

MUNICIPALITY OF DELL RAPIDS

AUDIT REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2017

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

City Council  
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, 2017 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 14, 2018.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Current Audit Findings and Questioned Costs, 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 2017-001 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 and Questioned Costs as item 2017-002.

### **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 and Questioned Costs. 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 14, 2018



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

City Council  
Municipality of Dell Rapids  
Dell Rapids, South Dakota 57022

**Report on Compliance for Each Major Federal Program**

We have audited the Municipality of Dell Rapids, South Dakota (Municipality), compliance with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Municipality's major federal programs for the year ended December 31, 2017. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

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

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

## **Opinion on Each Major Federal Program**

In our opinion, the Municipality of Dell Rapids complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

## **Report on Internal Control over Compliance**

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

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

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

The Municipality's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. The Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Purpose of this Report**

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

*KMWF + Associates, P.A.*

Dell Rapids, South Dakota  
September 14, 2018

MUNICIPALITY OF DELL RAPIDS  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2017

**Prior Audit Findings**

Finding No. 2016-001:

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 2017-001.

Finding No. 2016-002:

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 2017-002.

MUNICIPALITY OF DELL RAPIDS  
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2017

**SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:**

**Financial Statements:**

- a. An unmodified opinion was issued on the financial statements of each opinion unit.
- b. A material weakness was disclosed by our audit of the financial statements for a lack of segregation of duties as discussed in finding number 2017-001 and for incurring expenses in excess of budgeted amounts as discussed in finding number 2017-002.
- c. Our audit did not disclose any noncompliance which was material to the financial statements.

**Federal Awards:**

- d. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- e. Our audit did not disclose any audit findings that are required to be reported in accordance with 2 CFR 200.516(a).
- f. The federal award test as a major program was:

**CFDA #    Name of Federal Program**

- 1. 66.458    Capitalization Grants for Drinking Water State Revolving Fund
- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- h. The Municipality of Dell Rapids did not qualify as a low-risk auditee.

MUNICIPALITY OF DELL RAPIDS  
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2017

**Current Federal Audit Findings:**

There are no written current federal compliance audit findings to report.

**Current Other Audit Findings:**

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

Finding No. 2017-001:

*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 fifteenth 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.

*Corrective Action Plan:* Claire Baartman is the contact person responsible for the corrective action plan for this comment. The Municipality has prepared a response to the finding which is on page 58.

**Compliance and Other Matters:**

Finding No. 2017-002:

*Criteria:* South Dakota Codified Law (SDCL) 9-21-9 requires that expenditures be limited to appropriated amounts. This is the fourth 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.

*Corrective Action Plan:* Claire Baartman is the contact person responsible for the corrective action plan for this comment. The Municipality has prepared a response to the finding which is on page 58.



## 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, 2017 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, 2017, 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 11 through 21, the Budgetary Comparison Schedules on pages 52 through 54, and the Pension Schedules on pages 55 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The Schedule of Expenditures of Federal Awards, which as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2018 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on effectiveness of the Municipality's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Municipality's internal control over financial reporting and compliance.

*KMWF + Associates, PC*

Dell Rapids, South Dakota  
September 14, 2018

**MUNICIPALITY OF DELL RAPIDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

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

**FINANCIAL HIGHLIGHTS**

- During the year, the Municipality's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$2,881,447 and \$2,264,627 governmental expenditures. This is a decrease from the prior year when revenue exceeded expenditures by \$956,671.
- In the Municipality's business-type activities, revenues were \$5,317,308 and \$2,264,380 business-type expenditures. This is an increase from the prior year when revenue exceeded expenditures by \$603,050.
- The combined net position of the Municipality from prior year is an increase of \$3,669,749 or 17.47%.

**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 17.47% between fiscal year 2016 and 2017 – or an increase of \$3,669,748 (See Table A-1).

	Governmental Activities		Business-Type Activities		Total		Total % Changed
	2016	2017	2016	2017	2016	2017	
Current and Other Assets	2,779,980	3,704,892	2,226,015	3,085,705	5,005,995	6,790,597	35.65%
Capital Assets	11,704,816	11,743,930	10,082,486	13,858,908	21,787,302	25,602,838	17.51%
<b>Total Assets</b>	<b>14,484,796</b>	<b>15,448,822</b>	<b>12,308,501</b>	<b>16,944,613</b>	<b>26,793,297</b>	<b>32,393,435</b>	<b>20.90%</b>
AP and Other Current Liabilities	106,695	124,876	510,320	660,364	617,015	785,240	27.26%
Noncurrent Liabilities	97,059	426,083	5,079,217	6,512,358	5,176,276	6,938,441	34.04%
<b>Total Liabilities</b>	<b>203,754</b>	<b>550,959</b>	<b>5,589,537</b>	<b>7,172,722</b>	<b>5,793,291</b>	<b>7,723,681</b>	<b>33.32%</b>
<b>Net Position:</b>							
Net Investment in Capital Assets	11,704,816	11,334,930	4,762,103	7,026,700	16,466,919	18,361,630	11.51%
Restricted	237,834	324,068	581,899	714,740	819,733	1,038,808	26.73%
Unrestricted	2,338,392	3,238,865	1,374,962	2,030,451	3,713,354	5,269,316	41.90%
<b>Total Net Position</b>	<b>14,281,042</b>	<b>14,897,863</b>	<b>6,718,964</b>	<b>9,771,891</b>	<b>21,000,006</b>	<b>24,669,754</b>	<b>17.47%</b>

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.

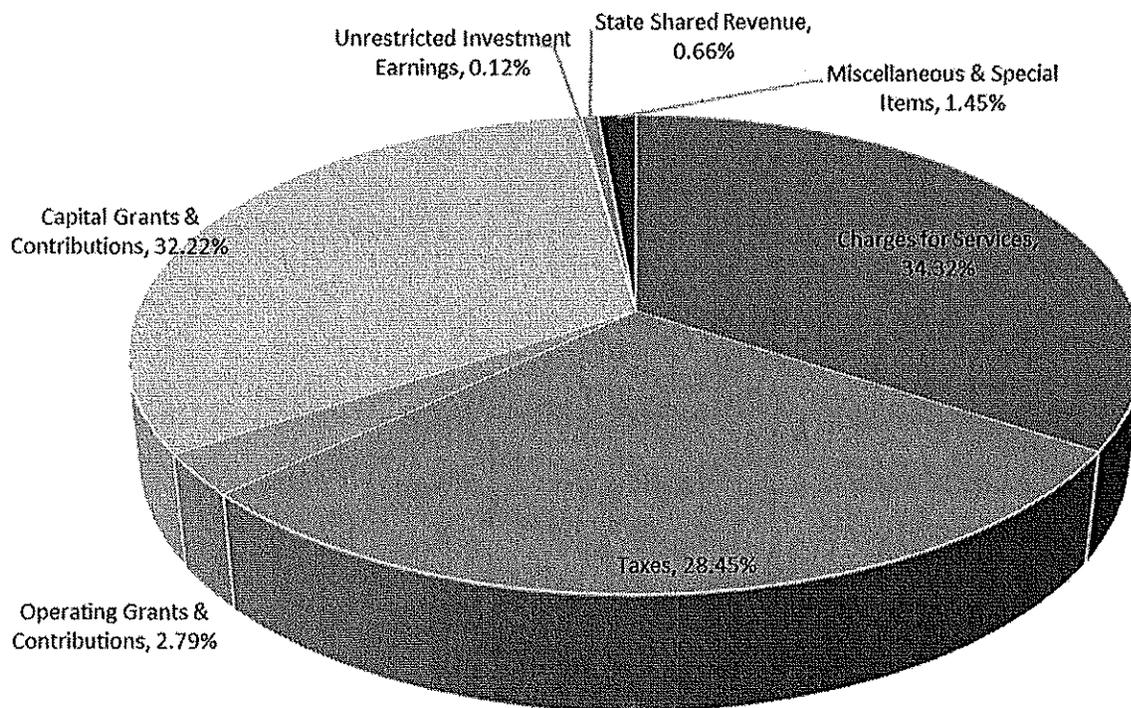
The remaining balance of net position are unrestricted and may be used to meet the Municipality's ongoing obligations to citizens and creditors.

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

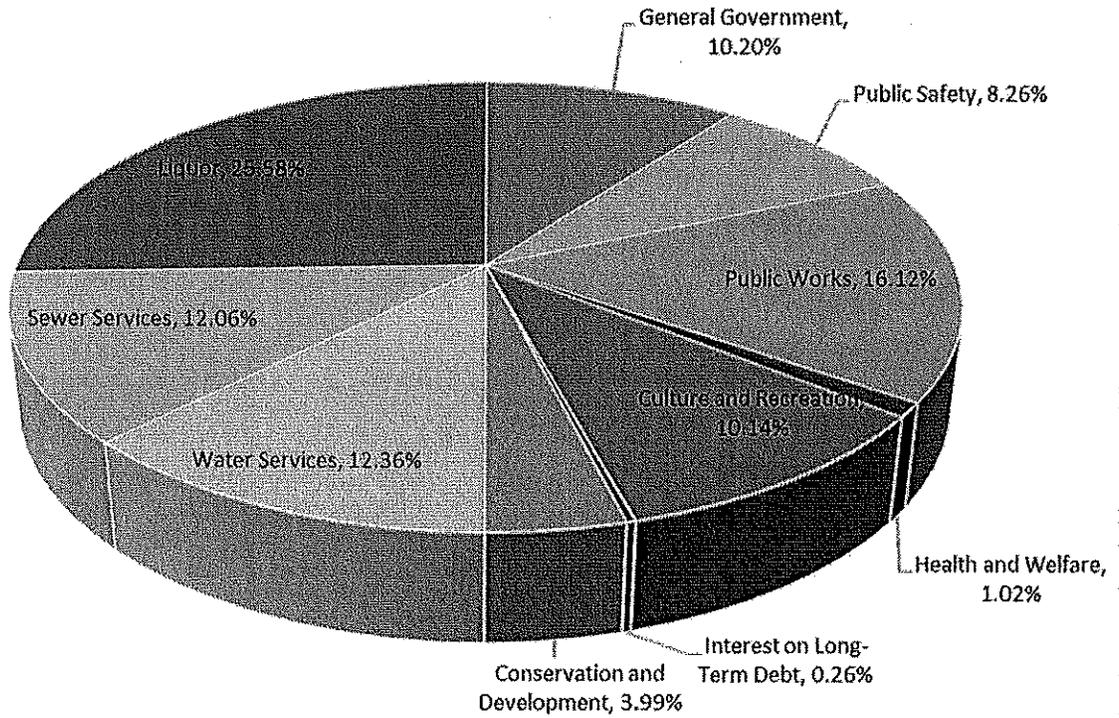
The Municipality's revenues (excluding special items) totaled \$8,198,756. (See Table A-2.) Well over half of the Municipality's revenue comes from charges for services and taxes, with 34.32 cents of every dollar raised coming from charges for services (primarily water, sewer, and liquor operations) and 28.45 cents of every dollar raised comes from some type of tax. (See Figure A-3). Another 32.22 cents of every dollar in 2017 comes from capital Grants and Contributions for the purpose of the construction of the Waste Water Treatment Facility. Finally, the remaining 5.02% comes from operating grants and contributions, state-shared revenues, interest earnings and miscellaneous and special items.

Figure A-3, Municipality of Dell Rapids Sources of Revenues for Fiscal Year 2017



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

Figure A-4, Municipality of Dell Rapids, Functional Expenses for Fiscal Year 2017



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

	Governmental		Business-Type		Total		Total % Change
	Activities		Activities		Total		
	2016	2017	2016	2017	2016	2017	
<b>Revenues</b>							
Program Revenues							
Charges for Services	139,672	111,423	2,470,941	2,702,042	2,610,613	2,813,465	7.77%
Operating Grants	126,188	228,537	-	-	126,188	228,537	81.11%
Capital Grants and Contributions	668,398	67,277	317,911	2,574,205	986,309	2,641,482	167.81%
General Revenues						0	
Taxes	2,226,257	2,332,506	-	-	2,226,257	2,332,506	4.77%
Revenue State Sources	38,213	54,088	-	-	38,213	54,088	41.54%
Unrestricted Investment Earnings	5,393	5,894	3,480	3,587	8,873	9,481	6.85%
Miscellaneous	25,529	25,730	83,770	93,467	109,299	119,197	9.06%
<b>Total Revenues</b>	<b>3,229,650</b>	<b>2,825,455</b>	<b>2,876,102</b>	<b>5,373,301</b>	<b>6,105,752</b>	<b>8,198,756</b>	<b>34.28%</b>
<b>Expenses</b>							
General Government	475,850	462,110	0	0	475,850	462,110	-2.89%
Public Safety	390,733	374,105	0	0	390,733	374,105	-4.26%
Public Works	772,985	729,923	0	0	772,985	729,923	-5.57%
Health and Welfare	46,177	46,354	0	0	46,177	46,354	0.38%
Culture and Recreation	445,758	459,442	0	0	445,758	459,442	3.07%
Conservation and Development	144,995	180,907	0	0	144,995	180,907	24.77%
Interest on Long-Term Debt	0	11,786	0	0	-	11,786	0.00%
Water Services	0	0	577,921	559,632	577,921	559,632	-3.16%
Sewer Services	0	0	607,017	546,342	607,017	546,342	-10.00%
Liquor	0	0	1,084,595	1,158,406	1,084,595	1,158,406	6.81%
<b>Total Expenses</b>	<b>2,276,498</b>	<b>2,264,627</b>	<b>2,269,533</b>	<b>2,264,380</b>	<b>4,546,031</b>	<b>4,529,007</b>	<b>-0.37%</b>
Excess (Deficiency) Before Special	953,152	560,828	606,569	3,108,921	1,559,721	3,669,749	135.28%
Contributions	0	0	0	0	0	0	
Special Items	0	0	0	0	0	0	
Extraordinary Items	0	0	0	0	0	0	
Transfers	3520	55,992	-3,520	-55,992	0	0	
<b>Increase (Decrease) in Net Position</b>	<b>956,672</b>	<b>616,820</b>	<b>603,049</b>	<b>3,052,929</b>	<b>1,559,721</b>	<b>3,669,749</b>	<b>135.28%</b>
<b>Ending Net Position</b>	<b>14,281,043</b>	<b>14,897,863</b>	<b>6,718,963</b>	<b>9,771,892</b>	<b>21,000,006</b>	<b>24,669,754</b>	<b>17.47%</b>

**Governmental Activities**

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

Governmental revenues for the Municipality decreased 12.52%, while Governmental expenses decreased by 0.52%. The reason for the decrease in revenue is due to the large amount of capital grants received during the prior year. The City saw an increase in operating grants and capital

grants the net overall increase in grant revenue was 157.98%. The City also saw a significant increase in tax revenue in 2017, \$106,249 or 4.77%.

The Municipality spent 2.89% less in the General Government departments in 2017 than in 2016. All departments saw an average increase of approximately 5.0% from a merit and COLA increase per employee. The Public Safety departments saw a decrease in expenditures of 4.26%. The majority of the decrease is a result of a decrease in professional fees pertaining to Code Enforcement – The City did not shovel as many sidewalks or mow as many lawns as compared to 2016. Finally, The Municipality noticed a 24.77% increase in the Conservation and Development department. The majority of this increase was from increasing the Dell Rapids Chamber of Commerce annual stipend from \$16,000 to \$35,000.

### **Business-type Activities**

Revenues of the Municipality's business-type activities increased by 86.83% or \$2,497,199 and expenses decreased by .23%. The factor contributing to the substantial increase in revenue are the Operating Grants awarded from the DENR (WWTF 2017G-100 - \$1,540,000 and WWTF 2017G-BAB-100 - \$1,832,000). The City received the majority of the grants awarded in 2017. Business-type activity Water and Sewer Funds both saw a decrease of 3.16% and 10.00%, respectively. Liquor Fund expenses increased 6.81%. The majority of this increase is due to the purchase of two new lottery machines and few minor upgrades to Norby's building such as new carpet and updated bathrooms on the bar side.

### **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.

### **General Fund Budgetary Highlights**

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

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

The building and rubble site departments were each approved for a supplemental appropriation of \$8,000. The transit department was approved for a supplemental appropriation of \$11,251 and. The Mosquito Control and Swimming Pool departments were each approved for a supplemental appropriation of \$1,800 and \$18,7000, respectively. The community support department was approved for a supplemental appropriation of \$24,500 to account for the TIF#1 funds being received and subsequently paid out. The final approved supplemental appropriation is for the library department in the amount of \$1,500.

## CAPITAL ASSET ADMINISTRATION

By the end of 2017, the Municipality had invested \$5,371,899 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 \$4,663,341, or 15.89%, over the last year.

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

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2016	2017	2016	2017		
	Land	\$ 1,003,064	\$ 1,003,064	\$ 85,157		
Construction in Progress	\$ 266,547	\$ 101,062	\$ 868,399	\$ 4,352,969	3,319,085	1245.22%
Buildings	4,738,359	4,738,359	6,561,285	6,571,366	10,081	0.21%
Improvements Other Than Buildings	7,300,244	7,932,360	5,630,428	6,243,412	1,245,100	17.06%
Machinery and Equipment	2,294,089	2,368,124	593,773	608,813	89,075	3.88%
<b>Total Capital Assets (Net)</b>	<b>15,602,303</b>	<b>16,142,969</b>	<b>13,739,042</b>	<b>17,861,717</b>	<b>4,663,341</b>	<b>15.89%</b>

This year's major capital asset additions included:

- Governmental fund additions were the completion of the 10<sup>th</sup> Street project of \$374,911 and the 2017 street sealing project of \$191,842.
- Business-type major addition is a result of a net increase in construction in progress of \$3,484,570. Business-type projects in process at the end of 2017 include SD Hwy 115, SE infrastructure project phase 1, and the construction of the wastewater treatment facility.

## LONG-TERM DEBT

At the year-end the Municipality had \$7,317,835 in Sales Tax Revenue Bonds, Water and Wastewater SRF loans, and other long-term obligations. This is an increase of 33.15% as shown on Table A-4 below.

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

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2016	2017	2016	2017		
	Compensated Absences	\$ 28,050	\$ 33,987	\$ 39,408		
Pension Liability	69,077	-	39,030	-	(108,107)	
Sales Tax Revenue Bond	-	409,000	-	-	409,000	
Water SRF Loans	-	-	1,649,960	1,664,776	14,816	0.90%
Waste Water SRF Loans	-	-	3,670,423	5,167,434	1,497,011	40.79%
<b>Total Outstanding Debt and Obligations</b>	<b>97,127</b>	<b>442,987</b>	<b>5,398,821</b>	<b>6,874,848</b>	<b>1,821,887</b>	<b>33.15%</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 decrease is due to two long term employees retiring in 2018 and as such moving a large balance into short term liabilities.

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

The Municipality has six outstanding SRF Drinking Water Loans totaling \$1,664,776. 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 seven outstanding SRF Clean Water Loans totaling \$5,167,434. 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 experienced an increase in total property tax of \$94,736 or 8.86% 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 2016 and the 2017 levy is based upon Growth Projections of 4.03% and CPI of 0%. Combining, the Growth of 3.24% and 1% CPI, will increase property tax revenue a total of \$45,797 – for a total property tax base of \$1,125,933. Backing this property tax total into the total City valuation, it is estimated the Mill Levy for 2018 will again decrease from its current rate of 5.118 to 5.102.

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 1.00% 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 2018 proposed spending for all funds is \$8,821,780 as compared to \$12,041,909 in the 2017 Adopted budget (2016 Budget -\$7,801,881; 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, equipment replacement and the proprietary; liquor, water and sewer funds.

A 2% Cost of Living Adjustment (COLA) and a 3% merit increase for employees are included in the 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 General Fund accounts for 40% (\$3,404,346) of total proposed spending in 2018, which is attributed to the wide array of programs contained within the fund. The 2017 budget reflected a more normalized spending year in comparison with previous years with large scale projects. However, two of the high cost projects from 2017 weren't completed due to scheduling issues and they have been transferred to the 2018 budget. Both the Hwy 115 utility project (\$1,027,000) and the Garfield Ave paving project (\$470,000) have been transferred from 2017 into the 2018 budget.

In 2018 the Water Fund budget reflects the plan to replace several hundred feet of water main 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. No other area of water main replacement has been budgeted for 2018. However, engineering design (\$180,000) for the complete replacement of infrastructure in the south east corner of Dell Rapids has been budgeted planning for 2019 construction. The City has also budgeted \$120,000 to paint the interior and exterior of the 10th Street water tower. Administration is recommending the City use cash reserves to cover the costs of the water tower painting.

The waste water fund will begin payments on the historic project of the Sequence Batch Reactor Waste Water Treatment facility in 2018. The WWTF project is scheduled to be complete and operational in the spring of 2018. The budget reflects the \$630,000 of expenditures in 2018, 55% of which is funded through the DENR grant. In order to cover principal and interest on the WWTF loan the City increased the sewer rates by 14% in 2017. The City began preparing for the project by increasing rates by 20% in 2016. It is also necessary for the City to consider the need for an additional estimated \$100,000 annually for the Operation and Maintenance of the new facility. The O&M will become effective in 2018, therefore it is necessary to implement an additional rate increase to accommodate these additional costs. To cover O&M costs, Administration is recommending increasing costs an additional 9% in 2018. Below is a chart to describe the proposed budget increase for the Wastewater Fund.

**Current Rate = \$49.90 per 5,000 gallons (Raised by 14% in 2017)**

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

**The total cost for 5,000 gallons with an additional 9% increase will be \$54.39. An increase of \$4.49 from the current rate of \$49.90.**

The 2018 budget also reflects costs associated with completing the Hwy 115 utility replacement project. Finally, the 2018 budget also includes funds for drafting engineering plans for the SE Infrastructure Improvement Project. This \$6 million project is planned to begin construction in 2019.

## **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, 2017

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 3,360,983	\$ 2,334,018	\$ 5,695,001
Receivables	83,329	609,150	692,479
Inventories	34,054	37,707	71,761
Deposits	40,625		40,625
Prepaid Expenses	1,957	30	1,987
Net Pension Asset	1,828	1,010	2,838
Capital Assets:			
Land and Construction in Progress	1,104,127	4,438,126	5,542,253
Other Capital Assets, Net of Depreciation	10,639,803	9,420,782	20,060,585
<b>TOTAL ASSETS</b>	<b>\$ 15,266,706</b>	<b>\$ 16,840,823</b>	<b>\$ 32,107,529</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pension Related Deferred Outflows	\$ 182,116	\$ 103,790	285,906
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 182,116</b>	<b>\$ 103,790</b>	<b>285,906</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 15,448,822</b>	<b>\$ 16,944,613</b>	<b>32,393,435</b>
<b>LIABILITIES:</b>			
Accounts Payable	\$ 61,030	\$ 227,772	\$ 288,802
Other Current Liabilities	10,644	49,384	60,028
Noncurrent Liabilities:			
Due Within One Year	16,904	362,490	379,394
Due in More than One Year	426,083	6,512,358	6,938,441
<b>TOTAL LIABILITIES</b>	<b>\$ 514,661</b>	<b>\$ 7,152,004</b>	<b>7,666,665</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Pension Related Deferred Inflows	\$ 35,958	\$ 20,718	56,676
Other Deferred Inflows of Resources	340		340
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 36,298</b>	<b>\$ 20,718</b>	<b>\$ 57,016</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	\$ 11,334,930	\$ 7,026,700	18,361,630
Restricted for:			
Debt Service Purposes	31,730	630,720	662,450
Library	8,456		8,456
City Promotion	95,271		95,271
Insurance Cumulative Reserve	40,625		40,625
SDRS Pension Purposes	147,986	84,020	232,006
Unrestricted	3,238,865	2,030,451	5,269,316
<b>TOTAL NET POSITION</b>	<b>\$ 14,897,863</b>	<b>\$ 9,771,891</b>	<b>24,669,754</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 15,448,822</b>	<b>\$ 16,944,613</b>	<b>\$ 32,393,435</b>

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



MUNICIPALITY OF DELL RAPIDS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2017

	General Fund	Nonmajor Funds	Governmental Funds
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 2,694,828	\$ 103,021	\$ 2,797,849
Taxes Receivable - Current	5,917		5,917
Taxes Receivable - Delinquent	12,012		12,012
Accounts Receivable, Net	23,341		23,341
Special Assessments Receivable - Current	498		498
Special Assessments Receivable - Delinquent	89		89
Special Assessments Receivable - Deferred	401		401
Interest Receivable - Special Assessments	80		80
Inventory of Supplies	33,874	180	34,054
Deposits	40,625		40,625
Prepaid Expenses	1,957		1,957
Due from State Government	40,465	526	40,991
	<u>2,854,087</u>	<u>103,727</u>	<u>2,957,814</u>
<b>TOTAL ASSETS</b>	<b>\$ 2,854,087</b>	<b>\$ 103,727</b>	<b>\$ 2,957,814</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:</b>			
<b>LIABILITIES:</b>			
Claims Payable	\$ 61,030	\$ -	\$ 61,030
Accrued Interest Payable	994		994
Accrued Wages Payable	9,170		9,170
Accrued Taxes Payable	480		480
	<u>71,674</u>	<u>-</u>	<u>71,674</u>
<b>TOTAL LIABILITIES</b>	<b>71,674</b>	<b>-</b>	<b>71,674</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Unavailable Revenue - Property Taxes	12,012		12,012
Unavailable Revenue - Special Assessments	1,068		1,068
Other Deferred Inflows of Resources	340		340
	<u>13,420</u>	<u>-</u>	<u>13,420</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>13,420</b>	<b>-</b>	<b>13,420</b>
<b>FUND BALANCES:</b>			
<b>Nonspendable</b>			
Deposits	40,625		40,625
Inventory	33,874	180	34,054
Prepaid Expenses	1,957		1,957
<b>Restricted</b>			
City Promotion		95,271	95,271
Debt Service	31,730		31,730
Library		8,276	8,276
Unassigned	2,660,807		2,660,807
	<u>2,768,993</u>	<u>103,727</u>	<u>2,872,720</u>
<b>TOTAL FUND BALANCES</b>	<b>2,768,993</b>	<b>103,727</b>	<b>2,872,720</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 2,854,087</b>	<b>\$ 103,727</b>	<b>\$ 2,957,814</b>

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, 2017

Total Fund Balances - Governmental Funds		\$ 2,872,720
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.		11,391,232
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds		182,116
Assets such as taxes receivable, special assessment receivables, and grants receivable are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property Taxes	\$ 12,012	
Special Assessments	<u>1,068</u>	
		13,080
Long-term liabilities, including bonds payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds.		
Bonds	\$ 409,000	
Accrued Leave	<u>33,986</u>	
Total long-term liabilities		(442,986)
Net pension asset reported in governmental activities is not due and payable in the current period and therefore is not reported in the funds.		1,828
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.		(35,958)
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>915,831</u>
Net Position - Governmental Activities		<u><u>\$ 14,897,863</u></u>

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

MUNICIPALITY OF DELL RAPIDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2017

	General Fund	Nonmajor Funds	Governmental Funds
<b>REVENUES:</b>			
Taxes:			
General Property Taxes	\$ 1,100,879	\$ -	\$ 1,100,879
General Sales and Use Taxes	1,168,439	58,981	1,227,420
Gross Receipts Business Taxes	454		454
Penalties and Interest on Delinquent Taxes	1,734		1,734
Licenses and Permits	23,817		23,817
Intergovernmental Revenue	327,631		327,631
Charges for Goods and Services	76,109		76,109
Fines and Forfeits	2,334	3,410	5,744
Special Assessments	16,095		16,095
Investment Earnings	5,355	157	5,512
Contributions from Private Sources	40	8,800	8,840
Miscellaneous Revenue	27,178	143	27,321
<b>TOTAL REVENUE</b>	<b>2,750,065</b>	<b>71,491</b>	<b>2,821,556</b>
<b>EXPENDITURES:</b>			
Current:			
General Government	433,975		433,975
Public Safety	355,644		355,644
Public Works	397,046		397,046
Health and Welfare	46,354		46,354
Culture and Recreation	347,690	5,087	352,777
Conservation and Development	120,972	59,935	180,907
Debt Service	11,786		11,786
Capital Outlay	577,499	2,669	580,168
<b>TOTAL EXPENDITURES</b>	<b>2,290,966</b>	<b>67,691</b>	<b>2,358,657</b>
Excess of Revenue Over (Under) Expenditures	459,099	3,800	462,899
Other Financing Sources:			
Sale of Municipal Property	2,876		2,876
Transfer In	120,000		120,000
Transfer Out	(113,008)		(113,008)
Bonds Issued	409,000		409,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>418,868</b>	<b>-</b>	<b>418,868</b>
Net Changes in Fund Balance	877,967	3,800	881,767
Fund Balance - Beginning	1,891,026	99,927	1,990,953
<b>FUND BALANCE - ENDING</b>	<b>\$ 2,768,993</b>	<b>\$ 103,727</b>	<b>\$ 2,872,720</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, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ 881,767
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.	580,168
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.	(485,998)
The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government wide statements	(409,000)
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".	2,020
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.	(1,885)
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	66,352
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.	(5,936)
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.	(10,668)
Change in Net Position of Governmental Activities	\$ 616,820

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, 2017

	Enterprise Funds			Totals	Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund		
<b>ASSETS:</b>					
Current Assets:					
Cash and Cash Equivalents	\$ 1,268,412	\$ 837,465	\$ 228,141	\$ 2,334,018	\$ 563,133
Accounts Receivable, Net	47,112	66,724	109,998	223,834	
Due from Other Governments		385,316		385,316	
Inventory of Supplies	29,668	8,039		37,707	
Prepaid Expenses		30		30	
<b>Total Current Assets</b>	<b>1,345,192</b>	<b>1,297,574</b>	<b>338,139</b>	<b>2,980,905</b>	<b>563,133</b>
Noncurrent Assets:					
Net Pension Asset	505	505		1,010	
Capital Assets:					
Land	45,128	37,029	3,000	85,157	
Buildings	2,625,463	3,780,845	165,058	6,571,366	
Improvements Other than Buildings	2,264,448	3,978,964		6,243,412	
Machinery and Equipment	475,459	56,566	76,788	608,813	1,015,983
Construction Work in Progress	85,944	4,267,025		4,352,969	
Less: Accumulated Depreciation	(1,961,327)	(1,835,193)	(206,289)	(4,002,809)	(663,285)
<b>Total Noncurrent Assets</b>	<b>3,535,620</b>	<b>10,285,741</b>	<b>38,557</b>	<b>13,859,918</b>	<b>352,698</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,880,812</b>	<b>\$ 11,583,315</b>	<b>\$ 376,696</b>	<b>\$ 16,840,823</b>	<b>\$ 915,831</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension Related Deferred Outflows	51,895	51,895		103,790	
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>51,895</b>	<b>51,895</b>	<b>-</b>	<b>103,790</b>	<b>-</b>
<b>LIABILITIES:</b>					
Current Liabilities:					
Accounts Payable	\$ 33,848	\$ 98,761	\$ 95,163	\$ 227,772	\$ -
Customer Deposits	8,275			8,275	
Accrued Interest Payable	8,958	22,656		31,614	
Accrued Wages Payable	3,539	2,973		6,512	
Accrued Taxes Payable	1,485	1,498		2,983	
Bonds Payable Current:					
Revenue	116,602	225,582		342,184	
Compensated Absences Payable - Current	10,153	10,153		20,306	
<b>Total Current Liabilities</b>	<b>182,860</b>	<b>361,623</b>	<b>95,163</b>	<b>639,646</b>	<b>-</b>
Noncurrent Liabilities:					
Revenue Bonds Payable	1,548,174	4,941,852		6,490,026	
Accrued Leave Payable	11,166	11,166		22,332	
<b>Total Noncurrent Liabilities</b>	<b>1,559,340</b>	<b>4,953,018</b>	<b>-</b>	<b>6,512,358</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>1,742,200</b>	<b>5,314,641</b>	<b>95,163</b>	<b>7,152,004</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension Related Deferred Inflows	10,359	10,359		20,718	
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>10,359</b>	<b>10,359</b>	<b>-</b>	<b>20,718</b>	<b>-</b>
<b>NET POSITION:</b>					
Net Investment in Capital Assets	1,870,340	5,117,803	38,557	7,026,700	352,698
Restricted for:					
Revenue Bond Debt Service	194,068	436,652		630,720	
SDRS Pension Purposes	42,010	42,010		84,020	
Unrestricted Net Position	1,073,730	713,745	242,976	2,030,451	563,133
<b>TOTAL NET POSITION</b>	<b>\$ 3,180,148</b>	<b>\$ 6,310,210</b>	<b>\$ 281,533</b>	<b>\$ 9,771,891</b>	<b>\$ 915,831</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, 2017

	Enterprise Funds			Totals	Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund		
Operating Revenue:					
Charges for Goods and Services	\$ 633,794	\$ 787,341	\$ 1,213,687	\$ 2,634,822	
Lottery Sales			50,833	50,833	
Miscellaneous	10,217	6,170		16,387	
<b>TOTAL OPERATING REVENUE</b>	<b>644,011</b>	<b>793,511</b>	<b>1,264,520</b>	<b>2,702,042</b>	-
Operating Expenses:					
Personal Services	143,377	140,744		284,121	
Other Current Expense	75,547	94,405	5,317	175,269	
Materials	151,870		1,148,405	1,300,275	
Depreciation	145,248	201,017	4,684	350,949	60,555
<b>TOTAL OPERATING EXPENSES</b>	<b>516,042</b>	<b>436,166</b>	<b>1,158,406</b>	<b>2,110,614</b>	<b>60,555</b>
Operating Income (Loss)	127,969	357,345	106,114	591,428	(60,555)
Nonoperating Revenue (Expense):					
Investment Earnings	2,023	1,089	475	3,587	887
Rental Revenue	77,467		15,000	92,467	
Sale of Surplus Property	-		1,000	1,000	
Interest Expense and Fiscal Charges	(43,590)	(110,177)		(153,767)	
<b>TOTAL NONOPERATING REVENUE (EXPENSE)</b>	<b>35,900</b>	<b>(109,088)</b>	<b>16,475</b>	<b>(56,713)</b>	<b>887</b>
Income (Loss) Before Contributions and Transfers	163,869	248,257	122,589	534,715	(59,668)
Capital Contributions		2,574,205		2,574,205	
Transfers In		80,008		80,008	49,000
Transfers Out	(6,000)	(10,000)	(120,000)	(136,000)	
Change in Net Position	157,869	2,892,470	2,589	3,052,928	(10,668)
Net Position - Beginning	3,022,279	3,417,740	278,944	6,718,963	926,499
<b>NET POSITION - ENDING</b>	<b>\$ 3,180,148</b>	<b>\$ 6,310,210</b>	<b>\$ 281,533</b>	<b>\$ 9,771,891</b>	<b>\$ 915,831</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, 2017

	Enterprise Funds				Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund	Total	
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 651,043	\$ 506,327	\$ 1,272,280	\$ 2,429,650	\$ -
Payments to Employees for Services	(159,365)	(157,248)		(316,613)	
Payments to Suppliers of Goods and Services	(214,089)	(23,144)	(1,145,279)	(1,382,513)	
Net Cash Provided (Used) by Operating Activities	<u>277,588</u>	<u>325,935</u>	<u>127,001</u>	<u>730,524</u>	<u>-</u>
Cash Flows from Noncapital Financing Activities:					
Transfers to / from Other Funds	(6,000)	70,008	(120,000)	(55,992)	49,000
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(6,000)</u>	<u>70,008</u>	<u>(120,000)</u>	<u>(55,992)</u>	<u>49,000</u>
Cash Flows from Capital and Related Financing Activities:					
Proceeds from Capital Debt	124,614	1,704,184		1,828,798	
Proceeds from Sale of Capital Assets			1,000	1,000	
Proceeds from Capital Grants		2,574,205		2,574,205	
Purchase of Capital Assets	(122,000)	(3,976,157)	(29,215)	(4,127,372)	(5,499)
Principal Paid on Capital Debt	(109,795)	(207,175)		(316,970)	
Interest Paid on Capital Debt	(44,868)	(112,122)		(156,990)	
Other Receipts (Payments)	77,467	-	15,000	92,467	
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(74,582)</u>	<u>(17,065)</u>	<u>(13,215)</u>	<u>(104,862)</u>	<u>(5,499)</u>
Cash Flows from Investing Activities:					
Interest Earnings	2,023	1,089	475	3,587	887
Net Cash Provided by Investing Activities	<u>2,023</u>	<u>1,089</u>	<u>475</u>	<u>3,587</u>	<u>887</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>199,029</u>	<u>379,966</u>	<u>(5,739)</u>	<u>573,256</u>	<u>44,388</u>
Cash and Cash Equivalents at Beginning of Year	<u>1,069,383</u>	<u>457,499</u>	<u>233,880</u>	<u>1,760,763</u>	<u>518,745</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,268,412</u>	<u>\$ 837,465</u>	<u>\$ 228,141</u>	<u>\$ 2,334,019</u>	<u>\$ 563,133</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating Income (Loss)	\$ 127,969	\$ 357,345	\$ 106,114	\$ 591,428	\$ (60,555)
Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	145,248	201,017	4,684	350,949	60,555
Change in Assets and Liabilities:					
Receivables	386	(8,787)	7,761	(640)	
Due From Other Governments	-	(273,682)		(273,682)	
Customer Deposits	800			800	
Inventory of Supplies	5,846	(4,715)		1,131	
Prepaid Expenses	2,672	2,461		5,133	
Net Pension Asset	(505)	(505)		(1,010)	
Pension Related Deferred Outflow of Resources	(8,683)	(8,683)		(17,365)	
Accounts and Other Payables	10,656	68,800	8,442	87,898	
Accrued Leave Payable	1,615	1,615		3,230	
Accrued Taxes Payable	(463)	(461)		(923)	
Accrued Wages Payable	1,203	685		1,888	
Net Pension Liability	(18,198)	(18,198)		(36,396)	
Pension Related Deferred Inflows of Resources	9,042	9,042		18,084	
Net Cash Provided (Used) by Operating Activities	<u>\$ 277,588</u>	<u>\$ 325,935</u>	<u>\$ 127,001</u>	<u>\$ 730,524</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, 2017 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  
NOTES TO THE FINANCIAL STATEMENTS

*Government-wide Financial Statements*

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

The total December 31, 2017 balance of governmental activities capital assets includes approximately 0.9 percent for which the costs were determined by estimates of the original costs. The total December 31, 2017 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:

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- 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>12/31/2017</u>
General Fund:	
<u>Activity</u>	
Debt Service	\$ 11,786

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.

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The actual bank balances at December 31, 2017 were as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 508,276
Uninsured, collateral jointly held by state's/Municipality's agent in the name of the state and the pledging financial institution.	5,180,407
Uninsured, uncollateralized	-
Total Deposits	\$ 5,688,683

The carrying amount of deposits on the December 31, 2017 Government-wide Statement of Net Position was \$5,695,001. The reconciliation of deposits to Government-wide Statement of Net Position is as follows:

Cash and cash equivalents	\$ 5,695,001
Carrying amount	5,695,001
Less Petty Cash	(150)
Less Lottery Cash	(10,000)
Add outstanding transactions	3,832
	\$ 5,688,683

**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, 2017.

**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, 2017, 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, 2017, the Municipality does not have any investments.

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

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

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

4. RECEIVABLES AND PAYABLES

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

5. INVENTORY

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

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

Government-wide Financial Statements:

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

Fund Financial Statements:

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

6. PROPERTY TAXES

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

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

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7. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2017 is as follows:

	Balance 1/1/2017	Increases	Decreases	Balance 12/31/2017
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 1,003,064	\$ -	\$ -	\$ 1,003,064
Construction Work in Progress	266,547	84,476	(249,960)	101,063
Total Capital Assets, Not Being Depreciated	<u>1,269,611</u>	<u>84,476</u>	<u>(249,960)</u>	<u>1,104,127</u>
Capital Assets, Being Depreciated				
Buildings & Structures	4,738,359	-	-	4,738,359
Improvements Other Than Buildings	7,300,244	632,117	-	7,932,361
Machinery and Equipment	2,294,089	119,035	(45,000)	2,368,124
Total Capital Assets, Being Depreciated	<u>14,332,692</u>	<u>751,152</u>	<u>(45,000)</u>	<u>15,038,844</u>
Less Accumulated Depreciation for:				
Buildings & Structures	(1,295,324)	(106,258)	-	(1,401,582)
Improvements Other Than Buildings	(1,119,713)	(288,372)	-	(1,408,085)
Machinery and Equipment	(1,482,451)	(151,923)	45,000	(1,589,374)
Total Accumulated Depreciation	<u>(3,897,488)</u>	<u>(546,553)</u>	<u>45,000</u>	<u>(4,399,041)</u>
Total Governmental Activities Capital Assets, Being Depreciated, Net	<u>10,435,204</u>	<u>204,599</u>	<u>-</u>	<u>10,639,803</u>
Governmental Activities Capital Assets, Net	<u>\$ 11,704,815</u>	<u>\$ 289,075</u>	<u>\$ (249,960)</u>	<u>\$ 11,743,930</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, 2017 were \$5,499 and disposals were \$0.

Depreciation expense was charged to functions as follows:

	Balance 12/31/2017
Governmental Activities:	
General Government	\$ 50,634
Public Safety	25,039
Public Works	349,006
Culture & Recreation	121,874
Total Depreciation Expense - Governmental Activities	<u>\$ 546,553</u>

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

	Balance 1/1/2017	Increases	Decreases	Balance 12/31/2017
<b>Business-Type Activities:</b>				
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$ 85,157	\$ -	\$ -	\$ 85,157
Construction Work in Progress	868,400	3,893,471	(408,902)	4,352,969
<b>Total Capital Assets, Not Being Depreciated</b>	<b>953,557</b>	<b>3,893,471</b>	<b>(408,902)</b>	<b>4,438,126</b>
<b>Capital Assets, Being Depreciated</b>				
Buildings	6,561,285	13,658	(3,577)	6,571,366
Improvements Other Than Buildings	5,630,428	612,984	-	6,243,412
Machinery and Equipment	593,773	16,160	(1,120)	608,813
<b>Total Capital Assets, Being Depreciated</b>	<b>12,785,486</b>	<b>642,802</b>	<b>(4,697)</b>	<b>13,423,591</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings	(2,631,588)	(129,084)	3,577	(2,757,095)
Improvements Other Than Buildings	(769,707)	(198,016)	-	(967,723)
Machinery and Equipment	(255,262)	(23,849)	1,120	(277,991)
<b>Total Accumulated Depreciation</b>	<b>(3,656,557)</b>	<b>(350,949)</b>	<b>4,697</b>	<b>(4,002,809)</b>
<b>Total Business-Type Activity Capital Assets, Being Depreciated, Net</b>	<b>9,128,929</b>	<b>291,853</b>	<b>-</b>	<b>9,420,782</b>
<b>Business-Type Activity Capital Assets, Net</b>	<b>\$ 10,082,486</b>	<b>\$ 4,185,324</b>	<b>\$ (408,902)</b>	<b>\$ 13,858,908</b>

Depreciation expense was charged to functions as follows:

	Balance 12/31/2017
<b>Business-Type Activities:</b>	
Water	\$ 145,248
Wastewater	201,017
Liquor	4,684
<b>Total Depreciation Expense - Business-Type Activities</b>	<b>\$ 350,949</b>

Construction Work in Progress at December 31, 2017 is composed of the following:

Project Name	Project Authorization	Expended thru 12/31/2017
SD Highway 115	\$ 1,100,000	\$ 88,948
SE Infrastructure Project Phase 1 Treatment Lagoons (WWTF)	7,410,000	91,415
Garfield Avenue South	370,000	41,439
Sioux River Red Rock Trailway	265,841	13,123
Campground Improvements	220,000	17,855
Rickeman Comfort Station	120,000	13,314
Rickeman Backstop	10,000	9,384
Big Sioux River Bank Stabilization	20,000	5,948
<b>Total</b>	<b>\$ 15,273,841</b>	<b>\$ 4,454,031</b>

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NOTES TO THE FINANCIAL STATEMENTS

8. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

*Primary Government:*

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017	Due Within One Year
<b>Governmental Activities:</b>					
Sales Tax Revenue Bond	-	409,000	-	409,000	16,904
Accrued Compensated Absences-Governmental Funds	28,050	33,987	(28,050)	33,987	-
Pension Liability					
Net Pension Liability	69,009	-	(69,009)	-	-
<b>Total Governmental Activity</b>	<b>97,059</b>	<b>442,987</b>	<b>(97,059)</b>	<b>442,987</b>	<b>16,904</b>
<b>Business-Type Activities:</b>					
SRF 2003 Drinking Water	307,779		(32,768)	275,011	33,930
SRF 2006 Clean Water	339,623		(27,604)	312,019	28,512
SRF 2006 Drinking Water	96,134		(8,038)	88,096	8,303
SRF 2007 Clean Water	729,436		(49,312)	680,124	50,935
SRF 2009 Clean Water	705,679		(42,363)	663,316	43,756
SRF 2011 Drinking Water	362,147		(17,918)	344,229	18,462
SRF 2011 Clean Water	291,063		(14,401)	276,662	14,838
SRF 2012 Drinking Water	169,208		(26,643)	142,565	27,248
SRF 2013 Drinking Water	584,030		(24,427)	559,603	25,168
SRF 2013 Clean Water	571,829		(23,916)	547,913	24,642
SRF 2014 Clean Water	1,032,795		(49,579)	983,216	51,083
SRF 2016 Drinking Water	130,660	124,612	-	255,272	3,491
SRF 2017 Clean Water	-	1,704,184		1,704,184	11,817
<b>Total Debt</b>	<b>5,320,383</b>	<b>1,828,796</b>	<b>(316,969)</b>	<b>6,832,210</b>	<b>342,185</b>
Accrued Compensated Absences-Business-Type Funds	39,408	42,638	(39,408)	42,638	20,305
Pension Liability					
Net Pension Liability	39,396	-	(39,396)	-	-
<b>Total Business-Type Activities</b>	<b>5,399,187</b>	<b>1,871,434</b>	<b>(395,773)</b>	<b>6,874,848</b>	<b>362,490</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 5,496,246</b>	<b>\$ 2,314,421</b>	<b>\$ (492,832)</b>	<b>\$ 7,317,835</b>	<b>\$ 379,394</b>

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Debt payable at December 31, 2017 is comprised of the following:

State Revolving Fund (SRF) Loan 2003 Drinking Water:

Note dated April 30, 2003 including an interest rate of 3.5% per annum and a maturity date of January 15, 2025. Principal payments to be made by Water Fund. \$ 275,011

State Revolving Fund (SRF) Loan 2006 Clean Water:

Note dated March 31, 2006 including an interest rate of 3.25% per annum and a maturity date of April 15, 2027. Principal payments to be made by Wastewater Fund. \$ 312,019

State Revolving Fund (SRF) Loan 2006 Drinking Water:

Note dated March 31, 2006 including an interest rate of 3.25% per annum and a maturity date of January 15, 2027. Principal payments to be made by Water Fund. \$ 88,096

State Revolving Fund (SRF) Loan 2007 Clean Water:

Note dated December 2, 2008 including an interest rate of 3.25% per annum and a maturity date of January 15, 2029. Principal payments to be made by Wastewater Fund. \$ 680,124

State Revolving Fund (SRF) Loan 2009 Clean Water

Note dated January 15, 2010 with a maturity date of January 15, 2030 and an interest rate of 3.25% per annum. Principal payments to be made by the Wastewater Fund. \$ 663,316

State Revolving Fund (SRF) Loan 2011 Drinking Water

Note dated April 15, 2011 with a maturity date of January 15, 2031 and an interest rate of 3.00% per annum. Principal payments to be made by the Water Fund. \$ 344,229

State Revolving Fund (SRF) Loan 2011 Clean Water

Note dated April 15, 2011 with a maturity date of October 15, 2032 and an interest rate of 3.00% per annum. Principal payments to be made by the Wastewater Fund. \$ 276,662

State Revolving Fund (SRF) Loan 2012 Drinking Water

Note dated June 27, 2012 with a maturity date of October 15, 2022 and an interest rate of 2.25% per annum. Principal payments to be made by the Water Fund. \$ 142,565

State Revolving Fund (SRF) Loan 2013 Drinking Water

Note dated October 18, 2013 with a maturity date of January 15, 2035 and an interest rate of 3.00% per annum. Principal payments to be made by the Water Fund. \$ 559,603

State Revolving Fund (SRF) Loan 2013 Clean Water

Note dated October 18, 2013 with a maturity date of January 15, 2035 and an interest rate of 3.00% per annum. Principal payments to be made by the Wastewater Fund. \$ 547,913

State Revolving Fund (SRF) Loan 2014 Clean Water

Note dated April 7, 2014 with payments starting on January 15, 2016, a maturity date of April 15, 2033, and an interest rate of 3.00% per annum. Principal payments to be made by the Wastewater Fund. \$ 983,216

State Revolving Fund (SRF) Loan 2016 Drinking Water

Note dated August 10, 2016 with payments starting on July 15, 2018, a maturity date of July 15, 2048, and an interest rate of 3.25% per annum. Principal payments to be made by the Water Fund \$ 255,272

State Revolving Fund (SRF) Loan 2017 Clean Water

Note dated February 1, 2017 with payments starting on October 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 Wastewater Fund \$ 1,704,184

Sales Tax Revenue Bond 2016 General Fund

Bond dated July 6, 2016 with payments starting on June 1, 2018, a maturity date of June 1, 2036, and an interest rate of 2.95% per annum. Principal payments to be made by the General Fund. \$ 409,000

Compensated Absences

Accrued vacation and sick leave payable from the General Fund and Enterprise Funds \$ 76,625

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The annual requirements to amortize all debt outstanding as of December 31, 2017, except for compensated absences but including interest payments of \$2,349,304 are as follows:

Annual Requirements to Amortize Long-Term Debt  
December 31, 2017

Year Ending Dec. 31,	State Revolving Loans		Sales Tax Revenue Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	342,185	163,004	16,904	11,942	359,089	174,946
2019	376,703	199,752	17,406	11,439	394,109	211,191
2020	388,475	187,979	17,923	10,922	406,398	198,901
2021	400,766	175,689	18,456	10,389	419,222	186,078
2022	413,374	163,081	19,005	9,841	432,379	172,922
2023-2027	1,959,414	625,712	103,838	40,390	2,063,252	666,102
2028-2032	1,487,562	347,605	120,211	24,017	1,607,773	371,622
2033-2037	542,540	186,809	95,257	5,702	637,797	192,511
2038-2042	391,215	121,262			391,215	121,262
2043-2047	459,942	52,535			459,942	52,535
2048-2052	70,033	1,234			70,033	1,234
<b>TOTAL</b>	<b>\$ 6,832,210</b>	<b>\$ 2,224,662</b>	<b>\$ 409,000</b>	<b>\$ 124,642</b>	<b>\$ 7,241,210</b>	<b>\$ 2,349,304</b>

9. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2017 were as follows:

	<u>Transfer To:</u>		
	<u>General Fund</u>	<u>Wastewater Fund</u>	<u>Equipment Replacement Fund</u>
<u>Transfer From:</u>			
General Fund		80,008	33,000
Liquor Fund	120,000		
Water			6,000
Wastewater			10,000
	<u>\$ 120,000</u>	<u>\$ 80,008</u>	<u>\$ 49,000</u>

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

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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.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A, 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

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

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

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

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

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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, 2017, 2016, and 2015 were \$37,867, \$36,358, and \$36,251, 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, 2017, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of this measurement period ending June 30, 2017 and reported by the Municipality as of December 31, 2017 are as follows:

Proportionate share of net position restricted for pension benefits	\$	3,639,068
Less proportionate share of total pension liability		3,641,906
Proportionate share of net pension liability (asset)	\$	(2,838)

At December 31, 2017, the Municipality reported an asset of \$2,838 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017 and the total pension asset used to calculate the net pension asset was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the Municipality's proportion was 0.03127700%, which is an increase of .0000727% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Municipality recognized a reduction of pension expense of \$65,173. At December 31, 2017 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	45,479	
Changes in assumption	220,386	
Net difference between projected and actual earnings on pension plan investments		54,571
Changes in proportion and difference between Municipality contributions and proportionate share of contributions	284	2,105
Municipality contributions subsequent to the measurement date	19,757	
TOTAL	285,906	56,676

\$19,757 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

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of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ending Dec. 31,	
2018	56,648
2019	95,437
2020	70,375
2021	<u>(12,987)</u>
TOTAL	<u>\$ 209,473</u>

Actuarial Assumptions:

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

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

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

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

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

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

Discount Rate:

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

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

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

	1% Decrease	Current Discount Rate	1% Increase
Municipality's proportionate share of the net pension liability (asset)	519,856	(2,838)	(428,482)

Pension Plan Fiduciary Net Position:

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

11. SIGNIFICANT CONTINGENCIES – LITIGATION:

At December 31, 2017, 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 the Municipality of Dell Rapids during the life of the tax increment district.

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

The amount of general property taxes collected from the tax increment that were not available to the Municipality of Dell Rapids during the calendar year ended December 31, 2017 was approximately \$5,601.

13. SUBSEQUENT EVENTS

The Municipality completed construction of the Wastewater Treatment Facility in August 2018. The total cost of the project amounted to \$4,783,121.

In April 2018, the Municipality was awarded a Clean Water State Revolving Fund loan and a \$2,000,000 Consolidated grant from the State of South Dakota for the Municipality's Sanitary and Storm Sewer project. The State also awarded a Drinking Water State Revolving Fund loan in the amount of \$2,486,000 for the Municipality's Water Distribution Improvement project. Construction on these projects is scheduled to begin in 2019.

The Municipality has evaluated subsequent events to September 14, 2018, 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, 2017, 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.

MUNICIPALITY OF DELL RAPIDS  
NOTES TO THE FINANCIAL STATEMENTS

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

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

As of December 31, 2017, the Municipality has vested balance in the cumulative reserve fund of \$40,625.

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

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

#### Worker's Compensation

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

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

#### Unemployment Benefits

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

During the year ended December 31, 2017 no claims for unemployment benefits were paid. At December 31, 2017 no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION  
MUNICIPALITY OF DELL RAPIDS  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2017

	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	\$ 1,108,523	\$ 1,131,785	\$ 1,100,879	\$ (30,906)
General Sales and Use Taxes	850,000	850,000	1,168,439	318,439
Amusement Taxes	400	400	432	32
Tax Deed Revenue			22	22
Penalties and Interest on Delinquent Taxes	1,000	1,000	1,734	734
Licenses and Permits	22,350	22,350	23,817	1,467
Intergovernmental Revenue:				
Federal Grants	250,010	250,010	88,385	(161,625)
State Grants	263,104	263,104	101,359	(161,745)
State Shared Revenue:				
Bank Franchise Tax	25,000	25,000	31,534	6,534
Prorate License Fees	2,000	2,000	1,761	(239)
Liquor Tax Reversion	15,000	15,000	22,554	7,554
Motor Vehicle Licenses (5%)	20,000	20,000	30,352	10,352
Local Government Highway and Bridge Fund	30,000	30,000	46,147	16,147
Other	500	500	-	(500)
County Shared Revenue:				
County Wheel Tax	4,000	4,000	5,540	1,540
Other County Shared Revenue				-
Other Intergovernmental Revenues	2,000	2,000		(2,000)
Charges for Goods and Services:				
General Government	500	500	625	125
Public Safety	1,500	1,500	2,975	1,475
Sanitation	7,104	7,104		(7,104)
Culture and Recreation	43,600	43,600	53,155	9,555
Other	8,000	8,000	21,927	13,927
Fines and Forfeits:				
Court Fines and Costs	500	500	39	(461)
Animal Control Fines				-
Parking Meter Fines	1,500	1,500	1,815	315
Other	300	300	480	180
Miscellaneous Revenue:				
Investment Earnings	3,000	3,000	4,849	1,849
Rentals	2,000	2,000	2,400	400
Special Assessments	6,795	6,795	16,095	9,300
Maintenance Assessments				-
Contributions and Donations from Private Sources	-	-	40	40
Other	15,100	15,100	22,710	7,610
<b>Total Revenue</b>	<b>\$ 2,683,786</b>	<b>\$ 2,707,048</b>	<b>\$ 2,750,065</b>	<b>\$ 43,017</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, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Expenditures:</b>				
General Government:				
Legislative	\$ 54,800	\$ 54,800	\$ 51,305	\$ 3,495
Contingency	30,000	30,000		30,000
Amount Trasferred		(30,000)		(30,000)
Executive	158,685	158,685	158,377	308
Elections	1,300	1,300	28	1,272
Financial Administration	140,994	140,994	113,896	27,098
Other	108,555	108,555	127,937	(19,382)
Total General Government	494,334	464,334	451,544	12,790
Public Safety:				
Police	255,386	255,386	255,385	1
Fire	63,335	63,335	62,753	582
Protective Inspection	58,369	66,369	37,506	28,863
Total Public Safety	377,090	385,090	355,644	29,446
Public Works:				
Highways and Streets	1,131,349	1,131,349	713,888	417,461
Sanitation	6,852	14,852	14,699	153
Transit	62,007	73,258	119,519	(46,261)
Total Public Works	1,200,208	1,219,459	848,106	371,353
Health and Welfare:				
Health	4,543	6,343	4,575	1,768
Humane Society	2,300	2,300	1,779	521
Ambulance	40,000	40,000	40,000	-
Total Health and Welfare	46,843	48,643	46,354	2,289
Culture and Recreation:				
Recreation	479,563	498,263	139,848	358,415
Parks	219,054	219,054	128,880	90,174
Libraries	201,791	203,291	187,833	15,458
Total Culture and Recreation	900,408	920,608	456,561	464,047
Conservation and Development:				
Economic Development and Assistance	96,600	121,100	120,972	128
Miscellaneous				
Debt Service			11,786	(11,786)
Total Expenditures	3,115,483	3,159,234	2,290,966	868,268
Excess of Revenue Over (Under) Expenditures	(431,697)	(452,186)	459,099	911,285
Other Financing Sources (Uses):				
Transfers In	120,000	120,000	120,000	-
Sale of Municipal Property	-	-	2,876	2,876
Long-Term Debt Issued	-	-	409,000	409,000
Transfer Out	(113,008)	(113,008)	(113,008)	-
Total Other Financing Sources (Uses)	6,992	6,992	418,868	411,876
Net Changes in Fund Balances	(424,705)	(445,194)	877,967	1,323,161
Fund Balance Beginning	1,891,026	1,891,026	1,891,026	-
<b>FUND BALANCE - ENDING</b>	<b>\$1,466,321</b>	<b>\$1,445,832</b>	<b>\$ 2,768,993</b>	<b>\$ 1,323,161</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 special revenue funds.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States (USGAAP).

2. GAAP / Budgetary Accounting Basis Differences

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

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

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

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

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

The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is 6/30/2017.

**CITY OF DELL RAPIDS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended December 31, 2017**

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures 2017
US Department of Transportation - Pass-Through Programs: SD Department of Transportation, Section 5311 Funds Bus Program	20.509 20.526	N/A N/A	43,075 <u>45,331</u>
<b>Total US Department of Transportation</b>			<b><u>88,406</u></b>
<b>Clean Water State Revolving Fund Cluster:</b> US Environmental Protection Agency - Pass-Through Programs: SD Department of Environment and Natural Resources, Capitalization Grants for Clean Water State Revolving Funds (Federal Portion) (Note 3)	66.458	N/A	<u>1,125,072</u>
<b>Total Clean Water State Revolving Fund Cluster</b>			<b><u>1,125,072</u></b>
<b>Total US Environment Protection Agency</b>			<b><u>1,125,072</u></b>
<b>GRAND TOTAL</b>			<b><u><u>1,213,478</u></u></b>

**Note 1: Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Municipality under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Municipality.

**Note 2: Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Municipality has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance

**Note 3: Major Federal Financial Assistance Program**

This represents a Major Federal Financial Assistance Program.

# DELL RAPIDS

SOUTH DAKOTA

## CORRECTIVE ACTION PLAN

December 31, 2017

The City respectfully submits the following correction action plan from December 31, 2017 Schedule of Findings.

### FINDING: Segregation of Duties

*MANAGEMENT RESPONSE:* The City Agrees with this finding and is aware of the weakness. Due to the small size of the entity, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Management and City Council will continue to provide scrutiny to financial accuracy.

*ANTICIPATED COMPLETION DATE:* Ongoing

### FINDING: Expenditures Exceeding amount budgeted for interest in General Fund

*MANAGEMENT RESPONSE:* The City Agrees with this finding and will be more careful in the future to follow budgetary guidelines prescribed by law.

*ANTICIPATED COMPLETION DATE:* December 31, 2018

