



Financial Statements
December 31, 2015
City of Milbank

Mayor Pat Raffety

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Finance Officer Cynthia Schumacher

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Independent Auditor’s Report	1
Financial Statements	
Statement of Net Position–Modified Cash Basis	4
Statement of Activities–Modified Cash Basis.....	5
Balance Sheet–Modified Cash Basis–Governmental Funds	6
Statement of Revenues, Expenditures and Changes in Fund Balances–Modified Cash Basis– Governmental Funds	7
Statement of Net Position–Modified Cash Basis–Proprietary Funds.....	10
Statement of Revenues, Expenses and Changes in Fund Net Position –Modified Cash Basis– Proprietary Funds	11
Statement of Cash Flows–Modified Cash Basis–Proprietary Funds.....	12
Notes to Financial Statements	13
Supplementary Information	
Schedule of Changes in Notes and Bonds Payable	26
Schedule of Net Pension Liability (Asset)	27
Budgetary Comparison Schedule–General Fund	28
Budgetary Comparison Schedule–3 rd Penny Sales Tax Fund	30
Notes to Supplementary Information	31
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 <i>Government Auditing Standards</i>	32
Schedule of Findings	34
Summary of Prior Audit Findings	35



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Independent Auditor's Report

The City Council
City of Milbank
Milbank, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities and each major fund of the City of Milbank 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 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 Audit 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.

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit

The financial statements do not include financial data for the City’s legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the City’s primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, net position, revenues and expenditures of the aggregate discretely presented component unit is not reasonably determinable.

Adverse Opinion on the Aggregate Discretely Presented Component Unit

In our opinion, because of the omission of the discretely presented component units, as described in the “Basis for Adverse Opinion on the Aggregate discretely Presented Component Unit” paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of the City as of December 31, 2015, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

Further, 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 Milbank 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 statement, which describes the basis of accounting. The financial statements are prepared using accounting principles prescribed or permitted by the South Dakota Department of Legislative Audit, which practices differ from 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 comprise the City’s financial statements. The listing of municipal officers, budgetary comparison, schedule of net pension liability(asset), and long-term debt schedule are presented for purposes of additional analysis and are not a required part of the financial statements. Because of the significance of the matter described above, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2016 on our consideration of the City of Milbank'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 Governmental Audit Standards in considering the City of Milbank's internal control over financial reporting and compliance.

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

Aberdeen, South Dakota
June 22, 2016

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 619,095	\$ 379,982	\$ 999,077
Restricted assets:			
Cash and cash equivalents restricted for:			
Debt repayment	212,328	573,974	786,302
	<u>\$ 831,423</u>	<u>\$ 953,956</u>	<u>\$ 1,785,379</u>
Net Position			
Restricted for:			
Debt service	\$ 212,328	\$ 573,974	\$ 786,302
Promotion	90,147	-	90,147
Unrestricted	528,948	379,982	908,930
	<u>\$ 831,423</u>	<u>\$ 953,956</u>	<u>\$ 1,785,379</u>

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

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions, and Loan Proceeds	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 364,689	\$ 30,001	\$ -	\$ -	\$ (334,688)	\$ -	\$ (334,688)
Public safety	595,745	7,244	-	1,375	(587,126)	-	(587,126)
Public works	2,359,777	78,729	126,693	161,116	(1,993,239)	-	(1,993,239)
Health and welfare	-	-	-	2,904	2,904	-	2,904
Culture and recreation	276,394	6,737	-	-	(269,657)	-	(269,657)
Conservation and development	96,091	-	-	-	(96,091)	-	(96,091)
Debt service	210,215	-	-	-	(210,215)	-	(210,215)
Total governmental activities	<u>3,902,911</u>	<u>122,711</u>	<u>126,693</u>	<u>165,395</u>	<u>(3,488,112)</u>	<u>-</u>	<u>(3,488,112)</u>
Business-type activities:							
Water	437,547	613,579	-	-	-	176,032	176,032
Sewer	528,035	756,678	-	-	-	228,643	228,643
Total business-type activities	<u>965,582</u>	<u>1,370,257</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>404,675</u>	<u>404,675</u>
Total primary government	<u>\$ 4,868,493</u>	<u>\$ 1,492,968</u>	<u>\$ 126,693</u>	<u>\$ 165,395</u>	<u>(3,488,112)</u>	<u>404,675</u>	<u>(3,083,437)</u>
General Revenues							
Taxes:							
Property taxes					748,334	-	748,334
Sales taxes					2,146,769	-	2,146,769
State shared revenues					33,091	-	33,091
Unrestricted investment earnings					3,410	5,137	8,547
Miscellaneous revenue					32,568	-	32,568
Transfers					499,732	(499,732)	-
Sale of Municipal Property					9,500	-	9,500
Compensation for Damage to Capital Assets					22,259	-	22,259
Total general revenues					<u>3,495,663</u>	<u>(494,595)</u>	<u>3,001,068</u>
Change in Net Position					7,551	(89,920)	(82,369)
Net Position - Beginning					823,872	1,043,876	1,867,748
Net Position - Ending					<u>\$ 831,423</u>	<u>\$ 953,956</u>	<u>\$ 1,785,379</u>

See Notes to Financial Statements

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

	General Fund	3rd Penny Sales Tax Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 528,948	\$ 90,147	\$ 619,095
Restricted cash and cash equivalents	212,328	-	212,328
	<u>\$ 741,276</u>	<u>\$ 90,147</u>	<u>\$ 831,423</u>
Fund Balances			
264 Restricted for			
Debt service	\$ 212,328	\$ -	\$ 212,328
Promotion	-	90,147	90,147
267 Unassigned	528,948	-	528,948
	<u>\$ 741,276</u>	<u>\$ 90,147</u>	<u>\$ 831,423</u>

City of Milbank

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

	General Fund	3rd Penny Sales Tax Fund	Total Governmental Funds
Revenues			
310 Taxes			
311 General property taxes	\$ 747,187	\$ -	\$ 747,187
313 General sales and use taxes	2,034,822	111,947	2,146,769
319 Penalties and interest on delinquent taxes	1,147	-	1,147
Total taxes	<u>2,783,156</u>	<u>111,947</u>	<u>2,895,103</u>
320 Licenses and permits	<u>26,184</u>	<u>-</u>	<u>26,184</u>
330 Intergovernmental revenue			
331 Federal grants	22,282	-	22,282
334 State grants	138,576	-	138,576
335 State shared revenue			
335.01 Bank franchise tax	11,521	-	11,521
335.02 Motor vehicle commercial prorate	6,816	-	6,816
335.03 Liquor tax reversion	20,850	-	20,850
335.04 Motor vehicle licenses (5%)	30,627	-	30,627
335.08 Local government highway and bridge fund	81,585	-	81,585
335.20 Other	720	-	720
338 County shared revenue			
338.01 County road tax (25%)	7,665	-	7,665
Total intergovernmental revenue	<u>320,642</u>	<u>-</u>	<u>320,642</u>
340 Charges for goods and services			
341 General government	2,267	-	2,267
342 Public safety	3,300	-	3,300
344 Sanitation	42,217	-	42,217
346 Culture and recreation	6,737	-	6,737
348 Cemetery	11,600	-	11,600
349 Other (airport)	24,912	-	24,912
Total charges for good and services	<u>91,033</u>	<u>-</u>	<u>91,033</u>
350 Fines and forfeits			
351 Court fines and costs	48	-	48
352 Animal control fines	549	-	549
359 Other	3,347	-	3,347
Total fines and forfeits	<u>3,944</u>	<u>-</u>	<u>3,944</u>

City of Milbank

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

	General Fund	3rd Penny Sales Tax Fund	Total Governmental Funds
360 Miscellaneous revenue			
361 Investment earnings	3,076	334	3,410
362 Rentals	1,550	-	1,550
363 Special assessments	3,162	-	3,162
367 Contributions and donations from private sources	1,375	-	1,375
369 Other	32,568	-	32,568
	<u>41,731</u>	<u>334</u>	<u>42,065</u>
Total miscellaneous revenue			
	<u>41,731</u>	<u>334</u>	<u>42,065</u>
Total revenues	<u>3,266,690</u>	<u>112,281</u>	<u>3,378,971</u>
Expenditures			
410 General government			
411 Legislative	44,286	-	44,286
413 Elections	8	-	8
414 Financial administration	281,744	-	281,744
	<u>326,038</u>	<u>-</u>	<u>326,038</u>
Total general government			
	<u>326,038</u>	<u>-</u>	<u>326,038</u>
420 Public safety			
421 Police	461,740	-	461,740
422 Fire	92,170	-	92,170
	<u>553,910</u>	<u>-</u>	<u>553,910</u>
Total public safety			
	<u>553,910</u>	<u>-</u>	<u>553,910</u>
430 Public works			
431 Highways and streets	418,316	-	418,316
432 Sanitation	24,220	-	24,220
435 Airport	23,446	-	23,446
	<u>465,982</u>	<u>-</u>	<u>465,982</u>
Total public works			
	<u>465,982</u>	<u>-</u>	<u>465,982</u>
450 Culture and recreation			
452 Parks	189,131	-	189,131
	<u>189,131</u>	<u>-</u>	<u>189,131</u>
Total culture and recreation			
	<u>189,131</u>	<u>-</u>	<u>189,131</u>
460 Conservation and development			
465 Economic development and assistance (industrial development)	-	96,091	96,091
	<u>-</u>	<u>96,091</u>	<u>96,091</u>
Total conservation and development			
	<u>-</u>	<u>96,091</u>	<u>96,091</u>

City of Milbank

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

	General Fund	3rd Penny Sales Tax Fund	Total Governmental Funds
470 Debt service	210,215	-	210,215
485 Capital outlay	2,061,544	-	2,061,544
Total expenditures	3,806,820	96,091	3,902,911
Excess (Deficiency) of revenue over expenditures	(540,130)	16,190	(523,940)
Other Financing Sources (Uses)			
391.01 Transfers in	499,732	-	499,732
391.03 Sale of municipal property	9,500	-	9,500
391.04 Compensation for loss/damage to capital assets	22,259	-	22,259
Total other financing sources (uses)	531,491	-	531,491
Net Change in Fund Balance	(8,639)	16,190	7,551
Fund Balance - Beginning	749,915	73,957	823,872
Fund Balance - Ending	\$ 741,276	\$ 90,147	\$ 831,423

City of Milbank
Statement of Net Position—Modified Cash Basis—Proprietary Funds
December 31, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ 237,291	\$ 142,691	\$ 379,982
Noncurrent Assets			
107.1 Restricted deposits for:			
Debt repayment	421,861	152,113	573,974
	<u>\$ 659,152</u>	<u>\$ 294,804</u>	<u>\$ 953,956</u>
Net Position			
253.20 Restricted net position for:			
Debt repayment	\$ 421,861	\$ 152,113	\$ 573,974
253.90 Unrestricted	237,291	142,691	379,982
	<u>\$ 659,152</u>	<u>\$ 294,804</u>	<u>\$ 953,956</u>

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

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue			
362 Rental revenue	\$ 1,155	\$ -	\$ 1,155
369 Miscellaneous	3,292	155	3,447
369.01 Other (deposits collected)	4,750	-	4,750
380 Charges for goods and services	358,661	531,020	889,681
Revenue dedicated to servicing debt	245,721	225,503	471,224
Total operating revenue	<u>613,579</u>	<u>756,678</u>	<u>1,370,257</u>
Operating Expenses			
410 Personal services	67,819	210,863	278,682
420 Other current expense	135,601	233,032	368,633
429 Other	5,050	-	5,050
430 Capital assets	17,272	3,637	20,909
Total operating expenses	<u>225,742</u>	<u>447,532</u>	<u>673,274</u>
Operating Income	<u>387,837</u>	<u>309,146</u>	<u>696,983</u>
Nonoperating Revenue (Expense)			
361 Investment earnings	3,731	1,406	5,137
440 Debt service (principal)	(140,409)	(55,245)	(195,654)
441 Interest expense	(71,396)	(25,258)	(96,654)
Total nonoperating revenue (expense)	<u>(208,074)</u>	<u>(79,097)</u>	<u>(287,171)</u>
Income (Loss) Before Loan Advances	179,763	230,049	409,812
514 Transfers to other fund	(400,909)	(168,823)	(569,732)
391.06 Transfers from other fund	70,000	-	70,000
Change in Net Position	(151,146)	61,226	(89,920)
Net Position - Beginning	<u>810,298</u>	<u>233,578</u>	<u>1,043,876</u>
Net Position - Ending	<u>\$ 659,152</u>	<u>\$ 294,804</u>	<u>\$ 953,956</u>

City of Milbank
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from Operating Activities			
Receipt from customers	\$ 608,529	\$ 756,678	\$ 1,365,207
Payments to suppliers	(135,601)	(233,032)	(368,633)
Payments to employees	(67,819)	(210,863)	(278,682)
Net Cash from Operating Activities	<u>405,109</u>	<u>312,783</u>	<u>717,892</u>
Cash Flows from (used for) Noncapital and Related Financing Activity			
Advances from(to) other funds	(330,909)	(168,823)	(499,732)
Cash Flows used for Capital and Related Financing Activities			
Purchase of capital assets	(17,272)	(3,637)	(20,909)
Principal paid on capital debt	(140,409)	(55,245)	(195,654)
Interest paid on capital debt	(71,396)	(25,258)	(96,654)
Net Cash used for Capital and Related Financing Activity	<u>(229,077)</u>	<u>(84,140)</u>	<u>(313,217)</u>
Cash Flows from Investing Activities			
Interest earnings	3,731	1,406	5,137
Net Change in Cash and Cash Equivalents	(151,146)	61,226	(89,920)
Cash and Cash Equivalents - Beginning	810,298	233,578	1,043,876
Cash and Cash Equivalents - Ending	<u>\$ 659,152</u>	<u>\$ 294,804</u>	<u>\$ 953,956</u>
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	\$ 237,291	\$ 142,691	\$ 379,982
Restricted deposits	421,861	152,113	573,974
	<u>\$ 659,152</u>	<u>\$ 294,804</u>	<u>\$ 953,956</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 387,837	\$ 309,146	\$ 696,983
Adjustments to reconcile operating income to net cash from operating activities:			
Purchase of capital assets	17,272	3,637	20,909
Net Cash from Operating Activities	<u>\$ 405,109</u>	<u>\$ 312,783</u>	<u>\$ 717,892</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 Milbank (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, 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 Milbank, and one component unit, The Housing and Redevelopment Commission.

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.

The City's activities are presented using a modified cash basis of accounting while the component unit uses generally accepted accounting principles (GAAP). Based on the variance in the basis of accounting, the City has elected to present only the primary government activities. The component unit's financial statements are available upon request from The Housing and Redevelopment Commission of the City of Milbank from the City of Milbank.

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. 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 and proprietary. 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 Milbank 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.

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 by local ordinance for specified purposes. The 3rd Penny Sales Tax Fund is the only special revenue fund maintained by the City and is a major fund. This fund accounts for the third penny sales tax received by the City. Proceeds from third penny sales tax are restricted by South Dakota Codified Law 10-52A-2 for the promotion and advertising of the City.

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.

The City reports the following enterprise funds:

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, and administrative expenses. 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.

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:

- The City’s interfund receivables and payables were eliminated as of December 31, 2015.
- 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, invested in capital assets, net of related debt; 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.

L. Application of Net Position

The City uses restricted/committed amounts first when both restricted and unrestricted net position 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 net 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 a 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:

	Bank Balance
Insured (FDIC/NCUA)	\$ 462,328
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	1,593,497
	\$ 2,055,825

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

Cash and cash equivalents	\$ 1,785,379
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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 eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen 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 one hundred 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 - Significant Contingencies - Litigation

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

Note 5 - Restricted Net Position

The following table shows the net position restricted for other purposes as shown on the statement of net position:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
General Fund	Contractual Agreement	\$ 212,328
3rd Penny Sales Tax Fund	State Law	90,147
Sewer Fund	Contractual Agreement	421,861
Water Fund	Contractual Agreement	152,113

Note 6 - 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 purchases health insurance for its employees from a commercial insurance carrier.

Liability Insurance

The City joined the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide coverage for general liability, official’s liability, automobile liability and law enforcement liability.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverages will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$500,000 to the upper limit. The City carries the following deductibles for the coverages listed above:

Coverage	Deductible
General liability	\$ -
Officials liability	500
Automobile liability	-
Law enforcement liability	2,000

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Worker's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. 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 City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Unemployment Benefits

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for employment benefits.

During the year ended December 31, 2015, no claims for unemployment benefits were paid. At December 31, 2015, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 7 - Conduit Debt

The City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property of the private-sector entity being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. The City of Milbank, the State of South Dakota, or any other political subdivision of the State is not obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2015, there was one revenue bond issue of this type and funds of \$50,001 has been drawn on this bond.

Note 8 - Commitments

Subsequent to year-end, the City has entered into contracts in the amount of approximately \$485,000 for various contracted projects. In addition, there was \$183,000 remaining on projects in process at year-end.

Note 9 - 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 \$55,218, \$54,506, and \$50,043, respectively, equal to the required contributions each year.

Pension 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 SDRS, for the City as of June 30, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 5,412,320
Less proportionate share of total pension liability	5,199,309
Proportionate share of net pension asset	\$ 213,011

The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the City’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the City’s proportion was 0.0502%, which is an increase of 0.0003% from its proportion measured as of June 30, 2014. The City’s proportionate share of the net pension asset is not reported in financial statements shown under the modified accrual 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%	0.0%
	100.0%	

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.

Sensitivity of Asset to Changes in the Discount Rate

The following presents the City's proportionate share of net pension asset calculated using the discount rate of 7.25% through 2017 and 7.50% thereafter, as well as what the City's proportionate share of the net pension asset would be if it were calculated using a discount rate that is one percentage point lower (6.25/6.50%) or one 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	\$ 536,146	\$ (213,011)	\$ (823,884)

Pension Plan Fiduciary Net Position

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



Supplementary Information
December 31, 2015
City of Milbank

City of Milbank
Schedule of Changes in Notes and Bonds Payable
Year Ended December 31, 2015

<u>Notes and Bonds Payable</u>	<u>Notes and Bonds Payable 1/1/2015</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Notes and Bonds Payable 12/31/2015</u>
Governmental Long-Term Debt				
231.02 Revenue bonds	\$ 2,705,000	\$ -	\$ (130,000)	\$ 2,575,000
Enterprise Notes and Bonds Payable				
231.02 Revenue bonds				
Water - SRF	2,909,106	-	(140,409)	2,768,697
Wastewater - SRF -1	862,565	-	(55,245)	807,320
Advance to wastewater fund from water fund	100,000	-	(70,000)	30,000
	<u>\$ 6,576,671</u>	<u>\$ -</u>	<u>\$ (395,654)</u>	<u>\$ 6,181,017</u>

City of Milbank
 Schedule of Net Pension Liability (Asset)
 Year Ended December 31, 2015

<u>Pension Plan</u>	<u>Fiscal Year Ending *</u>	<u>City's Proportion of the Net Pension Asset</u>	<u>City's Proportionate Share of the Net Pension Asset (a)</u>	<u>City's Covered-Employee Payroll (b)</u>	<u>City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered-Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Asset</u>
SDRS	6/30/2015	<u>0.0502%</u>	<u>\$ 213,011</u>	<u>\$ 814,630</u>	<u>26.1%</u>	<u>104.1%</u>

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability asset which is 6/30.

City of Milbank
 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	\$ 758,900	\$ 758,900	\$ 747,187	\$ (11,713)
313 General sales and use taxes	2,000,000	2,000,000	2,034,822	34,822
319 Penalties and interest on delinquent taxes	800	800	1,147	347
Total taxes	<u>2,759,700</u>	<u>2,759,700</u>	<u>2,783,156</u>	<u>23,456</u>
320 Licenses and permits	<u>16,850</u>	<u>16,850</u>	<u>26,184</u>	<u>9,334</u>
330 Intergovernmental revenue				
331 Federal grants	306,000	308,904	22,282	(286,622)
334 State grants	217,000	217,000	138,576	(78,424)
335 State shared revenue				
335.01 Bank franchise tax	10,000	10,000	11,521	1,521
335.02 Motor vehicle commercial prorata	6,500	6,500	6,816	316
335.03 Liquor tax reversion	25,000	25,000	20,850	(4,150)
335.04 Motor vehicle licenses (5%)	25,000	25,000	30,627	5,627
335.08 Local government highway and bridge fund	80,000	80,000	81,585	1,585
335.20 Other	575	575	720	145
338 County shared revenue				
338.01 County road tax (25%)	7,665	7,665	7,665	-
Total intergovernmental revenue	<u>677,740</u>	<u>680,644</u>	<u>320,642</u>	<u>(360,002)</u>
340 Charges for good and services				
341 General government	1,500	1,500	2,267	767
342 Public safety	5,000	5,000	3,300	(1,700)
344 Sanitation	7,150	7,150	42,217	35,067
346 Culture and recreation	2,000	2,000	6,737	4,737
348 Cemetery	11,000	11,000	11,600	600
349 Other (airport)	24,835	24,835	24,912	77
Total charges for goods and services	<u>51,485</u>	<u>51,485</u>	<u>91,033</u>	<u>39,548</u>
350 Fines and forfeits				
351 Court fines and costs	100	100	48	(52)
352 Animal control fines	500	500	549	49
359 Other	1,500	1,500	3,347	1,847
Total fines and forfeits	<u>2,100</u>	<u>2,100</u>	<u>3,944</u>	<u>1,844</u>
360 Miscellaneous revenue				
361 Investment earnings	6,700	6,700	3,076	(3,624)
362 Rentals	1,550	1,550	1,550	-
363 Special assessments	3,183	3,183	3,162	(21)
367 Contributions and donations from private sources	550	550	1,375	825
369 Other	28,000	28,000	32,568	4,568
Total miscellaneous revenue	<u>39,983</u>	<u>39,983</u>	<u>41,731</u>	<u>1,748</u>
Total revenues	<u>3,547,858</u>	<u>3,550,762</u>	<u>3,266,690</u>	<u>(284,072)</u>

City of Milbank
 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	47,455	47,855	44,286	3,569
411.5 Contingency	100,000	100,000		
Amount transferred	-	(57,295)	-	42,705
413 Elections	2,000	2,000	8	1,992
414 Financial administration	300,675	319,085	320,395	(1,310)
Total general government	450,130	411,645	364,689	46,956
420 Public safety				
421 Police	489,090	489,090	471,039	18,051
422 Fire	126,350	126,350	124,706	1,644
Total public safety	615,440	615,440	595,745	19,695
430 Public works				
431 Highways and streets	1,922,585	2,499,487	2,294,424	205,063
432 Sanitation	23,990	24,225	24,220	5
435 Airport	365,700	365,700	41,133	324,567
Total public works	2,312,275	2,889,412	2,359,777	529,635
450 Culture and recreation				
452 Parks	265,415	277,809	276,394	1,415
Total culture and recreation	265,415	277,809	276,394	1,415
470 Debt service	210,190	210,290	210,215	75
Total expenditures	3,853,450	4,404,596	3,806,820	597,776
Other Financing Sources (Uses)				
391.01 Transfers in	-	499,732	499,732	-
391.03 Sale of municipal property	-	-	9,500	9,500
391.04 Compensation for loss/damage to capital assets	-	-	22,259	(22,259)
Total other financing sources (uses)	-	499,732	531,491	(12,759)
Excess of Revenue over (under) Expenditures	(305,592)	(354,102)	(8,639)	300,945
Fund Balance - Beginning	749,915	749,915	749,915	-
Fund Balance - Ending	\$ 444,323	\$ 395,813	\$ 741,276	\$ 300,945

City of Milbank
 Budgetary Comparison Schedule—3rd Penny Sales Tax Fund
 Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 100,000	\$ 100,000	\$ 111,947	\$ 11,947
Total taxes	<u>100,000</u>	<u>100,000</u>	<u>111,947</u>	<u>11,947</u>
360 Miscellaneous revenue				
361 Investment earnings	200	200	334	134
Total miscellaneous revenue	<u>200</u>	<u>200</u>	<u>334</u>	<u>134</u>
Total revenue	<u>100,200</u>	<u>100,200</u>	<u>112,281</u>	<u>12,081</u>
Expenditures				
460 Conservation and development				
465 Economic development and assistance (industrial development)	100,200	106,450	96,091	10,359
Total expenditures	<u>100,200</u>	<u>106,450</u>	<u>96,091</u>	<u>10,359</u>
Excess of Revenue over (under) Expenditures	-	(6,250)	16,190	22,440
Fund Balance - Beginning	<u>73,957</u>	<u>73,957</u>	<u>73,957</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 73,957</u>	<u>\$ 67,707</u>	<u>\$ 90,147</u>	<u>\$ 22,440</u>

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 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.



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 Milbank
Milbank, 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 Milbank as of December 31, 2015, and for the fiscal year then ended, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 22, 2016. Our report was an adverse opinion because the statements included only the primary government and not the City's legally separate component unit. 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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings, that we consider to be a significant deficiency, 2015-A.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 Milbank's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 22, 2016

Section II – Findings Related to the Financial Statements

Finding 2015-A - Financial Statements and Footnotes are Prepared by the Auditor

Criteria: The City of Milbank’s internal control structure should be designed to provide for the preparation of the financial statements and footnotes in accordance with generally accepted accounting principles.

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

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 and assist in this process.

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.

Findings Relating to the Financial Statements

2014-A - Preparation of Financial Statements and Footnotes

Initial Fiscal Year Finding Occurred: 2007

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. During the course of our engagement, we were requested to draft the financial statements and accompanying notes to those financial statements.

Status: Not corrected. We as auditors were requested to draft the financial statements and accompanying notes to the financial statements. This prior year finding has been restated as 2015-A.

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