary Accounting Basis Differences:

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

Schedule of Required Supplementary Information
MUNICIPALITY OF DELL RAPIDS
SCHEDULE OF THE MUNICIPALITY CONTRIBUTIONS
South Dakota Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 40,224	\$ 37,867	\$ 36,358	\$ 36,251
Contributions in relation to the contractually required contribution	<u>\$ 40,224</u>	<u>\$ 37,867</u>	<u>\$ 36,358</u>	<u>\$ 36,251</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Municipality's covered-employee payroll	\$ 672,122	\$ 630,035	\$ 606,897	\$ 604,182
Contributions as a percentage of covered-employee payroll	5.98%	6.01%	5.99%	6.00%

Schedule of Required Supplementary Information
MUNICIPALITY OF DELL RAPIDS
SCHEDULE OF THE MUNICIPALITY'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY
South Dakota Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Municipality's proportion of the net pension liability (asset)	0.0324610%	0.0312770%	0.0312043%	0.304757%
Municipality's proportionate share of net pension liability (asset)	\$ (758)	\$ (2,838)	\$ 105,405	\$ (129,256)
Municipality's covered-employee payroll	\$ 673,848	\$ 537,569	\$ 593,344	\$ 560,950
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.11%	0.53%	17.76%	23.40%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.02%	100.10%	96.89%	104.10%

The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is 6/30/2018.

MUNICIPALITY OF DELL RAPIDS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2018
Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Schedule of
Pension Contributions

Changes of benefit terms:

No significant changes.

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal 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, 2017 and exists again this year as of June 30, 2018. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.89% as of June 30, 2017 and is 2.03% as of June 30, 2018.