

MUNICIPALITY OF DELL RAPIDS

AUDIT REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2015

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, 2015 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 October 14, 2016.

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 were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified 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 2015-001 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, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Current Audit Findings as item 2015-002.

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 entity'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
October 14, 2016

MUNICIPALITY OF DELL RAPIDS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

Prior Audit Findings

Finding No. 2014-001:

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 2015-001.

Finding No. 2014-002:

Annual inventory records were not maintained. This finding was corrected by the Municipality by establishing and maintaining accurate inventory records in 2015.

Finding No. 2014-003:

Errors and omissions were noted in the annual financial statements prepared by municipal officials. This finding was corrected by the Municipality by accurately tracking and adjusting the financial statement accounts and accurately recording the money in the proper funds during 2015.

Finding No. 2014-004:

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 2015-002.

MUNICIPALITY OF DELL RAPIDS
SCHEDULE OF CURRENT AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

Current Audit Findings:

Internal Control – Related Findings – Material Weaknesses:

Finding No. 2015-001:

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 thirteenth 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 implemented a Finance and Utilities Committee to oversee and advise employees directly in matters of finance. They will be provided greater detail on a regular basis regarding the finances of the City to allow a greater oversight.

Compliance and Other Matters:

Finding No. 2015-002:

Criteria: South Dakota Codified Law (SDCL) 9-21-9 requires that expenditures be limited to appropriated amounts. This is the second 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 insure appropriate oversight is in place within the Finance and Utilities Committee, Administration and the Finance Office to take appropriate action to prevent reoccurrence.



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, 2015 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, 2015, 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.

Emphasis of Matter

Adoption of New Accounting Standard

As described in the Notes to the Financial Statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions and Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date. As discussed in the Notes to the Financial Statements, the City has retroactively restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to the matter.

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 16, the Budgetary Comparison Schedules on pages 47 through 49, and the Pension Schedules on pages 50 through 51 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 October 14, 2016 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 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
October 14, 2016

**MUNICIPALITY OF DELL RAPIDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

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, 2015. 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 \$2,550,889 and \$2,235,853 governmental expenditures. This is a decline from the prior year when revenue exceeded expenditures by \$883,612.
- In the Municipality's business-type activities, revenue increased by 7.11% to \$2,500,486 while expense increased only 5.64% to \$2,079,515.
- The combined net position of the Municipality from prior year is an increase of \$895,971 or 4.83%.

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. In addition to the required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in a single column in the basic 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 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 4.83% between fiscal year 2014 and 2015 – or an increase of \$895,971 (See Table A-1).

	Governmental Activities		Business-Type Activities		Total		Total % Changed
	2014	2015	2014	2015	2014	2015	
Current and Other Assets	3,851,164	3,007,264	2,618,596	2,226,481	6,469,760	5,233,745	-19.10%
Capital Assets	9,302,188	10,538,245	9,021,871	9,684,391	18,324,059	20,222,636	10.36%
Total Assets	13,153,352	13,545,509	11,640,467	11,910,872	24,793,819	25,456,381	2.67%
AP and Other Current Liabilities	226,081	203,746	334,717	258,041	560,798	461,787	-17.66%
Noncurrent Liabilities	19,544	17,393	5,669,165	5,536,918	5,688,709	5,554,311	-2.36%
Total Liabilities	245,625	221,139	6,003,882	5,794,959	6,249,507	6,016,098	-3.73%
Net Position:							
Net Investment in Capital Assets	9,302,188	10,538,245	3,390,622	4,187,389	12,692,810	14,725,634	16.02%
Restricted	436,016	241,001	311,474	587,328	747,490	828,329	10.81%
Unrestricted	3,169,523	2,545,124	1,934,489	1,341,196	5,104,012	3,886,320	-23.86%
Total Net Position	12,907,727	13,324,370	5,636,585	6,115,913	18,544,312	19,440,283	4.83%

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 is unrestricted and may be used to meet the Municipality's ongoing obligations to citizens and creditors.

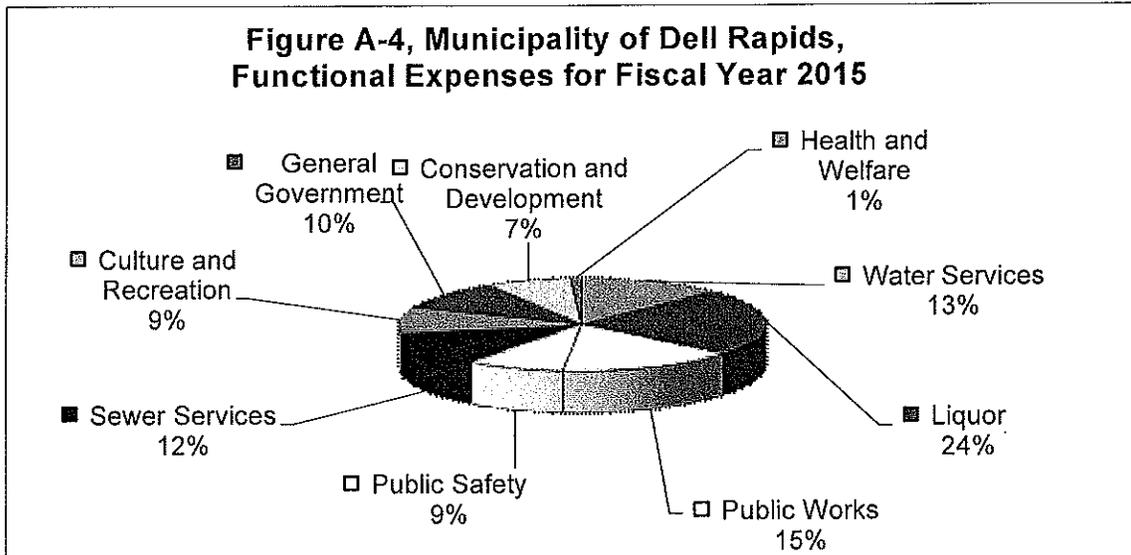
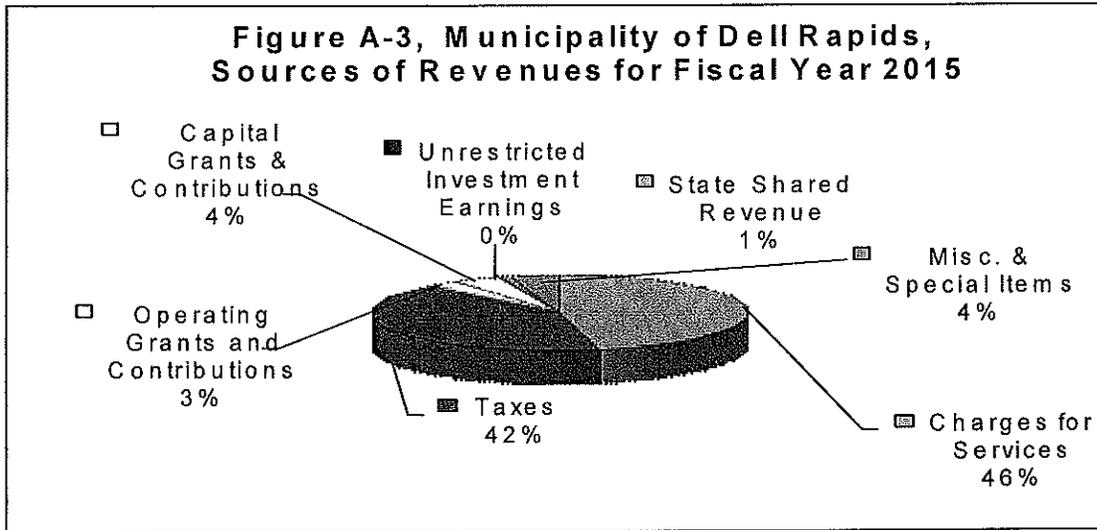
At the end of the current year, the Municipality is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

Changes in Net Position

The Municipality's revenues (including special items) totaled \$5,051,375. (See Table A-2.) Well over half of the Municipality's revenue comes from charges for services and taxes, with 46 cents of

every dollar raised coming from charges for services (primarily water, sewer, and liquor operations) and 42 cents of every dollar raised comes from some type of tax. (See Figure A-3). Another 4% come from state and federal grants for capital purposes and most of the rest comes from operating grants and contributions, state-shared revenues, and interest earnings.

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)



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

	Governmental Activities		Business-Type Activities		Total		Total % Changed
	2014	2015	2014	2015	2014	2015	
Revenue							
Program Revenues							
Charges for Services	95,402	129,712	2,215,983	2,219,374	2,311,385	2,349,086	1.63%
Operating Grants	146,317	126,690	-	-	146,317	126,690	-13.41%
Capital Grants and Contributions	538,239	37,224	69,631	168,336	607,870	205,560	-66.18%
General Revenues							
Taxes	1,949,996	2,101,522	-	-	1,949,996	2,101,522	7.77%
Revenue State Sources	45,824	46,190	-	-	45,824	46,190	0.80%
Unrestricted Investment Earnings	4,569	3,988	2,857	3,103	7,426	7,091	-4.51%
Miscellaneous	175,421	73,185	49,552	113,193	224,973	186,378	-17.16%
Total Revenues	2,955,768	2,518,511	2,338,023	2,504,006	5,293,781	5,022,617	-5.12%
Expenses							
General Government	371,156	444,995	-	-	371,156	444,995	19.89%
Public Safety	368,810	369,086	-	-	368,810	369,086	0.07%
Public Works	656,748	670,007	-	-	656,748	670,007	2.02%
Health and Welfare	48,594	43,355	-	-	48,594	43,355	-10.78%
Culture and Recreation	376,636	387,516	-	-	376,636	387,516	2.89%
Conservation and Development	253,732	320,894	-	-	253,732	320,894	26.47%
Water Services	-	-	535,153	541,713	535,153	541,713	1.23%
Sewer Services	-	-	475,230	520,900	475,230	520,900	9.61%
Liquor	-	-	958,115	1,016,902	958,115	1,016,902	6.14%
Total Liabilities	2,076,676	2,236,863	1,968,498	2,079,515	4,044,174	4,315,368	6.71%
Excess (Deficiency) Before							
Special Items	880,092	282,658	369,525	424,491	1,249,617	707,149	-43.41%
Contributions	-	-	-	-	-	-	
Special Items	-	28,858	-	-	-	28,858	
Extraordinary Items	-	-	-	-	-	-	
Transfers	3,520	3,520	(3,520)	(3,520)	-	-	
Increase (Decrease) In Net Position	883,612	315,036	366,005	420,971	1,249,617	736,007	-41.10%
Ending Net Position	13,009,334	13,324,370	5,694,942	6,115,913	18,704,276	19,440,283	3.93%

Governmental Activities

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

Governmental revenues for the Municipality decreased by 13.80%, while Governmental expenses increased by 7.72%. The reason for the large increase in expenses is as follows:

The Municipality spent more than in prior years, 19.89% more, in the General Government departments. The Executive department wages increased approximately 4.5% or \$3,708 from a merit and COLA increase. Also in the Executive department, professional fees and services increased 13.39% or \$3,428 mostly as a result of additional miscellaneous engineering costs for possible projects. Finally, in the Executive department travel and training increased \$1,664 as the City Administrator attended the International City/County Management Association (ICMA) conference. The Finance Office department went through a staffing change in late 2014 and subsequently wages and taxes increased 17.62% or \$8,915 from prior year; this also includes an approximate 4.5% merit and COLA increase. The Finance Office department professional services and fees account also increased \$17,319 as a result of an audit not being paid for in 2014. In the Building and Maintenance Department, street light utility, increased 17.29% or \$11,103. There was an increase in usage in both August and December of 2015 as compared to prior years. The Municipality spent 26.47% more on conservation and development in the current year as a result of

the City Council forgiving the \$238,600 note receivable due from the Economic Development Corporation.

The main reasons for the decrease in revenue is due to the decrease in funds raised for the construction of the Library Building. In 2014, the City raised \$537,257 in capital grants and contributions for the construction of the Library Building renovations compared to only \$12,823 raised in 2015.

Business-type Activities

Revenues of the Municipality's business-type activities increased by 7.11% to \$165,983 and expenses increased by only 5.64%. Factors contributing to these results included: A reimbursement for the Beach Avenue project in the amount of \$119,772 which increases the account by 228.57% or \$83,319. Also an increase in the cell tower lease account of 139.15% or \$57,136 is a major reason for the revenue increase. Business-type activity expenses were virtually unchanged from prior year. There were only small increases in water, sewer, and liquor fund expenses: 1.23%, 9.61% and 6.14%, 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 Building Funds and only three business type funds – Water, Sewer and Liquor Funds. None of the Municipality's funds had any significant deficit or gain during the year.

General Fund Budgetary Highlights

Over the course of the year, the Municipal Council revised the Municipal budget several times. 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 street department was approved for a supplemental appropriation of \$270,000 and the parks department was approved for a supplemental appropriation of \$71,000. There were other insignificant changes as well.

CAPITAL ASSET ADMINISTRATION

By the end of 2015, the Municipality had invested \$2,626,951 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 \$2,586,226, or 10.59 percent, over the last year.

**Table A-3
Municipality of Dell Rapids - Capital Assets**

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2014	2015	2014	2015		
	Land	\$ 1,003,064	\$ 1,003,064	\$ 85,157		
Construction in Progress	1,336,629	44,899	\$ 974,978	124,400	(2,142,308)	-160.28%
Buildings	3,109,599	4,691,934	6,561,285	6,561,285	1,582,335	50.89%
Improvements Other Than Buildings	4,786,829	5,934,728	3,827,171	5,630,428	2,951,156	8.00%
Machinery and Equipment	2,069,886	2,258,604	663,955	670,280	195,043	9.42%
Total Capital Assets (Net)	12,306,007	13,933,229	12,112,546	13,071,550	2,586,226	10.59%

This year's major capital asset additions included:

- Governmental fund additions were the completion of the Garfield Bridge project of \$542,735 and the completion of the Library Building fund project of \$245,706. The total amount of the Library Building Project was \$1,582,335 with \$1,336,629 of those expenditures being incurred in 2014. The other costly addition was the 2015 street sealing project of \$520,027.
- Business-type major addition was the completion of the Southeast Sanitary Sewer Extension of \$1,204,093 and the completion of the 10th Street/Northview sewer project of \$324,460.

LONG-TERM DEBT

At the year-end the Municipality had \$5,536,918 in Water and Wastewater SRF loans and other long-term obligations. This is a decrease of 2.36% as shown on Table A-4 below.

**Table A-4
Municipality of Dell Rapids - Outstanding Debt and Obligations**

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2014	2015	2014	2015		
Compensated Absences	\$ 19,544	\$ 17,393	\$ 37,916	\$ 39,916	\$ (151)	-0.26%
Water SRF Loans	0	0	1,723,648	1,625,877	(97,771)	-5.67%
WasteWater SRF Loans	0	0	3,907,601	3,871,125	(36,476)	-0.93%
Total Outstanding Debt and Obligations	19,544	17,393	5,669,165	5,536,918	(134,398)	-2.36%

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 a decrease in the amount of leave accumulated and outstanding at the end of the year.

The Municipality has five outstanding SRF Drinking Water Loans totaling \$1,625,877. The loans are secured and paid for from the Water Fund. These bonds were used for various projects and the last one will be fully paid off on January 15, 2035.

The Municipality has six outstanding SRF Clean Water Loans totaling \$3,871,125. The bonds are secured and paid for from the Wastewater Fund. These bonds were used for various projects and the last one will be fully paid off on January 15, 2035.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality's current economic position has shown minor change. The Municipality did experience an increase in total property tax of \$56,822 or 5.90% from the prior year. The increase in property valuation allows the Municipality the ability to increase the amount of revenue generated from property taxes. Under the state mandated property tax limitation, property taxes from one year to the next may increase 3% or an amount based on the Consumer Price Index (CPI) whichever is lower. In 2015 the City did take the CPI increase of 1.4%, therefore the Mill Levy slightly increased from 5.505 to 5.567.

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 9.59% over the prior year. The Municipality has budgeted for a decrease in sales tax revenue for the next year due to receiving 28.96% more than expected in 2015.

The 2016 proposed spending for all funds is \$7,062,185 as compared to actual spending in 2015 of \$6,348,192. These figures are all inclusive of personnel and operational expenditures as well as capital improvements, debt service and the proprietary: liquor, water and sewer funds. The majority of the increase from 2015 actual to 2016 budget is due to the projected costs as the City begins work on two major projects: 10th Street and Quartzite Street. The remainder of the increase is due to payroll increases, normal rate increases (utility and insurance), and other operational expenditures.

The 2016 levy is based upon Growth Projections of 2.5% and CPI of 1.5%. Minnehaha County Auditor office is predicting that if the City takes both the Growth 2.5% (\$23,32085) and CPI 1.5% (\$15,192.51) the Mill Levy will actually decrease in 2016 to 5.353. However, the Council decided not to take the CPI in 2016.

A 2% Cost of Living Adjustment (COLA) and a 3% merit increase for employees are included in the 2016 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 a service organization it does allow for flexibility within the fiscal year to make adjustments.

The 2016 General Fund accounts for 58% of total proposed spending, which is attributed to a wide array of programs contained within the fund. While 2015 reflected a normal business year with mainly street maintenance projects, the 2016 General Fund reflects a very aggressive year with the construction of two new streets.

In 2016 the Water Fund budget reflects the City incurring \$240,000 in DENR SRF debt in order to replace and relocate the water main on 10th Street between Rebekah Avenue and Iowa Avenue. The total project cost is estimated at \$1,050,000.

The major expenditures in 2016 in the Wastewater Fund is the extension of sewer main for a proposed 10th Street reconstruction project and a new wastewater treatment facility (WWTF). The

budget reflects incurring \$420,000 in DENR SRF debt on the extension of sewer main. For the construction of the WWTF the City plans to seek funding from the DENR Clean Water fund. The 2016 budget reflects \$200,000 worth of engineering costs associated with this large scale project to be funded through an SRF loan.

The 2016 budget not only lays out an aggressive project year but it also seeks to provide planning for future projects that will help our community grow and prosper.

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, 2015

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	\$ 2,614,887	\$ 1,823,362	\$ 4,438,249
Receivables	80,166	206,085	286,251
Inventories	20,904	55,585	76,489
Deposits	40,625		40,625
Prepaid Expenses	13,902	5,457	19,359
Net Pension Asset	82,102	47,154	129,256
Capital Assets:			
Land and Construction in Progress	1,047,963	209,557	1,257,520
Other Capital Assets, Net of Depreciation	9,490,282	9,474,834	18,965,116
TOTAL ASSETS	\$ 13,390,831	\$ 11,822,034	\$ 25,212,865
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	154,678	88,838	243,516
TOTAL DEFERRED OUTFLOWS OF RESOURCES	154,678	88,838	243,516
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	13,545,509	11,910,872	25,456,381
LIABILITIES:			
Accounts Payable	\$ 70,712	\$ 139,649	\$ 210,361
Other Current Liabilities	11,891	48,814	60,705
Noncurrent Liabilities:			
Due Within One Year	-	307,280	307,280
Due in More than One Year	17,393	5,229,638	5,247,031
TOTAL LIABILITIES	99,996	5,725,381	5,825,377
DEFERRED INFLOWS OF RESOURCES:			
Pension Related Deferred Inflows	121,143	69,578	190,721
TOTAL DEFERRED INFLOWS OF RESOURCES	121,143	69,578	190,721
NET POSITION:			
Net Investment in Capital Assets	10,538,245	4,187,389	14,725,634
Restricted for:			
Debt Service Purposes		520,914	520,914
Capital Projects	911		911
Library	1,579		1,579
City Promotion	82,249		82,249
Insurance Cumulative Reserve	40,625		40,625
SDRS Pension Purposes	115,637	66,414	182,051
Unrestricted	2,545,124	1,341,196	3,886,320
TOTAL NET POSITION	13,324,370	6,115,913	19,440,283
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 13,545,509	\$ 11,910,872	\$ 25,456,381

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

MUNICIPALITY OF DELL RAPIDS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating		Governmental Activities	Primary Government	
			Grants and Contributions	Capital Grants and Contributions		Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 444,995	\$ 3,180	\$ -	\$ -	\$ (441,815)	\$ -	\$ (441,815)
Public Safety	369,086	46,295	-	-	(322,791)	-	(322,791)
Public Works	670,007	11,292	87,088	8,136	(563,491)	-	(563,491)
Health and Welfare	43,355	-	-	-	(43,355)	-	(43,355)
Culture and Recreation	387,516	68,945	39,602	29,088	(249,881)	-	(249,881)
Conservation and Development	320,894	-	-	-	(320,894)	-	(320,894)
Total Governmental Activities	2,235,853	129,712	126,690	37,224	(1,942,227)	-	(1,942,227)
Business-type Activities:							
Water	541,713	550,417	-	48,564	-	57,268	57,268
Wastewater	520,900	540,642	-	119,772	-	139,514	139,514
Liquor	1,016,902	1,128,315	-	-	-	111,413	111,413
Total Business-type Activities:	2,079,515	2,219,374	-	168,336	-	308,195	308,195
TOTAL PRIMARY GOVERNMENT	\$ 4,315,368	\$ 2,349,086	\$ 126,690	\$ 205,560	(1,942,227)	308,195	(1,634,032)
General Revenues:							
Taxes:							
					1,019,322		1,019,322
					1,082,200		1,082,200
					46,190		46,190
					3,988	3,103	7,091
					102,043	113,193	215,236
					3,520	(3,520)	-
					2,257,263	112,776	2,370,039
					315,036	420,971	736,007
					12,907,727	5,636,585	18,544,312
					101,607	58,357	159,964
					13,009,334	5,694,942	18,704,276
					\$ 13,324,370	\$ 6,115,913	\$ 19,440,283

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

MUNICIPALITY OF DELL RAPIDS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General Fund	Library Building Fund	Nonmajor Funds	Governmental Funds
ASSETS:				
Cash and Cash Equivalents	\$ 1,998,832	\$ 911	\$ 82,818	\$ 2,082,561
Taxes Receivable - Delinquent	12,729			12,729
Accounts Receivable, Net	18,602			18,602
Special Assessments Receivable - Current	1,587			1,587
Special Assessments Receivable - Delinquent	792			792
Special Assessments Receivable - Deferred	2,639			2,639
Interest Receivable - Special Assessments	653			653
Inventory of Supplies	20,904			20,904
Deposits	40,625			40,625
Prepaid Expenses	13,902			13,902
Due from County Government	5,030			5,030
Due from State Government	37,124		1,010	38,134
	<u>37,124</u>		<u>1,010</u>	<u>38,134</u>
TOTAL ASSETS	<u><u>\$ 2,153,419</u></u>	<u><u>\$ 911</u></u>	<u><u>\$ 83,828</u></u>	<u><u>\$ 2,238,158</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
LIABILITIES:				
Accounts Payable	\$ 70,713	\$ -	\$ -	\$ 70,713
Accrued Wages Payable	9,960			9,960
Accrued Taxes Payable	1,931			1,931
	<u>82,604</u>	<u>-</u>	<u>-</u>	<u>82,604</u>
TOTAL LIABILITIES	<u>82,604</u>	<u>-</u>	<u>-</u>	<u>82,604</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable Revenue - Property Taxes	12,729			12,729
Unavailable Revenue - Special Assessments	5,671			5,671
	<u>18,400</u>	<u>-</u>	<u>-</u>	<u>18,400</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>18,400</u>	<u>-</u>	<u>-</u>	<u>18,400</u>
FUND BALANCES:				
Nonspendable				
Deposits	40,625			40,625
Inventory	20,904			20,904
Prepaid Expenses	13,902			13,902
Restricted				
City Promotion			82,249	82,249
Library			1,579	1,579
Capital Projects		911		911
Unassigned	1,976,984			1,976,984
	<u>1,976,984</u>	<u>911</u>	<u>83,828</u>	<u>2,137,154</u>
TOTAL FUND BALANCES	<u>2,052,415</u>	<u>911</u>	<u>83,828</u>	<u>2,137,154</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 2,153,419</u></u>	<u><u>\$ 911</u></u>	<u><u>\$ 83,828</u></u>	<u><u>\$ 2,238,158</u></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, 2015

Total Fund Balances - Governmental Funds		\$ 2,137,154
Amounts reported for governmental activities in the statement of net position are different because:		
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		82,102
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		✓10,102,733
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds		154,678
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	\$ ✓12,729	
Special Assessments	<u>✓5,671</u>	
		18,400
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.		
Accrued Leave	\$ <u>17,393</u>	
Total long-term liabilities		✓(17,393)
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.		(121,143)
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>967,839</u>
Net Position - Governmental Activities		<u>\$ 13,324,370</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, 2015

	General Fund	Library Building Fund	Nonmajor Funds	Governmental Funds
REVENUES:				
Taxes:				
General Property Taxes	\$ 1,018,500	\$ -	\$ -	\$ 1,018,500
General Sales and Use Taxes	1,031,661		50,539	1,082,200
Amusement Taxes	360			360
Penalties and Interest on Delinquent Taxes	1,713			1,713
Licenses and Permits	41,826			41,826
Intergovernmental Revenue	172,881	493,663		666,544
Charges for Goods and Services	77,254			77,254
Fines and Forfeits	5,150		3,283	8,433
Special Assessments	12,780			12,780
Investment Earnings	3,782	73	119	3,974
Contributions from Private Sources	710	20,950	765	22,425
Miscellaneous Revenue	25,873		14	25,887
TOTAL REVENUE	2,392,490	514,686	54,720	2,961,896
EXPENDITURES:				
Current:				
General Government	406,095			406,095
Public Safety	339,474			339,474
Public Works	414,475			414,475
Health and Welfare	43,355			43,355
Culture and Recreation	288,199	11,670	3,982	303,851
Conservation and Development	43,575		277,319	320,894
Capital Outlay	1,246,130	245,708		1,491,838
TOTAL EXPENDITURES	2,781,303	257,378	281,301	3,319,982
Excess of Revenue Over (Under) Expenditures	(388,813)	257,308	(226,581)	(358,086)
Other Financing Sources:				
Sale of Municipal Property				-
Transfer In	585,520	27,021		612,541
Transfer Out	(122,021)	(487,000)		(609,021)
Compensation for Losses	28,858			28,858
TOTAL OTHER FINANCING SOURCES (USES)	492,357	(459,979)	-	32,378
Net Changes in Fund Balance	103,544	(202,671)	(226,581)	(325,708)
Fund Balance - Beginning	1,948,871	203,582	310,409	2,462,862
FUND BALANCE - ENDING	\$ 2,052,415	\$ 911	\$ 83,828	\$ 2,137,154

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, 2015

Net Change in Fund Balances - Total Governmental Funds \$ (325,708)

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. 1,491,838

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. (352,723)

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". (1,252)

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. (4,643)

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 14,030

Revenues in the of statement of revenues, expenditures, and changes in fund balances that were previously recognized as revenue in the statement of activities. (487,000)

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. 2,151

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. (21,657)

Change in Net Position of Governmental Activities \$ 315,036

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, 2015

	Enterprise Funds			Totals	Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund		
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	\$ 943,436	\$ 674,790	\$ 205,136	\$ 1,823,362	\$ 532,326
Accounts Receivable, Net	42,490	47,601	115,994	206,085	
Inventory of Supplies	44,113	11,472		55,585	
Prepaid Expenses	2,563	2,894		5,457	
Total Current Assets	<u>1,032,602</u>	<u>736,757</u>	<u>321,130</u>	<u>2,090,489</u>	<u>532,326</u>
Noncurrent Assets:					
Net Pension Asset	23,577	23,577		47,154	
Capital Assets:					
Land	45,128	37,029	3,000	85,157	
Buildings	2,625,463	3,780,845	154,977	6,561,285	
Improvements Other than Buildings	2,039,801	3,590,627		5,630,428	
Machinery and Equipment	548,030	61,018	61,231	670,279	981,885
Construction Work in Progress	17,463	106,937		124,400	
Less: Accumulated Depreciation	(1,744,479)	(1,440,821)	(201,858)	(3,387,158)	(546,372)
Total Noncurrent Assets	<u>3,554,983</u>	<u>6,159,212</u>	<u>17,350</u>	<u>9,731,545</u>	<u>435,513</u>
TOTAL ASSETS	<u>\$ 4,587,585</u>	<u>\$ 6,895,969</u>	<u>\$ 338,480</u>	<u>\$ 11,822,034</u>	<u>\$ 967,839</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension Related Deferred Outflows	44,419	44,419		88,838	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>44,419</u>	<u>44,419</u>	<u>-</u>	<u>88,838</u>	<u>-</u>
LIABILITIES:					
Current Liabilities:					
Accounts Payable	\$ 21,484	\$ 18,650	\$ 99,515	\$ 139,649	\$ -
Customer Deposits	5,200			5,200	
Accrued Interest Payable	10,925	25,948		36,873	
Accrued Wages Payable	2,148	2,186		4,334	
Accrued Taxes Payable	1,198	1,209		2,407	
Bonds Payable Current:					
Revenue	106,579	200,701		307,280	
Total Current Liabilities	<u>147,534</u>	<u>248,694</u>	<u>99,515</u>	<u>495,743</u>	<u>-</u>
Noncurrent Liabilities:					
Revenue Bonds Payable	1,519,298	3,670,424		5,189,722	
Accrued Leave Payable	19,958	19,958		39,916	
Total Noncurrent Liabilities	<u>1,539,256</u>	<u>3,690,382</u>	<u>-</u>	<u>5,229,638</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,686,790</u>	<u>3,939,076</u>	<u>99,515</u>	<u>5,725,381</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Pension Related Deferred Inflows	34,789	34,789		69,578	
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>34,789</u>	<u>34,789</u>	<u>-</u>	<u>69,578</u>	<u>-</u>
NET POSITION:					
Net Investment in Capital Assets	1,905,529	2,264,510	17,350	4,187,389	435,513
Restricted for:					
Revenue Bond Debt Service	144,244	376,670		520,914	
SDRS Pension Purposes	33,207	33,207		66,414	
Unrestricted Net Position	<u>827,445</u>	<u>292,136</u>	<u>221,615</u>	<u>1,341,196</u>	<u>532,326</u>
TOTAL NET POSITION	<u>\$ 2,910,425</u>	<u>\$ 2,966,523</u>	<u>\$ 238,965</u>	<u>\$ 6,115,913</u>	<u>\$ 967,839</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, 2015

	Enterprise Funds			Totals	Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund		
Operating Revenue:					
Charges for Goods and Services	\$ 585,885	\$ 533,504	\$ 1,074,240	\$ 2,193,629	\$ 51,000
Lottery Sales			54,075	54,075	
Miscellaneous	13,095	126,910		140,005	
TOTAL OPERATING REVENUE	598,980	660,414	1,128,315	2,387,709	51,000
Operating Expenses:					
Personal Services	140,519	136,916		277,435	
Other Current Expense	71,726	101,745	2,459	175,930	
Materials	141,332		1,011,141	1,152,473	
Depreciation	137,088	156,094	3,302	296,484	71,166
TOTAL OPERATING EXPENSES	490,665	394,755	1,016,902	1,902,322	71,166
Operating Income (Loss)	108,315	265,659	111,413	485,387	(20,166)
Nonoperating Revenue (Expense):					
Investment Earnings	1,469	1,283	351	3,103	810
Rental Revenue	98,197		15,000	113,197	
Sale of Surplus Property	-			-	(2,300)
Interest Expense and Fiscal Charges	(51,049)	(126,146)		(177,195)	
TOTAL NONOPERATING REVENUE (EXPENSE)	48,617	(124,863)	15,351	(60,895)	(1,490)
Income (Loss) Before Contributions and Transfers	156,932	140,796	126,764	424,492	(21,656)
Transfers In		95,000		95,000	
Transfers Out			(98,520)	(98,520)	
Change in Net Position	156,932	235,796	28,244	420,972	(21,656)
Net Position - Beginning	2,724,315	2,701,549	210,721	5,636,585	989,495
Adjustments:					
Pension Beginning Net Position	29,178	29,178		58,356	
Adjusted Net Position - Beginning	2,753,493	2,730,727	210,721	5,694,941	989,495
NET POSITION - ENDING	\$ 2,910,425	\$ 2,966,523	\$ 238,965	\$ 6,115,913	\$ 967,839

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, 2015

	Enterprise Funds				Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund	Total	
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 554,238	\$ 798,260	\$ 1,120,101	\$ 2,472,599	\$ -
Payments to Employees for Services	(147,065)	(143,311)		(290,376)	
Payments to Suppliers of Goods and Services	(204,238)	(225,682)	(1,012,378)	(1,442,298)	
Receipts for Interfund Services Provided				-	51,000
Net Cash Provided (Used) by Operating Activities	<u>202,935</u>	<u>429,267</u>	<u>107,723</u>	<u>739,925</u>	<u>51,000</u>
Cash Flows from Noncapital Financing Activities:					
Transfers to / from Other Funds	-	95,000	(98,520)	(3,520)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>-</u>	<u>95,000</u>	<u>(98,520)</u>	<u>(3,520)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:					
Proceeds from Capital Debt	-	225,022		225,022	
Purchase of Capital Assets	(343,755)	(612,588)	(2,661)	(959,004)	(135,387)
Principal Paid on Capital Debt	(97,771)	(261,498)		(359,269)	
Interest Paid on Capital Debt	(69,667)	(138,202)		(207,869)	
Other Receipts (Payments)	98,197	-	15,000	113,197	(35,021)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(412,996)</u>	<u>(787,266)</u>	<u>12,339</u>	<u>(1,187,923)</u>	<u>(170,408)</u>
Cash Flows from Investing Activities:					
Interest Earnings	1,874	1,560	351	3,785	727
Net Cash Provided by Investing Activities	<u>1,874</u>	<u>1,560</u>	<u>351</u>	<u>3,785</u>	<u>727</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(208,187)</u>	<u>(261,439)</u>	<u>21,893</u>	<u>(447,733)</u>	<u>(118,681)</u>
Cash and Cash Equivalents at Beginning of Year	1,151,623	936,229	183,243	2,271,095	650,925
Cash and Cash Equivalents at End of Year	<u>\$ 943,436</u>	<u>\$ 674,790</u>	<u>\$ 205,136</u>	<u>\$ 1,823,362</u>	<u>\$ 532,244</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ 108,315	\$ 265,659	\$ 111,413	\$ 485,387	\$ (20,166)
Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	137,088	156,094	3,302	296,484	71,166
Change in Assets and Liabilities:					
Receivables	(370)	(831)	(8,214)	(9,415)	
Due From Other Governments	-	150,149		150,149	
Customer Deposits	(260)			(260)	
Inventory of Supplies	(44,113)	(11,472)		(55,585)	
Prepaid Expenses	(2,563)	(2,894)		(5,457)	
Net Pension Asset	5,600	5,600		11,200	
Pension Related Deferred Outflow of Resources	(44,419)	(44,419)		(88,838)	
Accounts and Other Payables	11,383	(121,044)	1,222	(108,439)	
Accrued Leave Payable	1,000	1,000		2,000	
Accrued Taxes Payable	779	779		1,558	
Accrued Wages Payable	(4,294)	(4,143)		(8,437)	
Pension Related Deferred Inflows of Resources	34,789	34,789		69,578	
Net Cash Provided (Used) by Operating Activities	<u>\$ 202,935</u>	<u>\$ 429,267</u>	<u>\$ 107,723</u>	<u>\$ 739,925</u>	<u>\$ 51,000</u>

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.

The following Special Revenue funds of the Municipality are not considered major funds: Liquor, Lodging, and Dining Gross Receipts Tax Fund, and Library Fines Fund. These funds are reported on the fund financial statements as “Nonmajor Funds”.

Capital Project Funds – capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Library Building Capital Project Fund – to account for the financial resources to be used for the construction of the Dell Rapids Carnegie Public Library addition. This is a major fund.

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.

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 OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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, 2015 are sales taxes, property taxes, state shared revenues and miscellaneous other revenues.

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.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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.

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.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

The total December 31, 2015 balance of governmental activities capital assets includes approximately 2.5 percent for which the costs were determined by estimates of the original costs. The total December 31, 2015 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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.

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.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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 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.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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.

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.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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 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:

	<u>Year Ended</u> <u>12/31//2015</u>
General Fund:	
<u>Activity</u>	
Public Works	\$ 69,080
Conservation & Development	\$ 6,575

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.

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.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

The actual bank balances at December 31, 2015 were as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 540,886
Uninsured, collateral jointly held by state's/Municipality's agent in the name of the state and the pledging financial institution.	3,935,214
Uninsured, uncollateralized	-
Total Deposits	\$ 4,476,100

The carrying amount of deposits on the December 31, 2015 Government-wide Statement of Net Position was \$4,438,249. The reconciliation of deposits to Government-wide Statement of Net Position is as follows:

Cash and cash equivalents	\$ 4,438,249
Carrying amount	4,438,249
Less Petty Cash	(150)
Less Lottery Cash	(10,000)
Add outstanding transactions	48,001
	\$ 4,476,100

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, 2015.

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, 2015, the Municipality's deposits in financial institutions were fully insured or collateralized and were not exposed to custodial credit risk.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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, 2015, the Municipality does not have any investments.

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. Material supply inventories are recorded at cost.

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, purchases of supply inventory items are recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset 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, 2015 is as follows:

	Balance 1/1/2015	Increases	Decreases	Balance 12/31/2015
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 1,003,064	\$ -	\$ -	\$ 1,003,064
Construction Work in Progress	1,336,629	44,899	(1,336,629)	44,899
Total Capital Assets, Not Being Depreciated	<u>2,339,693</u>	<u>44,899</u>	<u>(1,336,629)</u>	<u>1,047,963</u>
Capital Assets, Being Depreciated				
Buildings & Structures	3,109,599	1,582,335	-	4,691,934
Improvements Other Than Buildings	4,786,829	1,147,899	-	5,934,728
Machinery and Equipment	2,069,886	229,440	(40,722)	2,258,604
Total Capital Assets, Being Depreciated	<u>9,966,314</u>	<u>2,959,674</u>	<u>(40,722)</u>	<u>12,885,266</u>
Less Accumulated Depreciation for:				
Buildings & Structures	(1,087,827)	(102,895)	-	(1,190,722)
Improvements Other Than Buildings	(685,149)	(193,372)	-	(878,521)
Machinery and Equipment	(1,230,843)	(127,622)	32,722	(1,325,743)
Total Accumulated Depreciation	<u>(3,003,819)</u>	<u>(423,889)</u>	<u>32,722</u>	<u>(3,394,986)</u>
Total Governmental Activities Capital Assets, Being Depreciated, Net	<u>6,962,495</u>	<u>2,535,785</u>	<u>(8,000)</u>	<u>9,490,280</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,302,188</u>	<u>\$ 2,580,684</u>	<u>\$ (1,344,629)</u>	<u>\$ 10,538,243</u>

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, 2015 were \$176,108.

Depreciation expense was charged to functions as follows:

	Balance 12/31/2015
Governmental Activities:	
General Government	\$ 24,133
Public Safety	32,734
Public Works	265,297
Culture & Recreation	101,725
Total Depreciation Expense - Governmental Activities	<u>\$ 423,889</u>

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

	Balance 1/1/2015	Increases	Decreases	Balance 12/31/2015
Business-Type Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 85,157	\$ -	\$ -	\$ 85,157
Construction Work in Progress	974,978	124,400	(974,978)	124,400
Total Capital Assets, Not Being Depreciated	1,060,135	124,400	(974,978)	209,557
Capital Assets, Being Depreciated				
Buildings	6,561,285	-	-	6,561,285
Improvements Other Than Buildings	3,827,171	1,803,257	-	5,630,428
Machinery and Equipment	663,955	6,325	-	670,280
Total Capital Assets, Being Depreciated	11,052,411	1,809,582	-	12,861,993
Less Accumulated Depreciation for:				
Buildings	(2,374,788)	(128,400)	-	(2,503,188)
Improvements Other Than Buildings	(427,773)	(143,918)	-	(571,691)
Machinery and Equipment	(288,114)	(24,166)	-	(312,280)
Total Accumulated Depreciation	(3,090,675)	(296,484)	-	(3,387,159)
Total Business-Type Activity Capital Assets, Being Depreciated, Net	7,961,736	1,513,098	-	9,474,834
Business-Type Activity Capital Assets, Net	\$ 9,021,871	\$ 1,637,498	\$ (974,978)	\$ 9,684,391

Depreciation expense was charged to functions as follows:

	Balance 12/31/2015
Business-Type Activities:	
Water	\$ 137,088
Wastewater	156,094
Liquor	3,302
Total Depreciation Expense - Business-Type Activities	\$ 296,484

Construction Work in Progress at December 31, 2015 is composed of the following:

Project Name	Project Authorization	Expended thru 12/31/2015	Committed	Required Future Financing
Quartzite Street	\$ 1,100,000	\$ 34,324	\$ -	\$ -
SD Highway 115	1,100,000	22,235		
10th Street - Gravel	642,000	28,025		
Treatment Lagoons (WWTF)	5,758,000	84,715		
Total	\$ 8,600,000	\$ 169,299	\$ -	\$ -

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

8. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

Primary Government:

	Balance 1/1/2015	Additions	Deletions	Balance 12/31/2015	Due Within One Year
Governmental Activities:					
Accrued Compensated					
Absences-Governmental Funds	19,544	17,393	(19,544)	17,393	-
Total Governmental Activity	19,544	17,393	(19,544)	17,393	-
Business-Type Activities:					
SRF 2003 Drinking Water	369,987		(30,562)	339,425	31,646
SRF 2006 Clean Water	392,220		(25,873)	366,347	26,725
SRF 2006 Drinking Water	111,451		(7,535)	103,916	7,782
SRF 2007 Clean Water	823,399		(46,221)	777,178	47,742
SRF 2009 Clean Water	786,399		(39,707)	746,692	41,013
SRF 2011 Drinking Water	396,417		(16,879)	379,538	17,391
SRF 2011 Clean Water	318,605		(13,565)	305,040	13,977
SRF 2012 Drinking Water	220,735		(25,475)	195,260	26,052
SRF 2013 Dringing Water	625,058		(17,321)	607,737	23,708
SRF 2013 Clean Water	612,000		(16,959)	595,041	23,212
SRF 2014 Clean Water	974,978	225,022	(119,172)	1,080,828	48,032
Total Debt	5,631,249	225,022	(359,269)	5,497,002	307,280
Accrued Compensated					
Absences-Business-Type Funds	37,916	39,916	(37,916)	39,916	-
Total Business-Type Activities	5,669,165	264,938	(397,185)	5,536,918	307,280
TOTAL PRIMARY GOVERNMENT	\$ 5,688,709	\$ 282,331	\$ (416,729)	\$ 5,554,311	\$ 307,280

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

Debt payable at December 31, 2015 is comprised of the following:

<u>State Revolving Fund (SRF) Loan 2003 Drinking Water:</u>	
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.	\$ 339,425
<u>State Revolving Fund (SRF) Loan 2006 Clean Water:</u>	
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.	\$ 366,347
<u>State Revolving Fund (SRF) Loan 2006 Drinking Water:</u>	
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.	\$ 103,916
<u>State Revolving Fund (SRF) Loan 2007 Clean Water:</u>	
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.	\$ 777,178
<u>State Revolving Fund (SRF) Loan 2009 Clean Water</u>	
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.	\$ 746,692
<u>State Revolving Fund (SRF) Loan 2011 Drinking Water</u>	
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.	\$ 379,538
<u>State Revolving Fund (SRF) Loan 2011 Clean Water</u>	
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.	\$ 305,040
<u>State Revolving Fund (SRF) Loan 2012 Drinking Water</u>	
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.	\$ 195,260
<u>State Revolving Fund (SRF) Loan 2013 Drinking Water</u>	
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.	\$ 607,737
<u>State Revolving Fund (SRF) Loan 2013 Clean Water</u>	
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.	\$ 595,041
<u>State Revolving Fund (SRF) Loan 2014 Clean Water</u>	
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.	\$1,080,828
<u>Compensated Absences:</u>	
Accrued vacation and sick leave payable from the General Fund and Enterprise Funds	\$ 57,309

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

The annual requirements to amortize all debt outstanding as of December 31, 2015, except for compensated absences but including interest payments of \$1,432,924 are as follows:

Annual Requirements to Amortize Long-Term Debt
December 31, 2015

Year Ending Dec. 31,	State Revolving Loans	
	Principal	Interest
2016	307,279	166,680
2017	316,970	156,990
2018	326,876	147,083
2019	337,095	136,864
2020	347,565	126,395
2021-2025	1,782,111	464,671
2026-2030	1,467,515	200,880
2031-2035	611,591	33,361
TOTAL	\$ 5,497,002	\$ 1,432,924

9. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2015 were as follows:

	<u>Transfer To:</u>		
	<u>General Fund</u>	<u>Wastewater Fund</u>	<u>Capital Projects Fund</u>
<u>Transfer From:</u>			
General Fund		95,000	27,021
Liquor Fund	98,520		
Capital Projects Fund	487,000		
	<u>\$ 585,520</u>	<u>\$ 95,000</u>	<u>\$ 27,021</u>

The transfers the Municipality budgeted for this year were for the Library Building construction project, excess Liquor revenue to the General Fund, and repayment of prior year transfer to the Library Building Fund.

10. PRIOR PERIOD ADJUSTMENT:

The Municipality implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of January 1, 2015 as follows:

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

	Governmental Activities	Business-Type Activities	Total Primary Government
Net Position January 1, 2015, as previously reported	\$ 12,907,727	\$ 5,636,585	\$ 18,544,312
Restatement for pension accounting:			
Net Pension Asset	140,426	80,652	221,078
Pension related Deferred Outflows of Resources	123,818	71,114	194,932
Pension related Deferred Inflows of Resources	(162,637)	(93,409)	(256,046)
Net Position January 1, 2015 as restated	<u>\$ 13,009,334</u>	<u>\$ 5,694,942</u>	<u>\$ 18,704,276</u>

11. 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 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://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

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

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

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

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. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014, and 2013 were \$36,251, \$32,385, and \$30,517, respectively, equal to the required contributions each year.

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

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of this measurement period and reported by the Municipality as of December 31, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$	3,284,224
Less proportionate share of total pension liability		3,154,968
Proportionate share of net pension asset	\$	129,256

At December 31, 2015, the Municipality reported an asset of \$129,256 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset 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, 2015, the Municipality's proportion was 0.03047570%, which is a decrease of .00021% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Municipality recognized pension expense of \$14,107. At December 31, 2015 the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience	26,466	
Changes in assumption	102,492	
Net difference between projected and actual earnings on pension plan investments	78,960	190,721
Changes in proportion and difference between Municipality contributions and proportionate share of contributions	679	
Municipality contributions subsequent to the measurement date	34,919	
TOTAL	243,516	190,721

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

\$34,919 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ending Dec. 31,	
2016	6,295
2017	6,295
2018	(16,308)
2019	<u>21,595</u>
TOTAL	<u>\$ 17,877</u>

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.8%
Total	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2016 and 7.50% thereafter. 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 (asset).

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

The following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, 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 (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) 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)	325,336	(129,256)	(499,937)

Pension Plan Fiduciary Net Position:

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

12. SIGNIFICANT CONTINGENCIES – LITIGATION:

At December 31, 2015, the Municipality was not involved in any litigation.

13. SUBSEQUENT EVENTS

The Municipality has evaluated subsequent events to October 14, 2016, the date which the financial statements were available to be issued, and determined that there are no events occurring subsequent to the end of the year merit recognition or disclosure in these statements.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL 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, 2015, the Municipality managed its risks as follows:

Employee Health Insurance

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

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 an annual premium, 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.

The agreement with the SDPAA provides that the above coverages will be provided to a \$3,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The Municipality would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of Municipality's First Full Year	50%
End of Municipality's Second Full Year	60%
End of Municipality's Third Full Year	70%
End of Municipality's Fourth Full Year	80%
End of Municipality's Fifth Full Year	90%
End of Municipality's Sixth Full Year and Thereafter	100%

As of December 31, 2015, the Municipality has vested balance in the cumulative reserve fund of \$40,625.

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.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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 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 an additional \$2,000,000 per individual 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, 2015 no claims for unemployment benefits were paid. At December 31, 2015 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, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Revenue from Local Sources:				
Taxes:				
General Property Taxes	\$ 1,015,001	\$ 1,015,001	\$ 1,018,500	\$ 3,499
General Sales and Use Taxes	800,000	800,000	1,031,661	231,661
Amusement Taxes	400	400	360	(40)
Penalties and Interest on Delinquent Taxes	1,000	1,000	1,713	713
Licenses and Permits	20,450	20,450	41,826	21,376
Intergovernmental Revenue:				
Federal Grants	26,372	26,372	30,158	3,786
State Grants	-	-	9,445	9,445
State Shared Revenue:				
Bank Franchise Tax	25,000	25,000	23,599	(1,401)
Motor Vehicle Commercial Prorate	2,000	2,000	2,955	955
Liquor Tax Reversion	17,000	17,000	22,591	5,591
Motor Vehicle Licenses (5%)	12,000	12,000	26,641	14,641
Local Government Highway and Bridge Fund	30,000	30,000	51,979	21,979
Other	2,500	2,500	-	(2,500)
County Shared Revenue:				
County Wheel Tax	4,000	4,000	5,513	1,513
Charges for Goods and Services:				
General Government	500	500	700	200
Sanitation	8,800	8,800	11,292	2,492
Culture and Recreation	32,600	32,600	48,575	15,975
Other	9,000	9,000	16,686	7,686
Fines and Forfeits:				
Court Fines and Costs	750	750	73	(677)
Parking Meter Fines	1,000	1,000	4,796	3,796
Other	300	300	280	(20)
Miscellaneous Revenue:				
Investment Earnings	3,000	3,000	3,782	782
Rentals	-	-	2,200	2,200
Special Assessments	9,195	9,195	12,780	3,585
Contributions and Donations from Private Sources	10,000	10,000	710	(9,290)
Other	12,050	12,050	23,675	11,625
Total Revenue	\$ 2,042,918	\$ 2,042,918	\$ 2,392,490	\$ 349,572

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, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures:				
General Government:				
Legislative	\$ 52,469	\$ 52,469	\$ 49,621	\$ 2,848
Contingency	30,000	30,000		30,000
Amount Trasferred		(30,000)		(30,000)
Executive	161,338	161,338	149,700	11,638
Elections	1,300	1,300	1,381	(81)
Financial Administration	109,858	109,858	109,360	498
Other	90,190	90,190	101,531	(11,341)
Total General Government	<u>445,155</u>	<u>415,155</u>	<u>411,593</u>	<u>3,562</u>
Public Safety:				
Police	245,455	245,455	245,455	-
Fire	60,658	60,658	60,201	457
Protective Inspection	52,591	52,591	33,818	18,773
Total Public Safety	<u>358,704</u>	<u>358,704</u>	<u>339,474</u>	<u>19,230</u>
Public Works:				
Highways and Streets	1,144,541	1,414,541	1,476,034	(61,493)
Sanitation	9,554	10,554	9,974	580
Transit	49,927	49,927	58,094	(8,167)
Total Public Works	<u>1,204,022</u>	<u>1,475,022</u>	<u>1,544,102</u>	<u>(69,080)</u>
Health and Welfare:				
Health	3,623	3,623	1,613	2,010
Humane Society	2,300	2,300	1,742	558
Ambulance	40,000	40,000	40,000	-
Total Health and Welfare	<u>45,923</u>	<u>45,923</u>	<u>43,355</u>	<u>2,568</u>
Culture and Recreation:				
Recreation	154,283	154,283	90,065	64,218
Parks	94,386	165,386	128,741	36,645
Libraries	167,499	182,543	180,398	2,145
Total Culture and Recreation	<u>416,168</u>	<u>502,212</u>	<u>399,204</u>	<u>103,008</u>
Conservation and Development:				
Economic Development and Assistance	37,000	37,000	43,575	(6,575)
Total Expenditures	<u>2,506,972</u>	<u>2,834,016</u>	<u>2,781,303</u>	<u>52,713</u>
Excess of Revenue Over (Under) Expenditures	<u>(464,054)</u>	<u>(791,098)</u>	<u>(388,813)</u>	<u>402,285</u>
Other Financing Sources (Uses):				
Transfers In	252,055	579,099	585,520	6,421
Sale of Municipal Property	300,000	300,000	-	(300,000)
Compensation for Losses	-	-	28,858	28,858
Transfer Out	(95,000)	(122,021)	(122,021)	-
Total Other Financing Sources (Uses)	<u>457,055</u>	<u>757,078</u>	<u>492,357</u>	<u>(264,721)</u>
Net Changes in Fund Balances	<u>(6,999)</u>	<u>(34,020)</u>	<u>103,544</u>	<u>137,564</u>
Fund Balance Beginning	<u>1,948,871</u>	<u>1,948,871</u>	<u>1,948,871</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 1,941,872</u>	<u>\$ 1,914,851</u>	<u>\$ 2,052,415</u>	<u>\$ 137,564</u>

MUNICIPALITY OF DELL RAPIDS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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 introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual 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 each major special revenue fund.
7. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with accounting principles generally accepted in the United States (USGAAP).

2. GAAP / Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP 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'S PROPORTIONATE SHARE OF THE NET
PENSION ASSET
South Dakota Retirement System

	2015
Municipality's proportion of the net pension liability (asset)	0.0304757%
Municipality's proportionate share of net pension liability (asset)	\$ (129,256)
Municipality's covered-employee payroll	\$ 606,183
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-21.3229%
Plan fiduciary net position as a percentage of the total pension liability (asset)	104.10%

The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is 6/30/2015.

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

	2015
Contractually required contribution	\$ 36,251
Contributions in relation to the contractually required contribution	\$ 36,251
Contribution deficiency (excess)	\$ -
Municipality's covered-employee payroll	\$ 606,183
Contributions as a percentage of covered-employee payroll	5.98%