

MUNICIPALITY OF DELL RAPIDS

AUDIT REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2016

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, 2016 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated September 22, 2017.

**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 2016-001 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 2016-002.

### **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  
September 22, 2017

MUNICIPALITY OF DELL RAPIDS  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Prior Audit Findings**

Finding No. 2015-001:

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 2016-001.

Finding No. 2015-002:

Noncompliance with SDCL 9-21-9 by incurring expenditures in excess of the budgeted amounts. This finding has not been corrected and is restated as current audit finding number 2016-002.

MUNICIPALITY OF DELL RAPIDS  
SCHEDULE OF CURRENT AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Current Audit Findings:**

**Internal Control – Related Findings – Material Weaknesses:**

Finding No. 2016-001:

*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 fourteenth consecutive audit report in which this finding has appeared.

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

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

*Recommendation:* Implementation of compensating controls.

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

**Compliance and Other Matters:**

Finding No. 2016-002:

*Criteria:* South Dakota Codified Law (SDCL) 9-21-9 requires that expenditures be limited to appropriated amounts. This is the third 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, 2016 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 7 through 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 September 22, 2017 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  
September 22, 2017

**MUNICIPALITY OF DELL RAPIDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

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, 2016. 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 \$3,233,170 and \$2,276,498 governmental expenditures. This is an increase from the prior year when revenue exceeded expenditures by \$315,036.
- In the Municipality's business-type activities, revenues were \$2,872,582 and \$2,269,532 business-type expenditures. This is an increase from the prior year when revenue exceeded expenditures by \$420,971.
- The combined net position of the Municipality from prior year is an increase of \$1,559,722 or 8.02%.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-2 summarizes the major features of the Municipality's financial statements, including the portion of the Municipal government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

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

### Government-wide Statements

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

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

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

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

- **Governmental Activities** -- This category includes the most of the Municipality's basic services, such as finance office, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
- **Business-type Activities** -- The Municipality charges a fee to customers to help cover the costs of certain services it provides. The Municipality's water and sewer systems are included here as well as the Municipality's Liquor Fund.

### **Fund Financial Statements**

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

- State Law requires some of the funds.
- The Municipal Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Municipality has two kinds of funds:

- **Governmental Funds** – Most of the Municipality's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily 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 8.02% between fiscal year 2015 and 2016 – or an increase of \$1,559,723 (See Table A-1).

	Governmental Activities		Business-Type Activities		Total		Total % Changed
	2015	2016	2015	2016	2015	2016	
Current and Other Assets	3,007,264	2,779,980	2,226,481	2,226,015	5,233,745	5,005,995	-4.35%
Capital Assets	10,538,245	11,704,816	9,684,391	10,082,486	20,222,636	21,787,302	7.74%
Total Assets	13,545,509	14,484,796	11,910,872	12,308,501	25,456,381	26,793,297	5.25%
AP and Other Current Liabilities	203,746	106,695	258,041	510,320	461,787	617,015	33.61%
Noncurrent Liabilities	17,393	97,059	5,536,918	5,079,217	5,554,311	5,176,276	-6.81%
Total Liabilities	221,139	203,754	5,794,959	5,589,537	6,016,098	6,793,291	-3.70%
<b>Net Position:</b>							
Net Investment in Capital Assets	10,538,245	11,704,816	4,187,389	4,762,103	14,725,634	16,466,919	11.82%
Restricted	241,001	237,834	587,328	581,899	828,329	819,733	-1.04%
Unrestricted	2,545,124	2,338,392	1,341,196	1,374,962	3,886,320	3,713,354	-4.45%
Total Net Position	13,324,370	14,261,042	6,115,913	6,718,984	19,440,283	21,000,006	8.02%

The Statement of Net Position presents the assets and liabilities in order of relative liquidity. Liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. Long-term liabilities of the Municipality, consisting of compensated absences payable, sales tax revenue bonds payable and water revenue bonds payable, have been reported in this manner on the Statement of Net Position. The difference between the Municipality's assets and liabilities is its net position.

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

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

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

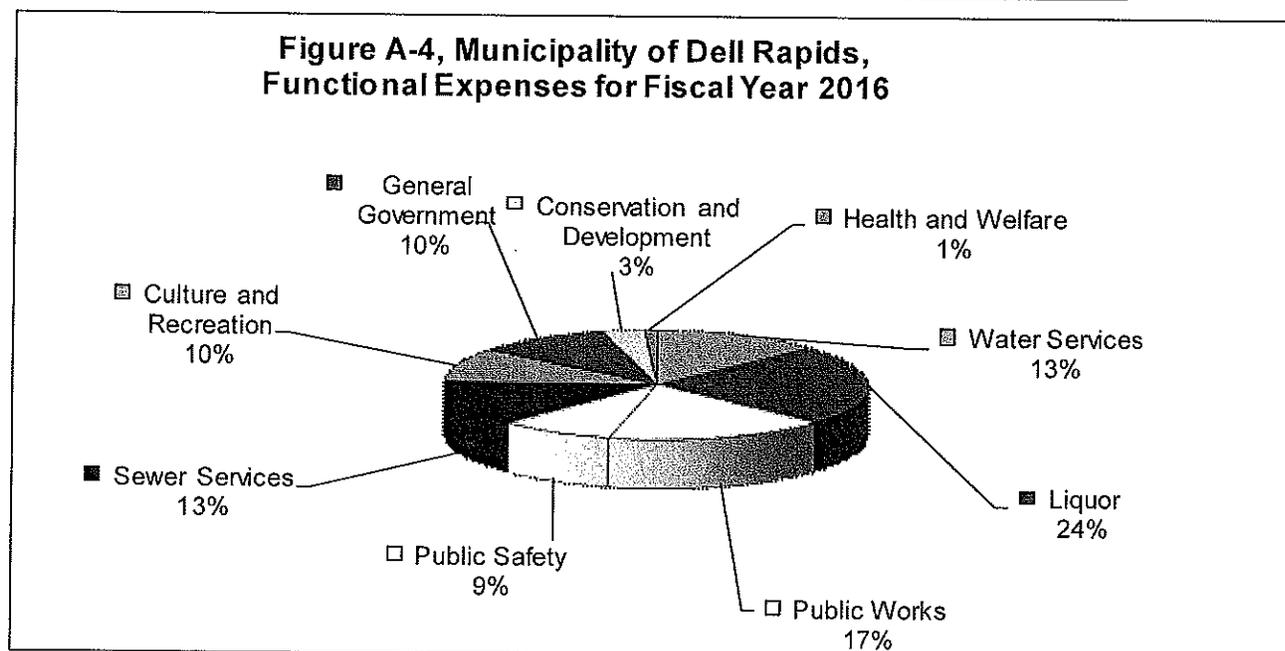
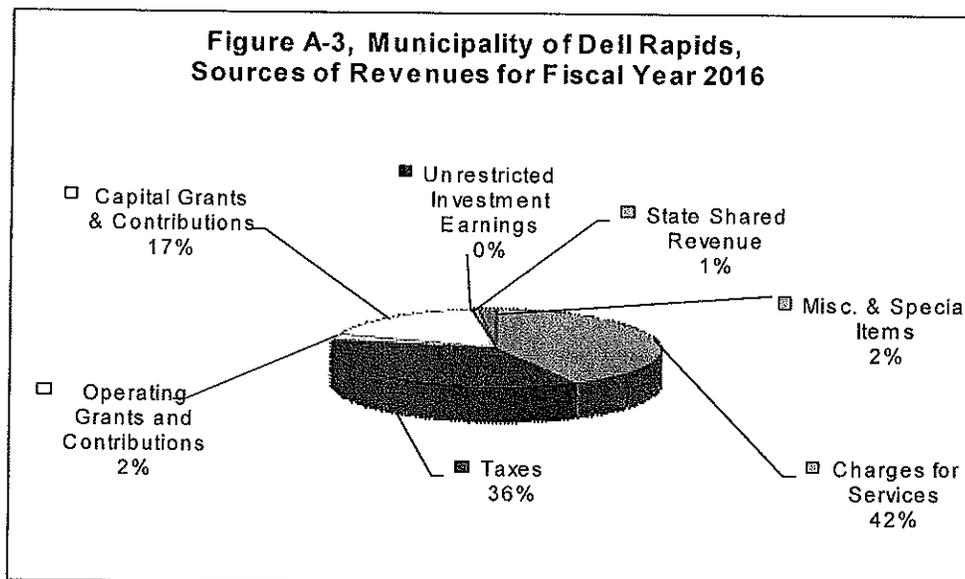
At the end of the current year, the Municipality is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

### Changes in Net Position

The Municipality's revenues (excluding special items) totaled \$6,105,752. (See Table A-2.) Well over half of the Municipality's revenue comes from charges for services and taxes, with 42 cents of

every dollar raised coming from charges for services (primarily water, sewer, and liquor operations) and 36 cents of every dollar raised comes from some type of tax. (See Figure A-3). Another 17% comes 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 % Change
	2015	2016	2015	2016	2015	2016	
<b>Revenues</b>							
Program Revenues							
Charges for Services	129,712	139,672	2,219,374	2,470,941	2,349,086	2,610,613	11.1%
Operating Grants	126,690	126,188	-	-	126,690	126,188	(.40)%
Capital Grants and Contributions	37,224	668,398	168,336	317,911	692,560	986,309	42.4%
<b>General Revenues</b>							
Taxes	2,101,522	2,226,257	-	-	2,101,522	2,226,257	5.93%
Revenue State Sources	46,190	38,213	-	-	46,190	38,213	(17.27)%
Unrestricted Investment Earnings	3,988	5,393	3,103	3,480	7,091	8,873	25.13%
Miscellaneous	73,185	25,529	113,193	83,770	186,378	109,299	(41.35)%
<b>Total Revenues</b>	<b>2,518,511</b>	<b>3,229,650</b>	<b>2,504,006</b>	<b>2,876,102</b>	<b>5,022,517</b>	<b>6,105,752</b>	<b>21.56%</b>
<b>Expenses</b>							
<b>General</b>							
Government	444,995	475,850	-	-	444,995	475,850	6.93%
Public Safety	369,086	390,733	-	-	369,086	390,733	5.86%
Public Works	670,007	772,985	-	-	670,007	772,985	15.37%
Health and Welfare	43,355	46,177	-	-	43,355	46,177	6.51%
Culture and Recreation	387,516	445,758	-	-	387,516	445,758	15.03%
Conservation and Development	320,894	144,995	-	-	320,894	144,995	(54.82)%
Water Services	-	-	541,713	577,921	541,713	577,921	6.68%
Sewer Services	-	-	520,900	607,017	520,900	607,017	16.53%
Liquor	-	-	1,016,902	1,084,595	1,016,902	1,084,595	6.66%
<b>Total Expenses</b>	<b>2,235,853</b>	<b>2,276,498</b>	<b>2,079,515</b>	<b>2,269,532</b>	<b>4,315,368</b>	<b>4,546,030</b>	<b>5.34%</b>
<b>Excess (Deficiency) Before Special Contributions</b>							
	282,658	953,152	424,491	606,570	707,149	1,559,722	120.56%
Special Items	28,858	0	-	-	28,858	0	
Extraordinary Items	-	-	-	-	-	-	
Transfers	3520	3520	(3,520)	(3,520)	0	0	
<b>Increase (Decrease) in Net Position</b>	<b>315,036</b>	<b>956,672</b>	<b>420,971</b>	<b>603,050</b>	<b>736,007</b>	<b>1,559,722</b>	<b>111.92%</b>
<b>Ending Net Position</b>	<b>13,324,370</b>	<b>14,281,043</b>	<b>6,115,913</b>	<b>6,718,963</b>	<b>19,440,283</b>	<b>21,000,006</b>	<b>8.02%</b>

**Governmental Activities**

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

Governmental revenues for the Municipality increased 28.06%, while Governmental expenses increased by only 1.36%. The reason for the increase in revenue is largely due to capital grants received during the current year. Community Access Grant (10<sup>th</sup> Street Project) \$177,670, GEOD LIIP Grant (Quartzite Street) \$216,773.17, and Industrial Park Grant (Quartzite Street) \$250,000. In 2015 there were relatively few Governmental capital projects resulting in capital grants and contributions, \$37,224.

The Municipality spent only 1.36% more in the General Government departments in 2016 than in 2015. All departments saw an increase of approximately 4.5% from a merit and COLA increase per employee. Also in the Finance department, professional fees and services increased 47.93% or \$10,529 as a result of completing and paying for the 2014 and 2015 audits in 2015. Finally, the Municipality noticed a 54.82% decrease in the Conservation and Development department as a result of the City Council forgiving the \$238,600 note receivable due from the Economic Development Corporation in the previous year.

### **Business-type Activities**

Revenues of the Municipality's business-type activities increased by 14.86% or \$372,096 and expenses increased by 8.86%. Factors contributing to these results included: Capital grant revenue in the amount of \$366,997 versus \$168,336 in 2015. The majority of the 2016 grant revenue is from the 10<sup>th</sup> St and Hwy 115 grants. Business-type activity Water and Sewer Funds both saw an increase of approximately 4.5% from a merit and COLA increase per employee. Sewer Fund expenses also increased slightly more as a result of an increase in of approximately \$37,000 in normal operating expenses such as professional services and supplies. Finally, the Sewer Fund saw an increase of \$45,000 of depreciation expense from prior year.

### **FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS**

The financial analysis of the Municipality's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The Municipality maintains four governmental funds - General, Gross Receipts, Library Fines and Fees, and the Library Donations Funds and only three business type funds – Water, Sewer and Liquor Funds. 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 building department was approved for a supplemental appropriation of \$42,000, the rubble site and transit departments were approved for supplemental appropriations of \$10,000 and \$15,000, respectively. The community support department was approved for a supplemental appropriation of \$16,475 to account for the TIF#1 funds being received and subsequently paid out. The final approved supplemental appropriation is for the code enforcement department in the amount of \$4,670.

## CAPITAL ASSET ADMINISTRATION

By the end of 2016, the Municipality had invested \$2,506,619 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 \$2,336,566, or 8.65%, over the last year.

Table A-3  
Municipality of Dell Rapids - Capital Assets  
(net of depreciation)

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2015	2016	2015	2016		
Land	\$ 1,003,064	\$ 1,003,064	\$ 85,157	\$ 85,157	\$ -	0.00%
Construction in Progress	44,899	266,547	124,400	868,399	965,647	2150.71%
Buildings	4,691,934	4,738,359	6,561,285	6,561,285	46,425	0.99%
Improvements Other Than Buildings	5,934,728	7,300,244	5,630,428	5,630,428	1,365,516	8.00%
Machinery and Equipment	2,258,604	2,294,089	670,280	593,773	(41,022)	-1.82%
<b>Total Capital Assets (Net)</b>	<b>13,933,229</b>	<b>15,602,303</b>	<b>13,071,550</b>	<b>13,739,042</b>	<b>2,336,566</b>	<b>8.65%</b>

This year's major capital asset additions included:

- Governmental fund additions were the completion of the Quartzite Street project of \$930,350 and the 2016 street sealing project of \$209,093.
- Business-type major addition is a result of an increase in construction in progress of \$743,999. Business-type projects in process at the end of 2016 include SD Hwy 115, 10<sup>th</sup> St. and the construction of the wastewater treatment facility.

## LONG-TERM DEBT

At the year-end the Municipality had \$5,398,821 in Water and Wastewater SRF loans and other long-term obligations. This is a decrease of 4.34% 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
	2015	2016	2015	2016		
Compensated Absences	\$ 17,393	\$ 28,050	\$ 39,916	\$ 39,408	\$ 10,149	17.71%
Pension Liability	\$ 121,143	\$ 69,077	\$ 69,577	\$ 39,030		
Water SRF Loans	0	0	1,625,877	1,649,960	24,083	1.48%
WasteWater SRF Loans	0	0	3,871,125	3,670,423	(200,702)	-5.18%
<b>Total Outstanding Debt and Obligations</b>	<b>138,536</b>	<b>97,127</b>	<b>5,606,495</b>	<b>5,398,821</b>	<b>(249,083)</b>	<b>-4.34%</b>

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 increase is due to a increase in the amount of leave accumulated and outstanding at the end of the year.

The Municipality has six outstanding SRF Drinking Water Loans totaling \$1,649,960. The loans are secured and paid for from the Water Fund. These bonds were used for various projects and the last one will begin repayment in 2018 and will be fully paid off in 2048.

The Municipality has six outstanding SRF Clean Water Loans totaling \$3,670,423. 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 \$36,157 or 3.38% 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. The City did not take the CPI increase in either 2015 or 2016, however, the mill levy has decreased from 5.567 to its current level of 5.221. The 2017 levy is based upon Growth Projections of 4.03% and CPI of 0%.

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 2<sup>nd</sup> 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 7.06% over the prior year. The Municipality has budgeted for a decrease in sales tax revenue for the next year to remain conservative and as not to overestimate revenue.

The 2017 proposed spending for all funds is \$12,041,909 as compared to \$7,801,881 in the 2016 Adopted Budget (2015 Budget \$5,639,244 - Northview Drive; 2014 Budget \$8,270,673 - SE Sewer Extension). 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.

A 2% Cost of Living Adjustment (COLA) and a 3% merit increase for employees are included in the 2017 budget (total 5%). The actual Merit increase awarded to employees is generally between 2 and 3% based upon the performance of the individual. 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 2017 General Fund accounts for 27% (\$3,282,491) of total proposed spending, which is attributed to a wide array of programs contained within the fund. While 2016 reflected a very aggressive spending year with the Quartzite Street and 10th Street projects, the 2017 General Fund reflects a more normal year of spending as the major projects are within the water and sewer fund. A few of the more substantial projects that will be completed this year include: Paving Garfield Avenue between Quartzite and Centennial Avenues (\$370,000), Rickeman field comfort station and Phase 1 of camp ground addition (\$120,000), and the City's match on the Hwy 115 Project Recreation Trail construction (\$265,000).

In 2017 the Water Fund budget reflects the plan to replace several hundred feet of water main in 2017 in coordination with the DOT's Hwy 115 project. The total cost of the water main portion of

this project is \$434,000. This project will be funded through a DENR SRF Water Loan in this same amount. The 2017 budget also reflects the remainder of the 10th Street project costs not completed in 2016.

The waste water fund will undergo a historic expenditure in 2017 to begin the construction of the Sequence Batch Reactor Facility. The majority of the expenditures are to occur in 2017 in the amount of \$4,824,626. The DENR awarded a loan for the project that included 55% of the project funding through a grant. The City will finance \$1,997,396 for 2017 expenditures in the form of a loan and \$2,827,230.84 with a consolidated grant. In order to cover principal and interest on the WWTF loan it will be necessary to increase the sewer rates. To comply with the loan agreement the City needs to dedicate \$137,000 annually towards the loan payment. To do this the City will adopt a "surcharge" to be dedicated directly towards this payment. The 2017 rates will be as follows;

**Current Rate = \$43.64 per 5,000 gallons (Raised by 20% in 2016)**

**The City will implement an \$8.60 surcharge to pay for the new WWTF.**

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

**The City will reduce the minimum from \$18.34 to \$16.00.**

**The total cost for 5,000 gallons used would be \$49.90. An increase of 14% from the current rate of \$43.64.**

The 2017 budget not only lays out an aggressive project year but is 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. 4<sup>th</sup> Street, Po Box 10, Dell Rapids, SD 57022. 605-428-3595.

MUNICIPALITY OF DELL RAPIDS  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 2,451,517	\$ 1,760,762	\$ 4,212,279
Receivables	91,596	334,828	426,424
Inventories	27,784	38,838	66,623
Deposits	40,625		40,625
Prepaid Expenses	17,747	5,163	22,909
Capital Assets:			
Land and Construction in Progress	1,269,611	953,557	2,223,168
Other Capital Assets, Net of Depreciation	10,435,205	9,128,929	19,564,134
<b>TOTAL ASSETS</b>	<b>\$ 14,334,086</b>	<b>\$ 12,222,076</b>	<b>\$ 26,556,162</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pension Related Deferred Outflows	150,710	86,425	237,135
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>150,710</b>	<b>86,425</b>	<b>237,135</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>14,484,796</b>	<b>12,308,501</b>	<b>26,793,297</b>
<b>LIABILITIES:</b>			
Accounts Payable	\$ 72,486	\$ 139,874	\$ 212,360
Other Current Liabilities	34,140	50,842	84,982
Noncurrent Liabilities:			
Due Within One Year	-	316,970	316,970
Due in More than One Year	97,059	5,079,217	5,176,276
<b>TOTAL LIABILITIES</b>	<b>203,685</b>	<b>5,586,904</b>	<b>5,790,588</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Pension Related Deferred Inflows	69	2,634	2,703
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>69</b>	<b>2,634</b>	<b>2,703</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	11,704,816	4,762,103	16,466,919
Restricted for:			
Debt Service Purposes		521,355	521,355
Library	3,859		3,859
City Promotion	96,068		96,068
Insurance Cumulative Reserve	40,625		40,625
SDRS Pension Purposes	81,633	47,395	129,028
Unrestricted	2,354,041	1,388,109	3,742,150
<b>TOTAL NET POSITION</b>	<b>14,281,043</b>	<b>6,718,962</b>	<b>21,000,005</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 14,484,796</b>	<b>\$ 12,308,501</b>	<b>\$ 26,793,297</b>

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

MUNICIPALITY OF DELL RAPIDS  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2016

Functions/Programs Primary Government	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government	\$ 475,850	\$ 3,500	\$ 1,875	\$ -	\$ (470,475)	\$ -	\$ (470,475)
Public Safety	390,733	61,523			(329,210)		(329,210)
Public Works	772,985		87,471	665,340	(20,174)		(20,174)
Health and Welfare	46,177				(46,177)		(46,177)
Culture and Recreation	445,758	74,650	36,842	3,058	(331,208)		(331,208)
Conservation and Development	144,995				(144,995)		(144,995)
<b>Total Governmental Activities</b>	<b>2,276,498</b>	<b>139,672</b>	<b>126,188</b>	<b>668,398</b>	<b>(1,342,240)</b>	<b>-</b>	<b>(1,342,240)</b>
Business-type Activities:							
Water	577,921	619,072				41,151	41,151
Wastewater	607,017	644,280		317,911		355,174	355,174
Liquor	1,084,595	1,207,589				122,994	122,994
<b>Total Business-type Activities:</b>	<b>2,269,532</b>	<b>2,470,941</b>	<b>-</b>	<b>317,911</b>	<b>-</b>	<b>519,320</b>	<b>519,320</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 4,546,031</b>	<b>\$ 2,610,613</b>	<b>\$ 126,188</b>	<b>\$ 986,310</b>	<b>(1,342,240)</b>	<b>519,320</b>	<b>(822,920)</b>
<b>General Revenues:</b>							
Taxes:							
					1,069,331		1,069,331
					1,156,926		1,156,926
					38,213		38,213
					5,393	3,480	8,873
					25,529	83,770	109,299
					3,520	(3,520)	-
					2,296,912	83,730	2,382,642
					956,673	603,049	1,559,722
					13,324,370	6,115,913	19,440,283
					\$ 14,281,043	\$ 6,718,962	\$ 21,000,005

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

MUNICIPALITY OF DELL RAPIDS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016

	General Fund	Nonmajor Funds	Governmental Funds
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 1,833,140	\$ 99,632	\$ 1,932,773
Taxes Receivable - Current	4,869		4,869
Taxes Receivable - Delinquent	9,992		9,992
Accounts Receivable, Net	23,124	600	23,724
Special Assessments Receivable - Current	1,511		1,511
Special Assessments Receivable - Delinquent	250		250
Special Assessments Receivable - Deferred	899		899
Interest Receivable - Special Assessments	293		293
Inventory of Supplies	27,784		27,784
Deposits	40,625		40,625
Prepaid Expenses	17,747		17,747
Due from State Government	48,316	1,742	50,058
	<u>2,008,551</u>	<u>101,974</u>	<u>2,110,525</u>
<b>TOTAL ASSETS</b>	<b>\$ 2,008,551</b>	<b>\$ 101,974</b>	<b>\$ 2,110,525</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:</b>			
<b>LIABILITIES:</b>			
Claims Payable	\$ 70,440	\$ 2,047	\$ 72,487
Contracts Payable	23,546		23,546
Accrued Wages Payable	8,653		8,653
Accrued Taxes Payable	1,941		1,941
	<u>104,580</u>	<u>2,047</u>	<u>106,627</u>
<b>TOTAL LIABILITIES</b>	<b>104,580</b>	<b>2,047</b>	<b>106,627</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Unavailable Revenue - Property Taxes	9,992		9,992
Unavailable Revenue - Special Assessments	2,953		2,953
	<u>12,945</u>	<u>-</u>	<u>12,945</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>12,945</b>	<b>-</b>	<b>12,945</b>
<b>FUND BALANCES:</b>			
<b>Nonspendable</b>			
Deposits	40,625		40,625
Inventory	27,784		27,784
Prepaid Expenses	17,747		17,747
<b>Restricted</b>			
City Promotion		96,068	96,068
Library		3,859	3,859
Unassigned	1,804,870		1,804,870
	<u>1,891,026</u>	<u>99,927</u>	<u>1,990,953</u>
<b>TOTAL FUND BALANCES</b>	<b>1,891,026</b>	<b>99,927</b>	<b>1,990,953</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 2,008,551</b>	<b>\$ 101,974</b>	<b>\$ 2,110,525</b>

*SOPAA - Fully  
Voted - Will  
not Change.*

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, 2016

Total Fund Balances - Governmental Funds		\$ 1,990,953
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		11,297,062
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds		150,710
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	\$ 9,992	
Special Assessments	<u>2,953</u>	
		12,945
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>28,050</u>	
Total long-term liabilities		(28,050)
Net pension liability reported in governmental activities is not due and payable in the current period and therefore is not reported in the funds.		(69,009)
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.		(68)
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>926,499</u>
Net Position - Governmental Activities		<u>\$ 14,281,043</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, 2016

	General Fund	Nonmajor Funds	Governmental Funds
<b>REVENUES:</b>			
Taxes:			
General Property Taxes	\$ 1,052,742	\$ -	\$ 1,052,742
General Sales and Use Taxes	1,104,472	52,454	1,156,926
Gross Receipts Business Taxes	468		468
Penalties and Interest on Delinquent Taxes	2,572		2,572
Licenses and Permits	44,563		44,563
Intergovernmental Revenue	831,056		831,056
Charges for Goods and Services	86,866		86,866
Fines and Forfeits	2,686	3,158	5,844
Special Assessments	14,905		14,905
Investment Earnings	4,127	316	4,443
Contributions from Private Sources	-	3,058	3,058
Miscellaneous Revenue	23,940	69	24,008
<b>TOTAL REVENUE</b>	<b>3,168,394</b>	<b>59,056</b>	<b>3,227,451</b>
<b>EXPENDITURES:</b>			
Current:			
General Government	424,141		424,141
Public Safety	345,239		345,239
Public Works	412,961		412,961
Health and Welfare	46,177		46,177
Culture and Recreation	307,942	5,066	313,009
Conservation and Development	106,194	38,801	144,995
Capital Outlay	1,662,254		1,662,254
<b>TOTAL EXPENDITURES</b>	<b>3,304,909</b>	<b>43,868</b>	<b>3,348,776</b>
Excess of Revenue Over (Under) Expenditures	(136,514)	15,188	(121,326)
Other Financing Sources:			
Sale of Municipal Property	90		90
Transfer In	98,520	1,586	100,106
Transfer Out	(128,000)	(1,586)	(129,586)
Compensation for Losses	4,515		4,515
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(24,875)</b>	<b>-</b>	<b>(24,875)</b>
Net Changes in Fund Balance	(161,389)	15,188	(146,201)
Fund Balance - Beginning	2,052,415	84,739	2,137,154
<b>FUND BALANCE - ENDING</b>	<b>\$ 1,891,026</b>	<b>\$ 99,927</b>	<b>\$ 1,990,953</b>

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, 2016

Net Change in Fund Balances - Total Governmental Funds \$ (146,201)

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. 1,662,254

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. (464,991)

In the statement of activities, gains and losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a gain or loss is realized. (2,933)

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". (2,737)

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. (2,719)

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 (34,003)

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. (10,657)

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. (41,340)

Change in Net Position of Governmental Activities \$ 956,673

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, 2016

	Enterprise Funds			Totals	Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund		
<b>ASSETS:</b>					
Current Assets:					
Cash and Cash Equivalents	\$ 1,069,383	\$ 457,499	\$ 233,879	\$ 1,760,762	\$ 518,745
Accounts Receivable, Net	47,498	57,937	117,759	223,194	
Due from Other Governments		111,634		111,634	
Inventory of Supplies	35,514	3,324		38,838	
Prepaid Expenses	2,672	2,491		5,163	
<b>Total Current Assets</b>	<b>1,155,067</b>	<b>632,885</b>	<b>351,638</b>	<b>2,139,590</b>	<b>518,745</b>
Noncurrent Assets:					
Capital Assets:					
Land	45,128	37,029	3,000	85,158	
Buildings	2,625,463	3,780,845	154,977	6,561,286	
Improvements Other than Buildings	2,039,801	3,590,627		5,630,428	
Machinery and Equipment	476,277	56,264	61,231	593,772	1,010,484
Construction Work in Progress	188,893	679,506		868,399	
Less: Accumulated Depreciation	(1,817,199)	(1,634,176)	(205,182)	(3,656,557)	(602,730)
<b>Total Noncurrent Assets</b>	<b>3,558,363</b>	<b>6,510,096</b>	<b>14,027</b>	<b>10,082,485</b>	<b>407,754</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,713,430</b>	<b>\$ 7,142,981</b>	<b>\$ 365,665</b>	<b>\$ 12,222,075</b>	<b>\$ 926,499</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension Related Deferred Outflows	43,212	43,212		86,425	
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>43,212</b>	<b>43,212</b>	<b>-</b>	<b>86,425</b>	<b>-</b>
<b>LIABILITIES:</b>					
Current Liabilities:					
Accounts Payable	\$ 23,192	\$ 29,961	\$ 86,721	\$ 139,874	\$ -
Customer Deposits	7,475			7,475	
Accrued Interest Payable	10,236	24,601		34,837	
Accrued Wages Payable	2,336	2,288		4,624	
Accrued Taxes Payable	1,948	1,959		3,906	
Bonds Payable Current:					
Revenue	109,795	207,175		316,970	
<b>Total Current Liabilities</b>	<b>154,982</b>	<b>265,984</b>	<b>86,721</b>	<b>507,687</b>	<b>-</b>
Noncurrent Liabilities:					
Revenue Bonds Payable	1,540,163	3,463,250		5,003,413	
Accrued Leave Payable	19,704	19,704		39,408	
Net Pension Liability	18,198	18,198		36,396	
<b>Total Noncurrent Liabilities</b>	<b>1,578,065</b>	<b>3,501,152</b>	<b>-</b>	<b>5,079,217</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>1,733,047</b>	<b>3,767,136</b>	<b>86,721</b>	<b>5,586,904</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension Related Deferred Inflows	1,317	1,317		2,634	
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,317</b>	<b>1,317</b>	<b>-</b>	<b>2,634</b>	<b>-</b>
<b>NET POSITION:</b>					
Net Investment in Capital Assets	1,908,405	2,839,671	14,027	4,762,103	407,754
Restricted for:					
Revenue Bond Debt Service	170,129	351,227		521,355	
SDRS Pension Purposes	23,697	23,697		47,395	
Unrestricted Net Position	920,047	203,145	264,917	1,388,109	518,745
<b>TOTAL NET POSITION</b>	<b>\$ 3,022,279</b>	<b>\$ 3,417,740</b>	<b>\$ 278,944</b>	<b>\$ 6,718,962</b>	<b>\$ 926,499</b>

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, 2016

	Enterprise Funds			Totals	Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund		
Operating Revenue:					
Charges for Goods and Services	\$ 609,709	\$ 638,573	\$ 1,160,044	\$ 2,408,325	
Lottery Sales			47,546	47,546	
Miscellaneous	9,363	5,707		15,070	
<b>TOTAL OPERATING REVENUE</b>	<b>619,072</b>	<b>644,280</b>	<b>1,207,589</b>	<b>2,470,941</b>	<b>-</b>
Operating Expenses:					
Personal Services	151,686	150,367		302,053	
Other Current Expense	82,795	138,553	6,273	227,622	
Materials	148,833		1,074,998	1,223,831	
Depreciation	147,211	200,847	3,324	351,382	80,323
<b>TOTAL OPERATING EXPENSES</b>	<b>530,526</b>	<b>489,767</b>	<b>1,084,595</b>	<b>2,104,888</b>	<b>80,323</b>
Operating Income (Loss)	88,546	154,513	122,994	366,053	(80,323)
Nonoperating Revenue (Expense):					
Investment Earnings	1,933	1,043	504	3,480	950
Rental Revenue	68,770		15,000	83,770	
Sale of Surplus Property	-			-	5,033
Interest Expense and Fiscal Charges	(47,395)	(117,250)		(164,644)	
<b>TOTAL NONOPERATING REVENUE (EXPENSE)</b>	<b>23,308</b>	<b>(116,207)</b>	<b>15,504</b>	<b>(77,394)</b>	<b>5,983</b>
Income (Loss) Before Contributions and Transfers	111,854	38,306	138,499	288,658	(74,340)
Capital Contributions		317,911		317,911	
Transfers In		95,000		95,000	33,000
Transfers Out			(98,520)	(98,520)	
Change in Net Position	111,854	451,217	39,979	603,049	(41,340)
Net Position - Beginning	2,910,425	2,966,523	238,965	6,115,913	967,839
<b>NET POSITION - ENDING</b>	<b>\$ 3,022,279</b>	<b>\$ 3,417,740</b>	<b>\$ 278,944</b>	<b>\$ 6,718,962</b>	<b>\$ 926,499</b>

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, 2016

	Enterprise Funds				Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund	Total	
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 624,938	\$ 530,457	\$ 1,205,823	\$ 2,361,219	\$ -
Payments to Employees for Services	(141,493)	(140,260)		(281,753)	
Payments to Suppliers of Goods and Services	(230,030)	(126,839)	(1,094,064)	(1,450,932)	
Net Cash Provided (Used) by Operating Activities	<u>253,415</u>	<u>263,359</u>	<u>111,759</u>	<u>628,534</u>	<u>-</u>
Cash Flows from Noncapital Financing Activities:					
Transfers to / from Other Funds	-	95,000	(98,520)	(3,520)	33,000
Net Cash Provided (Used) by Noncapital Financing Activities	<u>-</u>	<u>95,000</u>	<u>(98,520)</u>	<u>(3,520)</u>	<u>33,000</u>
Cash Flows from Capital and Related Financing Activities:					
Proceeds from Capital Debt	130,660			130,660	
Proceeds from Sale of Capital Assets				-	13,033
Proceeds from Capital Grants		317,911		317,911	
Purchase of Capital Assets	(174,169)	(575,307)		(749,476)	(60,564)
Principal Paid on Capital Debt	(106,579)	(200,701)		(307,280)	
Interest Paid on Capital Debt	(48,084)	(118,596)		(166,680)	
Other Receipts (Payments)	68,770	-	15,000	83,770	
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(129,401)</u>	<u>(576,693)</u>	<u>15,000</u>	<u>(691,095)</u>	<u>(47,531)</u>
Cash Flows from Investing Activities:					
Interest Earnings	1,933	1,043	504	3,480	950
Net Cash Provided by Investing Activities	<u>1,933</u>	<u>1,043</u>	<u>504</u>	<u>3,480</u>	<u>950</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>125,947</u>	<u>(217,291)</u>	<u>28,744</u>	<u>(62,601)</u>	<u>(13,581)</u>
Cash and Cash Equivalents at Beginning of Year	<u>943,436</u>	<u>674,790</u>	<u>205,136</u>	<u>1,823,362</u>	<u>532,326</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,069,383</u>	<u>\$ 457,499</u>	<u>\$ 233,880</u>	<u>\$ 1,760,761</u>	<u>\$ 518,745</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating Income (Loss)	\$ 88,546	\$ 154,513	\$ 122,994	\$ 366,053	\$ (80,323)
Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	147,211	200,847	3,324	351,382	80,323
Change in Assets and Liabilities:					
Receivables	(5,008)	(10,336)	(1,765)	(17,109)	
Due From Other Governments	-	(111,634)		(111,634)	
Customer Deposits	2,275			2,275	
Inventory of Supplies	8,599	8,148		16,747	
Prepaid Expenses	(109)	403		294	
Net Pension Asset	23,577	23,577		47,154	
Pension Related Deferred Outflow of Resources	1,207	1,207		2,413	
Accounts and Other Payables	1,708	11,311	(12,794)	225	
Accrued Leave Payable	(254)	(254)		(508)	
Accrued Taxes Payable	750	750		1,499	
Accrued Wages Payable	188	102		290	
Net Pension Liability	18,198	18,198		36,396	
Pension Related Deferred Inflows of Resources	(33,472)	(33,472)		(66,944)	
Net Cash Provided (Used) by Operating Activities	<u>\$ 253,415</u>	<u>\$ 263,359</u>	<u>\$ 111,759</u>	<u>\$ 628,534</u>	<u>\$ -</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.

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

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

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 not 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.

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

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 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

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

period for the Municipality is 30 days. The revenues which are accrued at December 31, 2016 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.

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

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

d. Interfund Eliminations and Reclassifications:

*Government-wide Financial Statements:*

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

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the Internal Service Fund, so that expenses are reported only by the function to which they relate.

e. Deposits and Investments

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

f. Capital Assets

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

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

MUNICIPALITY OF DELL RAPIDS  
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*Government-wide Financial Statements*

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

The total December 31, 2016 balance of governmental activities capital assets includes approximately 1.4 percent for which the costs were determined by estimates of the original costs. The total December 31, 2016 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.

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

g. Long-Term Liabilities

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

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

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

h. Program Revenues

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

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

i. Deferred Inflows and Deferred Outflows of Resources

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

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

j. Proprietary Funds Revenue and Expense Classifications

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

k. Cash and Cash Equivalents

The Municipality pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

I. Equity Classifications

*Government-wide Financial Statements:*

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

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

*Fund Financial Statements:*

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

m. Application of Net Position:

It is the Municipality's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

n. Fund Balance Classification Policies and Procedures:

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

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Municipal Council or Finance Officer.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Nonspendable Fund Balance is comprised of the following:

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

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

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

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

o. Pensions:

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

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISION

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

	Year Ended <u>12/31/2016</u>
General Fund:	
<u>Activity</u>	
General Government	\$ 2,260

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, 2016 were as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 552,968
Uninsured, collateral jointly held by state's/Municipality's agent in the name of the state and the pledging financial institution.	3,649,278
Uninsured, uncollateralized	-
Total Deposits	\$ 4,202,246

The carrying amount of deposits on the December 31, 2016 Government-wide Statement of Net Position was \$4,212,279. The reconciliation of deposits to Government-wide Statement of Net Position is as follows:

Cash and cash equivalents	\$ 4,212,279
Carrying amount	4,212,279
Less Petty Cash	(150)
Less Lottery Cash	(10,000)
Add outstanding transactions	117
	\$ 4,202,246

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, 2016.

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, 2016, the Municipality's deposits in financial institutions were fully insured or collateralized and were not exposed to custodial credit risk.

Custodial Credit Risk – Investments – The risk that, in the event of the counterparty to a transaction, the Municipality will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of December 31, 2016, 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

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

deposit insurance. The financial institution shall submit a copy of their collateralization report to the Finance Officer.

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

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

4. RECEIVABLES AND PAYABLES

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

5. INVENTORY

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

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

Government-wide Financial Statements:

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

Fund Financial Statements:

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

6. PROPERTY TAXES

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

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

MUNICIPALITY OF DELL RAPIDS  
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7. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2016 is as follows:

	Balance 1/1/2016	Increases	Decreases	Balance 12/31/2016
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 1,003,064	\$ -	\$ -	\$ 1,003,064
Construction Work in Progress	44,899	255,972	(34,324)	266,547
Total Capital Assets, Not Being Depreciated	<u>1,047,963</u>	<u>255,972</u>	<u>(34,324)</u>	<u>1,269,611</u>
Capital Assets, Being Depreciated				
Buildings & Structures	4,691,934	46,425	-	4,738,359
Improvements Other Than Buildings	5,934,728	1,365,516	-	7,300,244
Machinery and Equipment	2,258,604	89,231	(53,746)	2,294,089
Total Capital Assets, Being Depreciated	<u>12,885,266</u>	<u>1,501,172</u>	<u>(53,746)</u>	<u>14,332,692</u>
Less Accumulated Depreciation for:				
Buildings & Structures	(1,190,722)	(104,602)	-	(1,295,324)
Improvements Other Than Buildings	(878,521)	(241,192)	-	(1,119,713)
Machinery and Equipment	(1,325,743)	(199,520)	42,813	(1,482,450)
Total Accumulated Depreciation	<u>(3,394,986)</u>	<u>(545,314)</u>	<u>42,813</u>	<u>(3,897,487)</u>
Total Governmental Activities Capital Assets, Being Depreciated, Net	<u>9,490,280</u>	<u>955,858</u>	<u>(10,933)</u>	<u>10,435,205</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,538,243</u>	<u>\$ 1,211,830</u>	<u>\$ (45,257)</u>	<u>\$ 11,704,816</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, 2016 were \$60,565 and disposals were \$31,965.

Depreciation expense was charged to functions as follows:

	Balance 12/31/2016
Governmental Activities:	
General Government	\$ 35,931
Public Safety	41,849
Public Works	343,252
Culture & Recreation	124,280
Total Depreciation Expense - Governmental Activities	<u>\$ 545,312</u>

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

	Balance 1/1/2016	Increases	Decreases	Balance 12/31/2016
Business-Type Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 85,157	\$ -	\$ -	\$ 85,157
Construction Work in Progress	124,400	744,000	-	868,400
Total Capital Assets, Not Being Depreciated	209,557	744,000	-	953,557
Capital Assets, Being Depreciated				
Buildings	6,561,285	-	-	6,561,285
Improvements Other Than Buildings	5,630,428	-	-	5,630,428
Machinery and Equipment	670,280	5,476	(81,983)	593,773
Total Capital Assets, Being Depreciated	12,861,993	5,476	(81,983)	12,785,486
Less Accumulated Depreciation for:				
Buildings	(2,503,188)	(128,400)	-	(2,631,588)
Improvements Other Than Buildings	(571,691)	(198,016)	-	(769,707)
Machinery and Equipment	(312,280)	(24,965)	81,983	(255,262)
Total Accumulated Depreciation	(3,387,159)	(351,381)	81,983	(3,656,557)
Total Business-Type Activity Capital Assets, Being Depreciated, Net	9,474,834	(345,905)	-	9,128,929
Business-Type Activity Capital Assets, Net	\$ 9,684,391	\$ 398,095	\$ -	\$ 10,082,486

Depreciation expense was charged to functions as follows:

	Balance 12/31/2016
Business-Type Activities:	
Water	\$ 147,211
Wastewater	200,847
Liquor	3,324
Total Depreciation Expense - Business-Type Activities	\$ 351,382

Construction Work in Progress at December 31, 2016 is composed of the following:

Project Name	Project Authorization	Expended thru 12/31/2016
SD Highway 115	\$ 1,100,000	\$ 79,075
10th Street - Gravel	1,943,000	658,862
Treatment Lagoons (WWTF)	5,758,000	380,421
Garfield Avenue South	370,000	12,065
Campground Impr. Phase 1 & 2	220,000	2,134
Rickeman Comfort Station	120,000	2,390
Total	\$ 9,511,000	\$ 1,134,947

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 1/1/2016	Additions	Deletions	Balance 12/31/2016	Due Within One Year
<b>Governmental Activities:</b>					
Accrued Compensated					
Absences-Governmental Funds	17,393	28,050	(17,393)	28,050	-
Pension Liability					
Net Pension Liability	-	69,009	-	69,009	-
<b>Total Governmental Activity</b>	<b>17,393</b>	<b>97,059</b>	<b>(17,393)</b>	<b>97,059</b>	<b>-</b>
<b>Business-Type Activities:</b>					
SRF 2003 Drinking Water	339,425		(31,646)	307,779	32,768
SRF 2006 Clean Water	366,347		(26,724)	339,623	27,604
SRF 2006 Drinking Water	103,916		(7,782)	96,134	8,038
SRF 2007 Clean Water	777,178		(47,742)	729,436	49,312
SRF 2009 Clean Water	746,692		(41,013)	705,679	42,363
SRF 2011 Drinking Water	379,538		(17,391)	362,147	17,918
SRF 2011 Clean Water	305,040		(13,977)	291,063	14,401
SRF 2012 Drinking Water	195,260		(26,052)	169,208	26,643
SRF 2013 Dringing Water	607,737		(23,707)	584,030	24,427
SRF 2013 Clean Water	595,041		(23,212)	571,829	23,916
SRF 2014 Clean Water	1,080,828		(48,033)	1,032,795	49,580
SRF 2016 Drinking Water	-	130,660	-	130,660	
<b>Total Debt</b>	<b>5,497,002</b>	<b>130,660</b>	<b>(307,279)</b>	<b>5,320,383</b>	<b>316,970</b>
Accrued Compensated					
Absences-Business-Type Funds	39,916	39,408	(39,916)	39,408	-
Pension Liability					
Net Pension Liability	-	36,396	-	36,396	-
<b>Total Business-Type Activities</b>	<b>5,536,918</b>	<b>206,464</b>	<b>(347,195)</b>	<b>5,396,187</b>	<b>316,970</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 5,554,311</b>	<b>\$ 303,523</b>	<b>\$ (364,588)</b>	<b>\$ 5,493,246</b>	<b>\$ 316,970</b>

MUNICIPALITY OF DELL RAPIDS  
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Debt payable at December 31, 2016 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.	\$ 307,779
<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.	\$ 339,623
<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.	\$ 96,134
<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.	\$ 729,436
<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.	\$ 705,679
<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.	\$ 362,147
<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.	\$ 291,063
<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.	\$ 169,208
<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.	\$ 584,030
<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.	\$ 571,829
<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.	\$ 1,032,795
<u>State Revolving Fund (SRF) Loan 2016 Drinking Water</u>	
Note dated August 10, 2016 with payments starting on July 15, 2018, a maturity date of July 15, 2048, and an interest rate of 3.25% per annum. Principal payments to be made by the Water Fund	\$ 130,660
<u>Compensated Absences:</u>	
Accrued vacation and sick leave payable from the General Fund and Enterprise Funds	\$ 67,458
<u>Pension Liability</u>	
Net Pension Liability from the General Fund and Enterprise Funds	\$ 105,405

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

The annual requirements to amortize all debt outstanding as of December 31, 2016, except for compensated absences but including interest payments of \$1,347,093 are as follows:

Annual Requirements to Amortize Long-Term Debt  
December 31, 2016

Year Ending Dec. 31,	State Revolving Loans	
	Principal	Interest
2017	316,970	161,236
2018	329,201	151,316
2019	339,702	141,004
2020	350,257	130,448
2021	361,290	119,415
2022-2026	1,779,752	427,421
2027-2031	1,342,648	172,900
2032-2036	434,890	29,754
2037-2041	24,930	8,802
2042-2046	29,310	4,422
2047-2051	11,433	375
TOTAL	<u>\$ 5,320,383</u>	<u>\$ 1,347,093</u>

9. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2016 were as follows:

	<u>Transfer To:</u>			
	<u>General Fund</u>	<u>Wastewater Fund</u>	<u>Equipment Replacement Fund</u>	<u>Library Donations Fund</u>
<u>Transfer From:</u>				
General Fund		95,000	33,000	
Liquor Fund	98,520			
Library Fines & Fees Fund				449
Capital Projects Fund				1,137
	<u>\$ 98,520</u>	<u>\$ 95,000</u>	<u>\$ 33,000</u>	<u>\$ 1,586</u>

The transfers the Municipality budgeted for this year were for the establishment of the Library Donations Fund from the Library Fines & Fees Fund and Capital Projects Fund, excess Liquor revenue to the General Fund, General Fund to Wastewater – SE Sewer Extension – Sales Tax Dedication transfer (Yearly CW#7 P&I payment), and transfer from General Fund to Equipment Replacement Fund for the future replacement of equipment.

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

10. PENSION PLAN:

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer 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.

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, 2016, 2015, and 2014 were \$36,358, \$36,251, and \$32,385, 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, 2016, SDRS is 96.89% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of South Dakota Retirement

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

System, for the Municipality as of this measurement period and reported by the Municipality as of December 31, 2016 are as follows:

Proportionate share of net position restricted for pension benefits	\$	3,386,057
Less proportionate share of total pension liability		3,280,652
Proportionate share of net pension liability	\$	105,405

At December 31, 2016, the Municipality reported a liability of \$105,405 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability 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, 2016, the Municipality's proportion was 0.03120430%, which is an increase of .0007286% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Municipality recognized pension expense of \$71,923. At December 31, 2016 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	36,694	
Changes in assumption	63,133	
Net difference between projected and actual earnings on pension plan investments	117,246	
Changes in proportion and difference between Municipality contributions and proportionate share of contributions	482	2,702
Municipality contributions subsequent to the measurement date	19,581	
TOTAL	237,136	2,702

\$19,581 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, 2017. 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,	
2017	57,971
2018	34,829
2019	73,528
2020	48,524
TOTAL	\$ 214,852

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2016 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 2017 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, 2016 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, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2017 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

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

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 2017 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:

	1% Decrease	Current Discount Rate	1% Increase
Municipality's proportionate share of the net pension liability (asset)	589,845	105,405	(289,708)

Pension Plan Fiduciary Net Position:

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

11. SIGNIFICANT CONTINGENCIES – LITIGATION:

At December 31, 2016, the Municipality was not involved in any litigation.

12. TAX ABATEMENTS

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

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

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

The amount of general property taxes levied for this tax increment district during the calendar year ended on December 31, 2016 was \$9,719. Based on the percentage of Minnehaha County's property tax levy in relation to the total levy, the amount of general property taxes not available to Minnehaha County was approximately \$1,471.

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

13. SUBSEQUENT EVENTS

The Municipality closed on a \$800,000 Sales Tax Revenue Bond Series 2016 on July 6, 2016. However, there were no draws on this Bond until January 2017 when the Municipality requested and received \$409,000.

As of December 31, 2016, the City of Dell Rapids had \$574,340 of funds available for State Revolving Fund (SRF) Loan #6 – Drinking Water. The Municipality requested and received \$60,426 in draw downs on this loan in January 2017. The proceeds from this loan shall be used for the relocation of the waterlines affected by the 10<sup>th</sup> Street/Highway 115 construction. The Municipality also closed on State Revolving Fund (SRF) Loan #8 – Clean Water in February 2017. The total amount of the loan is \$2,386,000 and the proceeds shall be used for the construction of the Wastewater Treatment Facility project which is scheduled to begin in the spring of 2017.

The Municipality has evaluated subsequent events to September 22, 2017, the date which the financial statements were available to be issued, and determined that there are no other events occurring subsequent to the end of the year that merit recognition or disclosure in these statements.

14. RISK MANAGEMENT:

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2016, the Municipality managed its risks as follows:

Employee Health Insurance

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

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

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.

REQUIRED SUPPLEMENTARY INFORMATION  
MUNICIPALITY OF DELL RAPIDS  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Revenue from Local Sources:				
Taxes:				
General Property Taxes	\$ 1,041,354	\$ 1,056,354	\$ 1,052,742	\$ (3,612)
General Sales and Use Taxes	850,000	850,000	1,104,472	254,472
Amusement Taxes	400	400	468	68
Penalties and Interest on Delinquent Taxes		-	2,572	2,572
 Licenses and Permits	 20,450	 20,450	 44,563	 24,113
Intergovernmental Revenue:				
Federal Grants	145,059	145,059	36,842	(108,218)
State Grants	900,000	900,000	646,340	(253,660)
State Shared Revenue:				
Bank Franchise Tax	25,000	25,000	14,511	(10,489)
Prorate License Fees	2,000	2,000	3,012	1,012
Liquor Tax Reversion	17,000	17,000	23,702	6,702
Motor Vehicle Licenses (5%)	15,000	15,000	29,136	14,136
Local Government Highway and Bridge Fund	30,000	30,000	49,748	19,748
Other	500	500	-	(500)
County Shared Revenue:				
County Wheel Tax	4,000	4,000	5,576	1,576
Other County Shared Revenue			20,875	20,875
Other Intergovernmental Revenues	2,000	2,000	1,315	(685)
Charges for Goods and Services:				
General Government	500	500	700	200
Public Safety	800	5,470	5,775	305
Sanitation	8,000	8,000	8,899	899
Culture and Recreation	32,600	32,600	53,963	21,363
Other	6,500	6,500	17,529	11,029
Fines and Forfeits:				
Court Fines and Costs	750	750	574	(176)
Animal Control Fines			100	100
Parking Meter Fines	2,000	2,000	1,612	(388)
Other	300	300	400	100
Miscellaneous Revenue:				
Investment Earnings	3,000	3,000	4,127	1,127
Rentals	-	-	2,400	2,400
Special Assessments	9,195	9,195	14,905	5,710
Maintenance Assessments			939	939
Contributions and Donations from Private Sources	20,000	20,000	-	(20,000)
Other	845,245	845,245	20,600	(824,645)
 <b>Total Revenue</b>	 <b>\$ 3,981,653</b>	 <b>\$ 4,001,323</b>	 <b>\$ 3,168,394</b>	 <b>\$ (832,929)</b>

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, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures:</b>				
General Government:				
Legislative	\$ 51,720	\$ 51,720	\$ 62,223	\$ (10,503)
Contingency		30,000		30,000
Amount Trasferred		(30,000)		(30,000)
Executive	158,326	158,326	144,737	13,589
Elections	1,300	1,300	1,160	140
Financial Administration	113,140	113,140	123,954	(10,814)
Other	98,660	140,660	135,333	5,327
Total General Government	423,146	465,146	467,406	(2,260)
Public Safety:				
Police	252,582	252,582	252,582	(0)
Fire	60,658	60,658	56,104	4,554
Protective Inspection	54,293	58,963	36,553	22,410
Total Public Safety	367,533	372,203	345,239	26,964
Public Works:				
Highways and Streets	2,625,400	2,625,400	1,864,710	760,690
Sanitation	16,436	26,436	24,240	2,196
Transit	51,860	66,860	63,820	3,040
Total Public Works	2,693,696	2,718,696	1,952,770	765,926
Health and Welfare:				
Health	4,624	4,624	4,326	298
Humane Society	2,300	2,300	1,852	448
Ambulance	40,000	40,000	40,000	-
Total Health and Welfare	46,924	46,924	46,177	747
Culture and Recreation:				
Recreation	246,430	246,430	128,303	118,127
Parks	149,903	149,903	78,836	71,067
Libraries	198,100	198,100	179,983	18,117
Total Culture and Recreation	594,433	594,433	387,122	207,311
Conservation and Development:				
Economic Development and Assistance	95,000	111,475	106,194	5,281
Total Expenditures	4,220,732	4,308,877	3,304,909	1,003,968
Excess of Revenue Over (Under) Expenditures	(239,079)	(307,554)	(136,514)	171,040
Other Financing Sources (Uses):				
Transfers In	98,520	98,520	98,520	-
Sale of Municipal Property	-	-	90	90
Compensation for Losses	-	-	4,515	4,515
Transfer Out	(128,000)	(128,000)	(128,000)	-
Total Other Financing Sources (Uses)	(29,480)	(29,480)	(24,875)	4,605
Net Changes in Fund Balances	(268,559)	(337,034)	(161,389)	175,645
Fund Balance Beginning	2,052,415	2,052,415	2,052,415	-
<b>FUND BALANCE - ENDING</b>	<b>\$ 1,783,856</b>	<b>\$ 1,715,381</b>	<b>\$ 1,891,026</b>	<b>\$ 175,645</b>

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 LIABILITY**  
**South Dakota Retirement System**

	<u>2016</u>	<u>2015</u>
Municipality's proportion of the net pension liability (asset)	0.0312043%	0.0304757%
Municipality's proportionate share of net pension liability (asset)	\$ 105,405	\$ (129,256)
Municipality's covered-employee payroll	\$ 593,344	\$ 560,950
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	17.76%	-23.04%
Plan fiduciary net position as a percentage of the total pension liability (asset)	96.89%	104.10%

The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is 6/30/2016.

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

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 36,358	\$ 36,251
Contributions in relation to the contractually required contribution	<u>\$ 36,358</u>	<u>\$ 36,251</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Municipality's covered-employee payroll	\$ 606,897	\$ 604,182
Contributions as a percentage of covered-employee payroll	5.99%	6.00%