



Financial Statements
December 31, 2015
City of Ipswich

City of Ipswich
Municipal Officials (unaudited)
December 31, 2015

MayorLeRoy Kilber

Governing Board Mike Hammrich
Mike Steen
Les Braun
Barb Gillick
Dave Bauer
Susie Treftz

Finance Officer Amanda Anglin

Attorney Vaughn P. Beck

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The City Council
City of Ipswich
Ipswich, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Ipswich as of December 31, 2015, and for the fiscal year then ended and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Note 1; this includes determining that the other comprehensive basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis - of the governmental activities, the business-type activities, and each major fund of the City of Ipswich as of December 31, 2015, and the respective changes in financial position - modified cash basis and, where applicable, cash flows - modified cash basis thereof and for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise the City's financial statements. The listing of municipal officers, schedules of employer's share of net pension asset and pension contributions, budgetary comparison, and schedule of changes in long-term debt are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules of employer's share of net pension asset and pension contributions, budgetary comparison, and schedule of changes in long-term debt are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 financial statements as a whole.

The listing of municipal officers has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2016 on our consideration of the City of Ipswich'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 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 City of Ipswich's internal control over financial reporting and compliance.



Aberdeen, South Dakota
June 14, 2016

City of Ipswich
Statement of Net Position—Modified Cash Basis
December 31, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 972,765	\$ 176,014	\$ 1,148,779
Restricted assets:			
Cash and cash equivalents restricted for:			
Library	2,698	-	2,698
Total Assets	<u>\$ 975,463</u>	<u>\$ 176,014</u>	<u>\$ 1,151,477</u>
Net Position			
Restricted for:			
Library	\$ 2,698	\$ -	\$ 2,698
Construction	-	100	100
Debt service/repayment	379	68,741	69,120
Asset replacement, operation and maintenance	-	63,738	63,738
Unrestricted	<u>972,386</u>	<u>43,435</u>	<u>1,015,821</u>
Total Net Position	<u>\$ 975,463</u>	<u>\$ 176,014</u>	<u>\$ 1,151,477</u>

City of Ipswich
Statement of Activities—Modified Cash Basis
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government						
Governmental activities:						
General government	\$ 164,234	\$ 6,735	\$ 3,275	\$ (154,224)	\$ -	\$ (154,224)
Public safety	42,902	96	-	(42,806)	-	(42,806)
Public works	1,432,134	63,023	58,418	(1,310,693)	-	(1,310,693)
Health and welfare	212,554	120,114	57,673	(34,767)	-	(34,767)
Culture and recreation	159,725	1,275	-	(158,450)	-	(158,450)
Conservation and development	21,000	-	-	(21,000)	-	(21,000)
Debt service	7,420	-	-	(7,420)	-	(7,420)
Total governmental activities	2,039,969	191,243	119,366	(1,729,360)	-	(1,729,360)
Business-type activities:						
Water	256,279	249,803	-	-	(6,476)	(6,476)
Sewer	284,436	130,837	-	-	24,483	24,483
Total business-type activities	540,715	380,640	-	-	18,007	18,007
	<u>\$ 2,580,684</u>	<u>\$ 571,883</u>	<u>\$ 119,366</u>	<u>(1,729,360)</u>	<u>18,007</u>	<u>(1,711,353)</u>
General Revenues						
Taxes:						
Property taxes				313,614	-	313,614
Sales taxes				428,241	-	428,241
State shared revenues				7,719	-	7,719
Unrestricted investment earnings				2,913	1,255	4,168
Miscellaneous revenue				16,940	3,038	19,978
Debt issued				514,068	-	514,068
Sale of capital assets				40	-	40
Transfers				(9,000)	9,000	-
Total general revenues and transfers				1,274,535	13,293	1,287,828
Change in Net Position				(454,825)	31,300	(423,525)
Net Position - Beginning				1,430,288	144,714	1,575,002
Net Position - Ending				<u>\$ 975,463</u>	<u>\$ 176,014</u>	<u>\$ 1,151,477</u>

City of Ipswich
Balance Sheet—Modified Cash Basis—Governmental Funds
December 31, 2015

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 972,765
Restricted cash	<u>2,698</u>
Total Assets	<u><u>\$ 975,463</u></u>
Fund Balances	
264 Restricted for Library	\$ 2,698
Debt repayment	379
267 Unassigned	<u>972,386</u>
Total Fund Balances	<u><u>\$ 975,463</u></u>

City of Ipswich

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2015

	General Fund
Revenues	
310 Taxes	
311 General property taxes	\$ 312,253
313 General sales and use taxes	428,241
315 Amusement taxes	180
319 Penalties and interest on delinquent taxes	1,181
	1,855
Total taxes	741,855
320 Licenses and permits	5,874
330 Intergovernmental revenue	
334 State grants	57,673
335 State shared revenue	
335.01 Bank franchise tax	1,787
335.02 Motor vehicle commercial prorated	4,612
335.03 Liquor tax reversion	5,932
335.04 Motor vehicle licenses (5%)	21,047
335.08 Local government highway and bridge fund	30,571
338 County shared revenue	
338.01 County road tax (25%)	1,411
338.03 County wheel tax	777
	123,810
Total intergovernmental revenue	123,810
340 Charges for goods and services	
344 Sanitation	62,483
346 Culture and recreation	1,275
347 Ambulance	111,735
349 Other	8,379
	183,872
Total charges for goods and services	183,872
350 Fines and forfeits	
351 Court fines and costs	96
	96
Total fines and forfeits	96

City of Ipswich

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2015

	General Fund
360 Miscellaneous revenue	
361 Investment earnings	2,913
362 Rentals	861
363 Special assessments	540
367 Contributions and donations from private sources	3,275
369 Other	16,940
	24,529
Total miscellaneous revenue	
Total revenues	1,080,036
 Expenditures	
410 General government	
411 Legislative	30,392
413 Elections	17
414 Financial administration	117,931
	148,340
Total general government	
420 Public safety	
421 Police	2,175
422 Fire	21,702
423 Protective Inspection Administration	4,503
	28,380
Total public safety	
430 Public works	
431 Highways and streets	1,196,353
432 Sanitation	131,473
437 Cemeteries	6,909
	1,334,735
Total public works	
440 Health and welfare:	
441 Health	585
446 Ambulance	86,548
	87,133
Total health and welfare	
450 Culture and recreation	
451 Recreation	72,918
452 Parks	45,985
455 Libraries	22,975
458 Museums	4,698
	146,576
Total culture and recreation	

City of Ipswich

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2015

	General Fund
460 Conservation and development	
465 Economic development and assistance (industrial development)	11,000
466 Economic opportunity	10,000
Total conservation and development	21,000
470 Debt service	7,420
485 Capital outlay	266,385
Total expenditures	2,039,969
Other Financing Sources (Uses)	
391.02 Long-term debt issued	514,068
391.03 Sale of municipal property	40
511 Transfers out	(9,000)
Total other financing sources (uses)	505,108
Net Change in Fund Balance	(454,825)
Fund Balance - Beginning	1,430,288
Fund Balance - Ending	\$ 975,463

City of Ipswich
Balance Sheet-Modified Cash Basis-Proprietary Funds
December 31, 2015

	Water Fund	Sewer Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ 106,291	\$ 69,723	\$ 176,014
Total Assets	<u>\$ 106,291</u>	<u>\$ 69,723</u>	<u>\$ 176,014</u>
Net Position			
Restricted net position for:			
Project construction	\$ 100	\$ -	\$ 100
Debt service/repayment	65,658	3,083	68,741
Asset replacement, and operation and maintenance	42,413	21,325	63,738
Unrestricted net position	<u>(1,880)</u>	<u>45,315</u>	<u>43,435</u>
Total Net Position	<u>\$ 106,291</u>	<u>\$ 69,723</u>	<u>\$ 176,014</u>

City of Ipswich

Statement of Revenues, Expenses and Changes in Fund Net Position-Modified Cash Basis-Proprietary Funds
Year Ended December 31, 2015

	Water Fund	Sewer Fund	Totals
Operating Revenue			
380 Charges for goods and services	\$ 232,243	\$ 130,837	\$ 363,080
381 Revenue dedicated to servicing debt	17,560	-	17,560
369 Miscellaneous	3,038	-	3,038
Total operating revenue	<u>252,841</u>	<u>130,837</u>	<u>383,678</u>
Operating Expenses			
410 Personal services	24,687	35,388	60,075
420 Other current expense	32,493	218,662	251,155
426.2 Materials	98,968	-	98,968
430 Capital assets	11,148	5,784	16,932
Total operating expenses	<u>167,296</u>	<u>259,834</u>	<u>427,130</u>
Operating Income (Loss)	<u>85,545</u>	<u>(128,997)</u>	<u>(43,452)</u>
Nonoperating Revenue (Expense)			
361 Investment earnings	1,150	105	1,255
391.02 Debt issued	-	178,082	178,082
441 Debt service	(32,643)	(24,246)	(56,889)
442 Interest expense	(56,340)	(356)	(56,696)
Total nonoperating revenue (expense)	<u>(87,833)</u>	<u>153,585</u>	<u>65,752</u>
Other Financing Sources (Uses)			
391.01 Transfers in	9,000	-	9,000
Total other financing sources (uses)	<u>9,000</u>	<u>-</u>	<u>9,000</u>
Change in Net Position	6,712	24,588	31,300
Net Position - Beginning	<u>99,579</u>	<u>45,135</u>	<u>144,714</u>
Net Position - Ending	<u>\$ 106,291</u>	<u>\$ 69,723</u>	<u>\$ 176,014</u>

City of Ipswich
Statement of Cash Flows-Modified Cash Basis-Proprietary Funds
Year Ended December 31, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from (used for) Operating Activities			
Receipt from customers	\$ 249,803	\$ 130,837	\$ 380,640
Payments to suppliers	(131,461)	(218,662)	(350,123)
Payments to employees	(24,687)	(35,388)	(60,075)
Other receipts	3,038	-	3,038
Net Cash from (used for) Operating Activities	<u>96,693</u>	<u>(123,213)</u>	<u>(26,520)</u>
Cash Flows from Noncapital Financing Activity			
Transfers from other funds	9,000	-	9,000
Net Cash from Noncapital Financing Activities	<u>9,000</u>	<u>-</u>	<u>9,000</u>
Cash Flows used for Capital and Related Financing Activities			
Purchase of capital assets	(11,148)	(5,784)	(16,932)
Principal paid on capital debt	(32,643)	(24,246)	(56,889)
Interest paid on capital debt	(56,340)	(356)	(56,696)
Net Cash used for Capital and Related Financing Activities	<u>(100,131)</u>	<u>147,696</u>	<u>47,565</u>
Cash Flows from Investing Activities			
Interest earnings	1,150	105	1,255
Net Cash from Investing Activities	<u>1,150</u>	<u>105</u>	<u>1,255</u>
Net Change in Cash and Cash Equivalents	6,712	24,588	31,300
Cash and Cash Equivalents - Beginning	99,579	45,135	144,714
Cash and Cash Equivalents - Ending	<u>\$ 106,291</u>	<u>\$ 69,723</u>	<u>\$ 176,014</u>
Cash and cash equivalents consist of:			
Cash and cash equivalents	\$ 106,291	\$ 69,723	\$ 176,014
Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities			
Operating income (loss)	\$ 85,545	\$ (128,997)	\$ (43,452)
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities:			
Purchase of capital assets	11,148	5,784	16,932
Net Cash from (used for) Operating Activities	<u>\$ 96,693</u>	<u>\$ (123,213)</u>	<u>\$ (26,520)</u>

Note 1 - Summary of Significant Accounting Policies

As discussed further in Note 1.C, the financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Financial Reporting Entity

The reporting entity of the City of Ipswich (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); 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 City's financial statements to be misleading or incomplete.

The reporting entity is comprised of the primary government, City of Ipswich.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

Based upon the application of these criteria, the City does not have any component units.

B. Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

1. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 10% 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% 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.

The funds of the City of Ipswich are described below:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Proprietary Funds

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

- **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.
- **Sewer 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

The City’s basis of accounting is the modified cash basis, which is a basis of accounting other than U.S. generally accepted accounting principles (USGAAP). Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus

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 within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the economic resources” measurement focus is applied within the limitations of the modified cash basis of accounting.

Basis of Accounting

In the government-wide statement of net position and statement of activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The only modification to the cash basis of accounting implemented by the City in these financial statements is the recording of long-term investments in certificates of deposit (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost and inter-fund advances and borrowings arising from the use of a pooled cash account.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and accrued expenses and liabilities) are not recorded in these financial statements.

If the City applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. Deposits and Investments

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates 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.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months and/or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

E. 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. The City did not have any interfund receivables and payables that needed to be eliminated as of December 31, 2015.
2. The City did not have internal service fund activity which required elimination as of December 31, 2015.

F. Capital Assets

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs.

G. Long-Term Liabilities

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances is recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category.

Long-term debts arising from cash transactions of governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. Under the modified cash basis, the accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

H. Program Revenues

In the government-wide statement of activities, reported program revenues derive directly from the program itself or from parties other than the City’s taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for Services – These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided or are otherwise directly affected by the services.

2. Program-Specific Operating Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-Specific Capital Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

I. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's statement of revenues, expenses and changes in fund net position, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

J. Cash and Cash Equivalents

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

K. Equity Classifications

Government-Wide Statements

Equity is classified as net position and is comprised of three components, net investment in capital assets; restricted net position; and unrestricted net position. Because capital assets are not reported by the City under the modified cash basis of accounting, only the following components are displayed:

1. 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.
2. Unrestricted Net Position – All other net position that do not meet the definition of "restricted".

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. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

L. Application of Net Position

The City 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 grant agreements 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.

M. Fund Balance Classification Policies and Procedures

The City has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance - Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance - Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned Fund Balance - Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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

N. Rounding

Computer generated rounding variances exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

Note 2 - Deposits and Investments

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

Deposits

The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% 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.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2015, the City maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

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

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 459,384
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	692,822
	<u>\$ 1,152,206</u>

The City's carrying amount of deposits at December 31, 2015 is as follows:

Cash and cash equivalents	<u>\$ 1,151,477</u>
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Investments

In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds and other obligations issued or directly or indirectly guaranteed by the United States Government, or otherwise directly or indirectly backed by the full faith and credit of the United States Government; provided that, for other than permanent, trust, retirement, building and depreciation reserve funds, such securities shall either mature within 18 months from the date of purchase or be redeemable at the option of the holder within 18 months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the 100 largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

As of December 31, 2015, the City did not hold any investments as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. The City also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from deposits and investments to the fund making the investment.

Under the modified cash basis of accounting, investments are stated at cost.

Note 3 - 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 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 City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

Note 4 - Retirement Plan

Employees of the City participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established 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 South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, PO 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% prior to 2008 and 1.55% 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% for service prior to 2008 and 2.0% thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733% for service prior to 2008 and 3.333% thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

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

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

All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by State statute to contribute the following percentages of their salary to the plan; Class A members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Member, 8% 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% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions made to the SDRS for the years ended December 31, 2015, 2014 and 2013 were \$10,518, \$10,861, and \$11,309, respectively, equal to the required contributions each year.

Pension Liabilities (Assets)

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the City of Ipswich are as follows:

Proportionate share of net position restricted for pension benefits	\$ 1,014,363
Less proportionate share of total pension liability	<u>974,441</u>
Proportionate share of net pension asset	<u><u>\$ 39,922</u></u>

The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the Municipality's proportion was .0094%, which is a decrease of .0009% from its proportion measured as of June 30, 2014. The City's proportionate share net pension asset is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

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

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Investment rate of return	7.25% through 2017 and 7.50% thereafter, net of pension plan investment expense

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

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

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

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

Sensitivity of Liability (Asset) To Changes in the Discount Rate

The following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension asset (liability)	\$ (100,483)	\$ 39,922	\$ 154,410

Discount Rate

The discount rate used to measure the total pension asset was 7.25% through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Pension Plan Fiduciary Net Position

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

Note 5 - Significant Contingencies - Litigation

At December 31, 2015, the City was not involved in any litigation that would be material to the financial statements.

Note 6 - Restricted Net Position

Restricted net position for the year ended December 31, 2015 is as follows:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Library	Statute	\$ 2,698
Water - Construction Account	Contractual Agreement	100
Water - Debt Service and Other Reserves	Contractual Agreement	108,071
Sewer - Debt Service and Other Reserves	Contractual Agreement	24,408
General - Debt Service	Contractual Agreement	379

Note 7 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2015, the City managed its risks as follows:

Employee Health Insurance

The City does not provide a group health insurance plan for City employees. Each employee is responsible to obtain individual health insurance.

Liability Insurance

The City purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Worker's Compensation

The City purchases worker's compensation insurance from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits

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

Note 8 - Interfund Transfers

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

	Transfers to Business Activities
	Water
Transfers from:	
Major Funds:	
General Fund	\$ 9,000



Supplementary Information
December 31, 2015
City of Ipswich

City of Ipswich
Schedules of Employer's Share of Net Pension Asset and Pension Contributions
Year Ended December 31, 2015

Pension Plan	Fiscal Year Ending *	City's Proportion of the Net Pension Asset	City's Proportionate Share of the Net Pension Asset (a)	City's Covered-Employee Payroll (b)	City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
SDRS	6/30/2015	<u>0.0094%</u>	<u>\$ (39,922)</u>	<u>\$ 171,847</u>	<u>-23.2%</u>	<u>104.1%</u>
Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
SDRS	12/31/2015	<u>\$ 10,518</u>	<u>\$ 10,518</u>	<u>\$ -</u>	<u>\$ 175,300</u>	<u>6.0%</u>

City of Ipswich
Schedule of Changes in Long-Term Debt
Year Ended December 31, 2015

<u>Indebtedness</u>	<u>Long-Term Debt 1/1/15</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Less Debt Forgiven</u>	<u>Long-Term Debt 12/31/15</u>
Enterprise Long-Term Debt					
Revenue Bonds - Water	\$ 291,581	\$ -	\$ 7,128	\$ -	\$ 284,453
USDA Rural Development Loan - Water	1,478,516	-	25,515	-	1,453,001
USDA Rural Development Loan - Sewer	-	178,082	24,246	-	153,836
Governmental Long-Term Debt					
USDA Rural Development Loan - Street	-	514,068	5,981	-	508,087
Total	<u>\$ 1,770,097</u>	<u>\$ 692,150</u>	<u>\$ 62,870</u>	<u>\$ -</u>	<u>\$ 2,399,377</u>

City of Ipswich
 Budgetary Comparison Schedule-General Fund
 Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 316,900	\$ 316,900	\$ 312,253	\$ (4,647)
313 General sales and use taxes	400,000	400,000	428,241	28,241
315 Amusement taxes	100	100	180	80
319 Penalties and interest on delinquent taxes	1,000	1,000	1,181	181
Total taxes	<u>718,000</u>	<u>718,000</u>	<u>741,855</u>	<u>23,855</u>
320 Licenses and permits	<u>6,500</u>	<u>6,500</u>	<u>5,874</u>	<u>(626)</u>
330 Intergovernmental revenue				
334 State grants	8,439	183,500	57,673	(125,827)
335 State Shared revenue				
335.01 Bank franchise tax	1,500	1,500	1,787	287
335.02 Motor vehicle commercial prorate	3,500	3,500	4,612	1,112
335.03 Liquor tax reversion	6,000	6,000	5,932	(68)
335.04 Motor vehicle licenses (5%)	15,000	15,000	21,047	6,047
335.08 Local government highway and bridge fund	20,000	20,000	30,571	10,571
338 County shared revenue				
338.01 County road tax (25%)	1,411	1,411	1,411	-
338.03 County wheel tax	-	-	777	777
Total intergovernmental revenue	<u>55,850</u>	<u>230,911</u>	<u>123,810</u>	<u>(107,101)</u>
340 Charges for goods and services				
344 Sanitation	64,500	64,500	62,483	(2,017)
346 Culture and recreation	4,000	4,000	1,275	(2,725)
347 Ambulance	78,600	78,600	111,735	33,135
349 Other	-	-	8,379	8,379
Total charges for goods and services	<u>147,100</u>	<u>147,100</u>	<u>183,872</u>	<u>36,772</u>
350 Fines and forfeits				
351 Court fines and costs	-	-	96	96
Total fines and forfeits	<u>-</u>	<u>-</u>	<u>96</u>	<u>96</u>
360 Miscellaneous revenue				
361 Investment earnings	4,500	4,500	2,913	(1,587)
362 Rentals	1,000	1,000	861	(139)
363 Special assessments	-	-	540	540
367 Contributions and donations from private sources	-	-	3,275	3,275
369 Other	13,700	13,700	16,940	3,240
Total miscellaneous revenue	<u>19,200</u>	<u>19,200</u>	<u>24,529</u>	<u>5,329</u>
Total revenues	<u>946,650</u>	<u>1,121,711</u>	<u>1,080,036</u>	<u>(41,675)</u>

City of Ipswich
Budgetary Comparison Schedule-General Fund
Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	29,175	43,720	43,336	384
411.5 Contingency	49,405	49,405	-	49,405
Amount transferred	-	(46,466)	-	(46,466)
413 Elections	1,000	1,000	17	983
414 Financial administration	116,879	120,904	120,881	23
Total general government	196,459	168,563	164,234	4,329
420 Public safety				
421 Police	1,000	2,175	2,175	-
422 Fire	17,803	36,228	36,224	4
423 Protective inspection administration	-	5,000	4,503	497
Total public safety	18,803	38,403	42,902	501
430 Public works				
431 Highways and streets	315,199	1,482,673	1,293,752	188,921
432 Sanitation	75,192	132,497	131,473	1,024
437 Cemeteries	12,200	12,200	6,909	5,291
Total public works	402,591	1,627,370	1,432,134	195,236
440 Health and welfare				
441 Health	13,712	25,799	24,747	1,052
446 Ambulance	105,940	186,855	187,807	(952)
Total health and welfare	119,652	212,654	212,554	100
450 Culture and recreation				
451 Recreation	86,526	87,276	74,393	12,883
452 Parks	50,675	54,875	54,718	157
455 Libraries	29,844	29,844	25,916	3,928
458 Museums	4,600	4,700	4,698	2
Total culture and recreation	171,645	176,695	159,725	16,970
460 Conservation and development				
465 Economic development and assistance (industrial development)	11,000	11,000	11,000	-
466 Economic opportunity	10,000	10,000	10,000	-
Total conservation and development	21,000	21,000	21,000	-
470 Debt service	-	-	7,420	(7,420)
Total expenditures	930,150	2,244,685	2,039,969	209,716

City of Ipswich
 Budgetary Comparison Schedule-General Fund
 Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources (Uses)				
391.02 Long-term debt issued	-	653,000	514,068	(138,932)
391.03 Sale of municipal property	-	-	40	40
511 Transfers out	(16,500)	(16,500)	(9,000)	7,500
Total other financing sources (uses)	(16,500)	(16,500)	505,108	(131,392)
Excess of Revenue over (under) Expenditures	-	(1,139,474)	(454,825)	684,649
Net Position - Beginning	1,430,288	1,430,288	1,430,288	-
Fund Balance - Ending	\$ 1,430,288	\$ 290,814	\$ 975,463	\$ 684,649

Note 1 - Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular Board meeting in September of each year or within ten days thereafter, the City Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City Commission, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in Number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total municipal budget and may be transferred by resolution of the City Commission 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 City Commission.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, special revenue funds and capital projects funds.

The City did not encumber any amounts at December 31, 2015.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with a modified cash basis of accounting.

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

The financial statements prepared on 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 comparison 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.

Note 3 - Pension Schedules

There are no factors that affect trends in the amounts reported, such as change of benefit terms and assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the SDRS audited financial statements.



CPAs & BUSINESS ADVISORS

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*

The City Commission
City of Ipswich
Ipswich, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Ipswich as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 14, 2016. The statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) 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 City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2015-A and 2015-B to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Ipswich's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of audit findings. The City'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 result 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 an 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. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
June 14, 2016



CPAs & BUSINESS ADVISORS

Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the City Council
City of Ipswich
Ipswich, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Ipswich’s (the City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City’s major federal programs for the year ended December 31, 2015. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the 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, 2015.

Report on Internal Control over Compliance

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

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 compliance requirement 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 that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities, and each major fund of City of Ipswich as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 14, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Handwritten signature in cursive script that reads "Eric Bailey LLP".

Aberdeen, South Dakota
June 14, 2016

City of Ipswich
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2015

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed Through to Subrecipients</u>
U.S. Department of Agriculture				
Direct Federal Funding:				
Water and Waste Disposal Systems for Rural Communities	*****	10.760	\$ 225,276	\$ -
Community Facilities Loans and Grants	*****	10.766	<u>633,041</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>858,317</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 858,317</u>	<u>\$ -</u>

***** "No" Pass-Through Entity Identifying Number Given

See Notes to Schedule of Expenditures of Federal Awards

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City, and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. City of I received federal awards directly from federal agencies. If federal financial assistance is provided to a subrecipient, it is treated as an expenditure when it is paid to the subrecipient.

Note B – Significant Accounting Policies

Governmental and business type fund types account for the City's federal grant activity. Expenditures in the schedule of expenditures of federal awards are recognized on the modified cash basis of accounting – transactions are recorded when cash is received or disbursed. The City's summary of significant accounting policies is presented in Note 1 in the City's basic financial statements. The City has not elected to use the 10% de minimus cost rate.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Community Facilities Loans and Grants	10.766
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2015-A - Preparation of Financial Statements, Footnotes and Material Journal Entries

Material Weakness

Criteria: The City’s internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with the modified cash basis of accounting.

Condition: City of Ipswich requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2015. As a part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the City’s existing internal controls and; therefore, could result in a misstatement of the City’s financial statements.

Cause: The City does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to at times propose material journal entries.

Effect: This condition may affect the City’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.

Finding 2015-B - Lack of Segregation of Duties

Material Weakness

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: The City of Ipswich has a limited number of office personnel, and accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

Cause: The City has an insufficient number of staff to adequately separate duties.

Effect: This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

Recommendation: Although it is recognized that number of office staff may not be large enough to permit adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the City Council exercise adequate oversight of the accounting function.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

No findings reported in the current year.

Financial Statement Findings

2014-A - Preparation of Financial Statements, Footnotes and Material Journal Entries

Initial Fiscal Year Finding Occurred: 2009

Finding Summary: The City does not have an internal control system designed to provide for the preparation of the financial statements including required footnotes and disclosures. We requested our auditors to draft the financial statements and accompanying notes to those financial statements. In addition to their drafting of the financial statements and the accompanying notes to the financial statements, at times our auditors propose material journal entries to record to the City's account balances.

Status: Not corrected. Our auditors were requested to draft the financial statements and accompanying notes to the financial statements, and they proposed material audit adjustments to the City's recorded account balances.

2014-B – Lack of Segregation of Duties

Initial Fiscal Year Finding Occurred: 2009

Finding Summary: The City of Ipswich has a limited number of office personnel, and accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

Status: Not corrected. This situation has remained unchanged from the prior fiscal year within these accounting functions.

Findings Related to Federal Awards

No findings reporting in the prior year.

City of Ipswich
PO Box 586
Ipswich, SD 57451-0586

City of Ipswich respectfully submits the following corrective action plan for its audit findings for the year ended December 31, 2015.

Independent Public Accounting Firm: Eide Bailly LLP
PO Box 430
Aberdeen, SD 57402-0430

Audit Period: January 1, 2015 – December 31, 2015

Finding 2015-A – Preparation of Financial Statements, Footnotes, and Propensity for Material Journal Entries

Planned Action: Management and the City Council will review for propriety the draft financial statements, footnotes, and schedule of expenditures of federal awards prepared by the auditor and review all recommended audit adjusting entries proposed by the auditor. Due to the City's size, we will accept the risk associated with the condition based on cost and other considerations.

Contact Person: Kayla Perrion, Finance Officer

Anticipated Completion Date: Ongoing

Finding 2015-B – Lack of Segregation of Duties

Planned Action: Management acknowledges the facts and circumstances concerning limited office personnel prohibiting adequate segregation of duties. Both management and those charged with governance are aware of the condition and accept the risk associated with that condition.

Contact Person: Kayla Perrion, Finance Officer

Anticipated Completion Date: Ongoing