

CITY OF SISSETON, SOUTH DAKOTA

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
WITH SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016

CITY OF SISSETON

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*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Commission
City of Sisseton, South Dakota

Report on Financial Statements

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Sisseton, South Dakota (hereinafter referred to as the City)**, as of and for the year ended December 31, 2016, 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 accounting principles generally accepted in the United States of America; this includes 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.

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Governmental Audit
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Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Sisseton Housing and Redevelopment Commission of the City of Sisseton, South Dakota, which represents all of the assets, net position, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the above mentioned discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sisseton, South Dakota, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule, the other post employment benefits schedule of funding progress, the schedule of the City's proportionate share of net pension liability, and the schedule of City's contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements themselves, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, the combining nonmajor fund financial statements are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2017, on our consideration of the City'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control of financial reporting and compliance.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
December 15, 2017

CITY OF SISSETON

STATEMENT OF NET POSITION
DECEMBER 31, 2016

	<u>Primary Government</u>			
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
ASSETS				
Cash and cash equivalents	\$ 2,800,817	\$ 3,352,187	\$ 6,153,004	\$ 648,246
Certificates of deposit	251,210	1,498,900	1,750,110	-
Investments	2,489,991	-	2,489,991	-
Receivables, net	62,696	137,571	200,267	6,739
Due from other governments	183,459	-	183,459	4,372
Inventories	3,833	127,896	131,729	-
Prepaid expenses	32,166	15,484	47,650	4,765
Deposits	44,466	-	44,466	17,816
Net OPEB asset	17,871	10,052	27,923	-
Capital assets:				
Capital assets not being depreciated	304,952	252,858	557,810	71,224
Capital assets being depreciated, net	3,871,599	3,476,463	7,348,062	655,615
Total capital assets	<u>4,176,551</u>	<u>3,729,321</u>	<u>7,905,872</u>	<u>726,839</u>
Total assets	<u>10,063,060</u>	<u>8,871,411</u>	<u>18,934,471</u>	<u>1,408,777</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows	<u>368,267</u>	<u>142,505</u>	<u>510,772</u>	<u>98,846</u>
LIABILITIES				
Accounts payable	25,117	91,501	116,618	17,828
Accrued expenses	13,944	5,152	19,096	19,803
Customer deposits	-	-	-	14,833
Unearned revenue	-	2,072	2,072	3,651
Long-term liabilities:				
Portion due or payable within one year:				
Compensated absences	21,056	17,639	38,695	4,920
Bonds payable	16,826	-	16,826	-
Portion due or payable after one year:				
Compensated absences	14,038	11,760	25,798	10,037
Net pension liability	<u>105,500</u>	<u>40,825</u>	<u>146,325</u>	<u>25,068</u>
Total liabilities	<u>196,481</u>	<u>168,949</u>	<u>365,430</u>	<u>96,140</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows	<u>130,304</u>	<u>50,423</u>	<u>180,727</u>	<u>45,927</u>
NET POSITION				
Net investment in capital assets	4,159,725	3,729,321	7,889,046	726,839
Restricted for:				
Economic development	149,790	-	149,790	-
Insurance deposit	44,466	-	44,466	-
SDRS pension related accounts	132,463	51,257	183,720	27,851
Unrestricted	<u>5,618,098</u>	<u>5,013,966</u>	<u>10,632,064</u>	<u>610,866</u>
Total net position	<u>\$ 10,104,542</u>	<u>\$ 8,794,544</u>	<u>\$ 18,899,086</u>	<u>\$ 1,365,556</u>

The accompanying notes are an
integral part of these financial statements

CITY OF SISSETON

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 227,703	\$ 12,754	\$ -	\$ -	\$ (214,949)		\$ (214,949)	
Public safety	640,913	21,330	103,417	-	(516,166)		(516,166)	
Public works	644,498	12,997	30,829	-	(600,672)		(600,672)	
Health and welfare	7,669	410	-	-	(7,259)		(7,259)	
Culture and recreation	232,442	9,143	-	-	(223,299)		(223,299)	
Conservation and development	232,081	-	78,900	-	(153,181)		(153,181)	
Total governmental activities	<u>1,985,306</u>	<u>56,634</u>	<u>213,146</u>	<u>-</u>	<u>(1,715,526)</u>		<u>(1,715,526)</u>	
Business-type activities:								
Liquor	934,514	1,064,983	-	-	-	\$ 130,469	130,469	
Water	282,400	419,599	-	-	-	137,199	137,199	
Waste water	250,229	356,290	-	-	-	106,061	106,061	
Solid waste	272,709	283,524	-	-	-	10,815	10,815	
Total business-type activities	<u>1,739,852</u>	<u>2,124,396</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>384,544</u>	<u>384,544</u>	
Total primary government	<u>\$ 3,725,158</u>	<u>\$ 2,181,030</u>	<u>\$ 213,146</u>	<u>\$ -</u>	<u>(1,715,526)</u>	<u>384,544</u>	<u>(1,330,982)</u>	
Component Unit:								
Sisseton Housing and Redevelopment	<u>\$ 763,951</u>	<u>\$ 454,955</u>	<u>\$ 134,652</u>	<u>\$ 23,780</u>			<u>\$ (150,564)</u>	
General revenues:								
Taxes:								
Property taxes					844,091	-	844,091	
Sales taxes					1,099,604	-	1,099,604	
State and county shared revenues					40,844	-	40,844	
Unrestricted investment earnings					5,673	5,095	10,768	
Miscellaneous					215,441	16,848	232,289	
Transfers					50,000	(50,000)	-	
Total general revenues and transfers					<u>2,255,653</u>	<u>(28,057)</u>	<u>2,227,596</u>	
Change in net position					540,127	356,487	896,614	
Net position - beginning					<u>9,564,415</u>	<u>8,438,057</u>	<u>18,002,472</u>	
Net position - ending					<u>\$ 10,104,542</u>	<u>\$ 8,794,544</u>	<u>\$ 18,899,086</u>	
							<u>\$ 1,365,556</u>	

The accompanying notes are an integral part of these financial statements

CITY OF SISSETON

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	<u>Major Fund General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 2,660,610	\$ 140,207	\$ 2,800,817
Certificates of deposit	251,210	-	251,210
Investments	2,489,991	-	2,489,991
Receivables, (net of allowances for uncollectibles, if any);			
Property taxes - delinquent	54,976	-	54,976
Accounts	5,206	-	5,206
Interest	2,438	76	2,514
Due from other governments	173,952	9,507	183,459
Inventory	3,833	-	3,833
Prepaid expenses	32,166	-	32,166
Deposits	<u>44,466</u>	<u>-</u>	<u>44,466</u>
 Total assets	 <u>\$ 5,718,848</u>	 <u>\$ 149,790</u>	 <u>\$ 5,868,638</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 25,117	\$ -	\$ 25,117
Accrued expenses	<u>13,944</u>	<u>-</u>	<u>13,944</u>
Total liabilities	<u>39,061</u>	<u>-</u>	<u>39,061</u>
Deferred inflows of resources:			
Unavailable revenue - property taxes	<u>54,976</u>	<u>-</u>	<u>54,976</u>
Total inflows of resources	<u>54,976</u>	<u>-</u>	<u>54,976</u>
Fund balance:			
Nonspendable:			
Inventory	3,833	-	3,833
Prepaid expenses	32,166	-	32,166
Insurance deposit	44,466	-	44,466
Restricted:			
Economic development	-	149,790	149,790
Assigned:			
Subsequent year's budget	39,900	-	39,900
Capital outlay	130,900	-	130,900
Unassigned	<u>5,373,546</u>	<u>-</u>	<u>5,373,546</u>
 Total fund balances	 <u>5,624,811</u>	 <u>149,790</u>	 <u>5,774,601</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 5,718,848</u>	 <u>\$ 149,790</u>	 <u>\$ 5,868,638</u>

The accompanying notes are an
integral part of these financial statements

CITY OF SISSETON

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2016

Total fund balances for governmental funds		\$ 5,774,601
<p>Total net position reported for governmental activities in the statement of net position is different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:</p>		
Land	\$ 164,552	
Construction in progress	140,400	
Building and improvements, net of \$575,230 accumulated depreciation	953,514	
Equipment, net of \$1,538,927 accumulated depreciation	472,533	
Infrastructure, net of \$2,332,508 accumulated depreciation	<u>2,445,552</u>	
Total capital assets		4,176,551
<p>Assets such as taxes receivable and special assessment receivables are not available to pay for current period expenditures and therefore are deferred in the funds.</p>		
		54,976
<p>Pension related deferred outflows are components of the net pension liability and therefore are not reported in the funds.</p>		
		368,267
<p>Long-term liabilities, including bonds payable and accrued leave payable are not due and payable in current period and therefore are not reported in the funds. Balances at December 31, 2015 are:</p>		
Bonds payable	16,826	
Net OPEB obligation (asset)	(17,871)	
Compensated absences	<u>35,094</u>	
Total long-term liabilities		(34,049)
<p>Net pension liability reported in governmental activities is not an available financial resource and therefore is not reported in the funds.</p>		
		(105,500)
<p>Pension related deferred inflows are components of the net pension liability and therefore are not reported in the funds.</p>		
		<u>(130,304)</u>
Total net position of governmental activities		<u>\$ 10,104,542</u>

The accompanying notes are an integral part of these financial statements

CITY OF SISSETON

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016

	Major Fund <u>General</u>	Non-Major Governmental Funds <u> </u>	Total Governmental Funds <u> </u>
REVENUES			
Taxes	\$ 1,792,309	\$ 147,169	\$ 1,939,478
Licenses and permits	12,754	-	12,754
Intergovernmental revenue	175,090	-	175,090
Charges for goods and services	43,002	-	43,002
Fines and fees	878	-	878
Miscellaneous revenue	<u>168,346</u>	<u>168</u>	<u>168,514</u>
Total revenues	<u>2,192,379</u>	<u>147,337</u>	<u>2,339,716</u>
EXPENDITURES			
General government	192,519	-	192,519
Public safety	546,107	-	546,107
Public works	359,031	-	359,031
Health and welfare	6,090	-	6,090
Culture and recreation	216,892	-	216,892
Conservation and development	148,580	83,501	232,081
Debt service:			
Principal	-	69,520	69,520
Capital outlay	<u>224,740</u>	<u>-</u>	<u>224,740</u>
Total expenditures	<u>1,693,959</u>	<u>153,021</u>	<u>1,846,980</u>
Excess of revenues over expenditures	<u>498,420</u>	<u>(5,684)</u>	<u>492,736</u>
OTHER FINANCING SOURCES			
Transfers in	50,000	-	50,000
Sale of surplus property	5,978	-	5,978
Compensation for loss	<u>125,522</u>	<u>-</u>	<u>125,522</u>
Total other financing sources	<u>181,500</u>	<u>-</u>	<u>181,500</u>
Net change in fund balances	679,920	(5,684)	674,236
CHANGE IN NONSPENDABLE	78	-	78
Fund balances - beginning	<u>4,944,813</u>	<u>155,474</u>	<u>5,100,287</u>
Fund balances - ending	<u>\$ 5,624,811</u>	<u>\$ 149,790</u>	<u>\$ 5,774,601</u>

The accompanying notes are an
integral part of these financial statements

CITY OF SISSETON

**RECONCILIATION OF STATEMENT OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

Net change in fund balances - total governmental funds \$ 674,236

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$402,070) exceeded capital outlay (\$224,740) in the current period. (177,330)

Governmental funds recognize property taxes as revenue in the fiscal period for which they were levied provided they are collected within 45 days, but the statement of activities includes the property taxes as revenue in the period for which the taxes are levied. 4,217

Individual governmental funds recognize inventory using the purchase method. In the the government wide financial statements, however, inventory is presented using the consumption method. This adjustment recognizes the change in inventory in the individual governmental funds. 78

Bond proceeds are reported as financing sources in governmental funds and thus contributed to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not effect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Repayments:
Bonds payable \$ 69,520
69,520

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. The adjustment combines the net changes of these balances:

Compensated absences 6,030
Net OPEB obligation (asset) 2,050
Combined adjustment 8,080

Changes in the net pension liability and the pension related deferred inflows and outflows are direct components of pension liability and are not reflected in the governmental funds. (38,674)

Change in net position of governmental activities \$ 540,127

The accompanying notes are an
integral part of these financial statements

CITY OF SISSETON

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2016

	Enterprise Funds				Total
	Liquor	Water	Waste Water	Solid Waste	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 933,865	\$ 1,056,050	\$ 1,153,986	\$ 208,286	\$ 3,352,187
Certificates of deposit	-	900,000	598,900	-	1,498,900
Receivables, (net of allowances for uncollectibles, if any):					
Accounts	4,603	51,216	43,349	36,137	135,305
Interest	445	951	779	91	2,266
Inventories:					
Supplies	-	21,480	1,602	-	23,082
Resale	104,814	-	-	-	104,814
Prepaid expenses	5,363	5,985	1,521	2,615	15,484
Total current assets	<u>1,049,090</u>	<u>2,035,682</u>	<u>1,800,137</u>	<u>247,129</u>	<u>5,132,038</u>
Noncurrent assets:					
Net OPEB asset	2,513	1,675	1,675	4,189	10,052
Capital assets:					
Land	6,843	17,776	209,983	-	234,602
Construction in progress	-	9,128	9,128	-	18,256
Buildings and improvements	138,072	2,262,707	3,809,875	203,744	6,414,398
Machinery and equipment	1,570	2,682,563	677,750	418,573	3,780,456
Less accumulated depreciation	(47,533)	(3,102,480)	(3,133,389)	(434,989)	(6,718,391)
Total noncurrent assets	<u>101,465</u>	<u>1,871,369</u>	<u>1,575,022</u>	<u>191,517</u>	<u>3,739,373</u>
Total assets	<u>1,150,555</u>	<u>3,907,051</u>	<u>3,375,159</u>	<u>438,646</u>	<u>8,871,411</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension related deferred outflows	<u>39,329</u>	<u>27,071</u>	<u>27,071</u>	<u>49,034</u>	<u>142,505</u>
LIABILITIES					
Current liabilities:					
Accounts payable	69,186	2,390	10,638	9,287	91,501
Accrued wages payable	1,808	926	926	1,492	5,152
Unearned revenue	-	-	-	2,072	2,072
Compensated absences - current portion	4,592	6,241	-	6,806	17,639
Total current liabilities	<u>75,586</u>	<u>9,557</u>	<u>11,564</u>	<u>19,657</u>	<u>116,364</u>
Noncurrent liabilities:					
Compensated absences	3,062	4,161	-	4,537	11,760
Net pension liability	11,268	7,755	7,755	14,047	40,825
Total noncurrent liabilities	<u>14,330</u>	<u>11,916</u>	<u>7,755</u>	<u>18,584</u>	<u>52,585</u>
Total liabilities	<u>89,916</u>	<u>21,473</u>	<u>19,319</u>	<u>38,241</u>	<u>168,949</u>
DEFERRED INFLOWS OF RESOURCES					
Pension related deferred inflows	<u>13,915</u>	<u>9,579</u>	<u>9,579</u>	<u>17,350</u>	<u>50,423</u>
NET POSITION					
Investment in capital assets	98,952	1,869,694	1,573,347	187,328	3,729,321
Restricted	14,146	9,737	9,737	17,637	51,257
Unrestricted	972,955	2,023,639	1,790,248	227,124	5,013,966
Total net position	<u>\$ 1,086,053</u>	<u>\$ 3,903,070</u>	<u>\$ 3,373,332</u>	<u>\$ 432,089</u>	<u>\$ 8,794,544</u>

The accompanying notes are an integral part of these financial statements

CITY OF SISSETON

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2016

	Enterprise Funds				Total
	Liquor	Water	Waste Water	Solid Waste	
OPERATING REVENUES					
Charges for goods and services	\$ 1,064,823	\$ 419,599	\$ 356,290	\$ 283,524	\$ 2,124,236
Other operating revenue	160	-	-	-	160
Total operating revenues	<u>1,064,983</u>	<u>419,599</u>	<u>356,290</u>	<u>283,524</u>	<u>2,124,396</u>
OPERATING EXPENSES					
Personal services	129,567	65,047	63,765	124,375	382,754
Cost and materials	768,890	65,490	6,294	91,989	932,663
Other current expenses	32,775	12,214	38,197	19,034	102,220
Depreciation	3,282	139,649	141,973	37,311	322,215
Total operating expenses	<u>934,514</u>	<u>282,400</u>	<u>250,229</u>	<u>272,709</u>	<u>1,739,852</u>
Operating income	<u>130,469</u>	<u>137,199</u>	<u>106,061</u>	<u>10,815</u>	<u>384,544</u>
NONOPERATING REVENUES					
Interest income	1,000	2,139	1,752	204	5,095
Rental income	-	-	16,848	-	16,848
Total nonoperating revenues	<u>1,000</u>	<u>2,139</u>	<u>18,600</u>	<u>204</u>	<u>21,943</u>
Income before contributions and transfers	<u>131,469</u>	<u>139,338</u>	<u>124,661</u>	<u>11,019</u>	<u>406,487</u>
Transfer out	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>
Change in net position	81,469	139,338	124,661	11,019	356,487
Net position - beginning	<u>1,004,584</u>	<u>3,763,732</u>	<u>3,248,671</u>	<u>421,070</u>	<u>8,438,057</u>
Net position - ending	<u>\$ 1,086,053</u>	<u>\$ 3,903,070</u>	<u>\$ 3,373,332</u>	<u>\$ 432,089</u>	<u>\$ 8,794,544</u>

The accompanying notes are an
integral part of these financial statements

CITY OF SISSETON

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS - PAGE 1 OF 2
 YEAR ENDED DECEMBER 31, 2016

	Enterprise Funds				
	Liquor	Water	Waste Water	Solid Waste	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 1,065,400	\$ 421,462	\$ 355,957	\$ 283,936	\$ 2,126,755
Payments to suppliers	(819,417)	(79,281)	(32,735)	(109,663)	(1,041,096)
Payments to employees	(128,697)	(60,855)	(60,854)	(125,643)	(376,049)
Net cash provided by operating activities	<u>117,286</u>	<u>281,326</u>	<u>262,368</u>	<u>48,630</u>	<u>709,610</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers out	(50,000)	-	-	-	(50,000)
Net cash (used in) noncapital financing activities	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Other receipts	-	-	16,848	-	16,848
Purchase of capital assets	-	(408,792)	(9,128)	-	(417,920)
Net cash (used in) provided by capital and related financing activities	<u>-</u>	<u>(408,792)</u>	<u>7,720</u>	<u>-</u>	<u>(401,072)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment income	<u>896</u>	<u>2,002</u>	<u>1,547</u>	<u>175</u>	<u>4,620</u>
Net cash provided by investing activities	<u>896</u>	<u>2,002</u>	<u>1,547</u>	<u>175</u>	<u>4,620</u>
Net increase (decrease) in cash and cash equivalents	68,182	(125,464)	271,635	48,805	263,158
Balances - beginning of the year	<u>865,683</u>	<u>1,181,514</u>	<u>882,351</u>	<u>159,481</u>	<u>3,089,029</u>
Balances - end of the year	<u>\$ 933,865</u>	<u>\$ 1,056,050</u>	<u>\$ 1,153,986</u>	<u>\$ 208,286</u>	<u>\$ 3,352,187</u>

The accompanying notes are an integral part of these financial statements

CITY OF SISSETON

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS - PAGE 2 OF 2
 YEAR ENDED DECEMBER 31, 2016

	Enterprise Funds				
	Liquor	Water	Waste Water	Solid Waste	Total
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 130,469	\$ 137,199	\$ 106,061	\$ 10,815	\$ 384,544
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	3,282	139,649	141,973	37,311	322,215
Change in operating assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	417	1,863	(333)	745	2,692
Inventories	(943)	1,958	807	-	1,822
Prepaid expenses	570	(2,718)	311	671	(1,166)
Pension related accounts	4,131	2,843	2,843	5,150	14,967
Net OPEB asset	(288)	(192)	(192)	(481)	(1,153)
Increase (decrease) in:					
Accounts payable	(17,379)	(817)	10,638	689	(6,869)
Accrued expenses	760	260	260	405	1,685
Unearned revenue	-	-	-	(333)	(333)
Compensated absences	(3,733)	1,281	-	(6,342)	(8,794)
Net cash provided by operating activities	<u>\$ 117,286</u>	<u>\$ 281,326</u>	<u>\$ 262,368</u>	<u>\$ 48,630</u>	<u>\$ 709,610</u>

The accompanying notes are an integral part of these financial statements

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The reporting entity of the City of Sisseton, South Dakota (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 financial reporting entity's financial statements to be misleading or incomplete.

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/City Commission 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 discretely presented component unit is reported in a separate column in the combined financial statements to emphasize it is legally separate from the City.

The Housing and Redevelopment Commission of the City of Sisseton, South Dakota was organized pursuant to the Municipal Housing and Redevelopment Act of South Dakota as a public housing agency formed to provide financial assistance for low income public housing pursuant to the United States Housing Act of 1937, (42 U.S.C. 1401, et seq.). The mayor and city commissioners appoint the five members of the component unit's board and a financial benefit or burden relationship exists.

Complete financial statements for the component unit may be obtained at the unit's administrative offices.

Sisseton Housing and Redevelopment Commission
123 East Chestnut Street
Sisseton, South Dakota 57262

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities and discretely presented component units. 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. Discretely presented component units are legally separate organizations that meet certain criteria, as described in the Financial Reporting Entity above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in the Financial Reporting Entity above.

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

1. Total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Fund Financial Statements, continued:

2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the City financial reporting entity 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 for specific purposes.

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Proprietary Funds (continued):

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity’s costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The City reports the following **major governmental funds**:

General Fund - See the description above. The General Fund is always considered to be a major fund.

The remaining governmental funds are not considered major funds: Entertainment Tax, and TIF#1 Debt Service Funds. These funds are reported on the fund financial statements as “Other Governmental Funds”.

The City reports the following **major enterprise funds**:

Liquor Fund - financed primarily by user charges this fund accounts for the operation of the municipal liquor store and related activities.

Water Fund - financed primarily by user charges this fund accounts for the construction and operation of the municipal water system and related facilities

Waste Water Fund - financed primarily by user charges this fund accounts for the construction and operation of the municipal waste water system and related facilities.

Solid Waste Fund - financed primarily by user charges this fund accounts for the operation of the municipal solid waste collection system and related activities.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type and component unit activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary funds.

Basis of Accounting

Government-wide Financial Statements:

In the government-wide financial statements, both governmental, business-type, and component unit activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

All governmental funds financial statements are presented on the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the City is 45 days. The revenues which are accrued at December 31, 2016 are property taxes and sales taxes.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

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

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

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. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following 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.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Inventories

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

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

Government-wide Financial Statements:

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

Fund Financial Statements:

In the fund financial statements, purchases of supply inventory items are recorded as expenditures at the time individual inventory items are purchased. Reported inventories are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Capital Assets

Government-wide Financial Statements:

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

The total December 31, 2016 balance of governmental activities capital assets includes approximately twenty percent for which the costs were determined by estimates of the original costs. The total December 31, 2016 propriety fund business-type capital assets includes approximately five percent for which the costs were determined by estimations of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Infrastructure."

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with accounting principles generally accepted in the United States, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with accounting principles generally accepted in the United States.

Depreciation of all exhaustible capital assets is charged as an allocated expense against operations in the government-wide financial statements, and in the proprietary fund financial statements. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position/Balance Sheet. Depreciation has been provided over the estimated useful lives using the straight-line method.

The range of estimated useful lives of capital assets by asset class is as follows:

Land and land rights	Not depreciated
Buildings and structures	15 – 99 years
Machinery, furniture and equipment	3 – 15 years
Infrastructure	5 – 40 years
Improvements	5 – 15 years

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide financial statements.

Long-Term Liabilities

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

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Liabilities, continued

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

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

Deferred Inflows and Deferred Outflows of Resources

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

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

Pensions

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

Program Revenues

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.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Program Revenues, continued

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.

Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Activities, 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.

Equity Classifications

Government-wide Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Application of Net Position

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

Fund Balance Classification Policies and Procedures

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

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

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

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

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

For purposes of reporting the Statements of Cash Flows, the City includes all cash accounts not subject to withdrawal restrictions or penalties, treasury bills, and money market funds with an original maturity of three months or less as cash and cash equivalents on the accompanying balance sheets. Certificates of deposit, regardless of maturity, are not considered to be cash and cash equivalents.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

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 municipal 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. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load, fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2016

2. DEPOSITS AND INVESTMENTS, continued

Credit Risk – State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices.

As of December 31, 2016, City had the following investments:

<u>Investment</u>	<u>Rating</u>	<u>Credit Maturities</u>	<u>Fair Value</u>
External Investment Pools:			
SD FIT	Unrated	-	<u>\$ 2,489,991</u>
Total			<u>\$ 2,489,991</u>

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 risk. As of December 31, 2016, the City's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

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

The South Dakota Public Fund Investment Trust (SD FIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine member board with representation from municipalities, school districts and counties. The net asset value (NAV) of the SD FIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis. NAV is considered the Fair Value Level.

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Authorized Investments by the City - The City does not have a formal investment policy that further limits investments beyond those imposed by statutes.

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

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2016

2. DEPOSITS AND INVESTMENTS, continued

Custodial Credit Risk - Deposits – Component Unit - As of December 31, 2016, the Component Unit's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

3. RECEIVABLES

The City expects all receivables to be collected within one year. Allowances for uncollectible accounts receivable in the governmental and enterprise funds are calculated based on historical trend data. For the year ended December 31, 2016, the allowance for doubtful accounts in the governmental and enterprise funds totaled \$ -0-.

4. CHANGES IN CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 164,552	\$ -	\$ -	\$ 164,552
Construction in Progress	111,438	28,962	-	140,400
Total capital assets not being depreciated	275,990	28,962	-	304,952
<i>Capital assets being depreciated:</i>				
Infrastructure	4,696,260	127,603	(45,803)	4,778,060
Buildings and improvements	1,528,744	-	-	1,528,744
Equipment	1,950,780	68,175	(7,495)	2,011,460
Total capital assets being depreciated	8,175,784	195,778	(53,298)	8,318,264
Less accumulated depreciation for:				
Infrastructure	2,143,179	235,132	(45,803)	2,332,508
Buildings and improvements	538,675	36,555	-	575,230
Equipment	1,416,039	130,383	(7,495)	1,538,927
Total accumulated depreciation	4,097,893	402,070	(53,298)	4,446,665
Total capital assets being depreciated, net	4,077,891	(206,292)	-	3,871,599
<i>Capital assets, net - Governmental Activities</i>	<u>\$4,353,881</u>	<u>\$ (177,330)</u>	<u>\$ -</u>	<u>\$4,176,551</u>

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2016

4. CHANGES IN CAPITAL ASSETS, continued

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 30,487
Public Safety	74,773
Public Works	282,261
Health and Welfare	709
Culture and Recreation	<u>13,840</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 402,070</u>

Construction in progress in the governmental activities includes the following:

The Airport Improvement Project # 3-46-0051-08-2008 is an ongoing land acquisition and assessment program. A total of \$140,400 has been spent on the project as of December 31, 2016. Federal and state grants will provide 97% of the funding of eligible costs.

A summary of changes in Business-Type Activities' capital assets for the year ended December 31, 2016 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-Type Activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 234,602	\$ -	\$ -	\$ 234,602
Construction in Progress	35,000	18,256	(35,000)	18,256
Total capital assets not being depreciated	269,602	18,256	(35,000)	252,858
<i>Capital assets being depreciated:</i>				
Buildings and improvements	5,979,734	434,664	-	6,414,398
Equipment	3,780,456	-	-	3,780,456
Total capital assets being depreciated	9,760,190	434,664	-	10,194,854
Less accumulated depreciation for:				
Buildings and improvements	4,139,504	176,285	-	4,315,789
Equipment	2,256,672	145,930	-	2,402,602
Total accumulated depreciation	6,396,176	322,215	-	6,718,391
Total capital assets being depreciated, net	3,364,014	112,449	-	3,476,463
<i>Capital assets, net - Business-Type Activities</i>	<u>\$ 3,633,616</u>	<u>\$ 130,705</u>	<u>\$ (35,000)</u>	<u>\$ 3,729,321</u>

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2016

4. CHANGES IN CAPITAL ASSETS, continued

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Liquor Fund	\$ 3,282
Water Fund	139,649
Waste Water Fund	141,973
Solid Waste Fund	<u>37,311</u>
 Total Depreciation Expense - Business-Type Activities	 <u>\$ 322,215</u>

Construction in progress in the business-type activities includes the following:

The City is undertaking a Water and Sewer Repair Project within the Water and Waste Water Funds. The Commission has authorized the Mayor to sign contracts totaling \$335,100 plus engineering. A total of \$18,256 has been spent on the project as of December 31, 2016. Funds for the initial phase of the project will be provided through cash reserves.

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

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Component Unit:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 71,224	\$ -	\$ -	\$ 71,224
Total capital assets not being depreciated	71,224	-	-	71,224
<i>Capital assets being depreciated:</i>				
Buildings and improvements	5,109,359	70,754	-	5,180,113
Equipment	188,266	21,472	(27,919)	181,819
Total capital assets being depreciated	5,297,625	92,226	(27,919)	5,361,932
Less accumulated depreciation for:				
Buildings and improvements	4,485,980	104,855	-	4,590,835
Equipment	130,805	12,596	(27,919)	115,482
Total accumulated depreciation	4,616,785	117,451	(27,919)	4,706,317
Total capital assets being depreciated, net	680,840	(25,225)	-	655,615
<i>Capital assets, net - Component Unit</i>	<u>\$ 752,064</u>	<u>\$ (25,225)</u>	<u>\$ -</u>	<u>\$ 726,839</u>

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2016

5. LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities of the primary government is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Bonds Payable:					
Revenue	\$ 86,346	\$ -	\$ (69,520)	\$ 16,826	\$ 16,826
Total Debt	86,346	-	(69,520)	16,826	16,826
Compensated Absences	41,124	18,645	(24,675)	35,094	21,056
<i>Total Governmental Activities</i>	<u>127,470</u>	<u>18,645</u>	<u>(94,195)</u>	<u>51,920</u>	<u>37,882</u>
<i>Business-Type Activities:</i>					
Compensated Absences	38,193	11,950	(20,744)	29,399	17,639
<i>Total Business-Type Activities</i>	<u>38,193</u>	<u>11,950</u>	<u>(20,744)</u>	<u>29,399</u>	<u>17,639</u>
<i>Total Primary Government</i>	<u>\$ 165,663</u>	<u>\$ 30,595</u>	<u>\$ (114,939)</u>	<u>\$ 81,319</u>	<u>\$ 55,521</u>

Long-term liabilities at December 31, 2016, are comprised of the following:

Governmental Activities:

Revenue Bonds:

\$360,000 Tax Increment Revenue Bonds
(TIF District #1), Series 2008; final maturity
December 2022; interest rate range of 0.00%
payments are made from the TIF # 1 Debt
Service Fund.

\$ 16,826

Compensated Absences:

Vacation and sick leave payable to
City Employees as of December 31,
2016; payments will be made from
the same department as the employees'
normal salary is paid.

35,094

Total Governmental Activities

\$ 51,920

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2016

5. LONG-TERM LIABILITIES, continued

Business-Type Activities

Compensated Absences:

Vacation and sick leave payable to City Employees as of December 31, 2016; payments will be made from the same fund as the employees' normal salary is paid.

\$ 29,399

Total Business-Type Activities

\$ 29,399

The annual requirements to amortize Governmental Activities debt outstanding as of December 31, 2016, are as follows:

<u>Year Ending December 31,</u>	Revenue Bonds		
	Principal	Interest	Total
2017	\$ 16,826	\$ -	\$ 16,826
Total	<u>\$ 16,826</u>	<u>\$ -</u>	<u>\$ 16,826</u>

A summary of the changes in long-term liabilities of the component unit is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<i>Component Unit</i>					
Notes Payable	\$ 41,302	\$ -	\$ (41,302)	\$ -	\$ -
Compensated Absences	11,311	9,024	(5,378)	14,957	4,920
<i>Total Component Unit</i>	<u>\$ 52,613</u>	<u>\$ 9,024</u>	<u>\$ (46,680)</u>	<u>\$ 14,957</u>	<u>\$ 4,920</u>

Component Unit:

Compensated Absences:

Vacation and sick leave payable to Employees as of December 31, 2016 payments will be made from the same program as the employees' normal salary is paid.

\$ 14,957

Total Component Unit

\$ 14,957

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2016

6. OTHER POST EMPLOYMENT BENEFITS – HEALTHCARE PLAN

Plan Description - The City of Sisseton Other Post Employment Benefit Plan (the OPEB Plan) is a single-employer defined benefit healthcare plan administered by the City. The OPEB Plan provides medical and prescription drug benefits to eligible retirees and their dependents as permitted by South Dakota Codified Law 6-1-16 and South Dakota Codified Law 9-14-35. Benefit provisions were established and may be amended by the City Commission. The OPEB Plan does not issue separately stated stand-alone financial statements.

Funding Policy - The contribution requirements of plan members and the City are established and may be amended by the City Commission. An individual who is employed by the City and is eligible to participate in the City's group health plan, who retires from the City after reaching the age of 55 and with at least 20 years of service and was participating in the group health plan for 10 consecutive years prior to retirement, may be eligible for retiree health insurance coverage. Coverage ceases when the retiree or dependent attains the age of 65 or becomes eligible for Medicare except for COBRA continuation if elected. The retiree is responsible for 100% of the full active premium rates for either single or family coverage.

Annual OPEB Cost and Net OPEB Obligation - The City's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the financial components of the plan:

Annual Required Contribution (ARC)	\$ 3,714
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost	<u>\$ 3,714</u>
Contributions made	<u>(6,917)</u>
Increase in Net OPEB Obligation	\$ (3,203)
Net OPEB Obligation (Asset) - Beginning	<u>(24,720)</u>
Net OPEB Obligation (Asset) - Ending	<u><u>\$ (27,923)</u></u>

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2016

6. OTHER POST EMPLOYMENT BENEFITS – HEALTHCARE PLAN, continued

The City’s annual OPEB cost data and net OPEB obligation (asset) was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Cost Contributed	Net OPEB Obligation (Asset)
December 31, 2009	\$ 2,602	261.45%	\$ (4,201)
December 31, 2010	\$ 2,602	259.29%	\$ (8,346)
December 31, 2011	\$ 2,602	288.62%	\$ (13,254)
December 31, 2012	\$ 10,530	188.57%	\$ (7,061)
December 31, 2013	\$ 10,530	170.64%	\$ (4,468)
December 31, 2014	\$ 10,530	151.67%	\$ (19,941)
December 31, 2015	\$ 3,714	228.68%	\$ (24,720)
December 31, 2016	\$ 3,714	186.24%	\$ (27,923)

Funded Status and Funding Progress - As of January 1, 2015, the most recent actuarial valuation date, the plan’s statistics were as follows:

Actuarial Accrued Liability	\$ 40,914
Actuarial Value of Benefit Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 40,914</u>
Funded Ratio	0.00%
Covered Payroll	\$ 659,444
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	6.20%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2016

6. OTHER POST EMPLOYMENT BENEFITS – HEALTHCARE PLAN, continued

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the Alternative Measurement Method, actuarial valuation, a simplified version of the Projected Unit Credit Actuarial Cost Method was used to determine the annual required contribution. The actuarial assumptions included a 4.5 percent rate of return and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after 6 years. Both rates include a 3 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2015, was 23 years.

7. RESTRICTED NET POSITION

The following table shows the Government Activities' net position restrictions:

<u>Purpose</u>	<u>Amount</u>
SDRS Pension	\$ 183,720
Entertainment Sales Tax	149,790
SDPAA Insurance Reserve	<u>44,466</u>
Total Restricted Net Position	<u>\$ 377,976</u>

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2016

8. INTERFUND TRANSFERS

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

	Transfers To	Transfers From
<i>Governmental activities:</i>		
General Fund:		
Liquor Fund	\$ -	\$ 50,000
<i>Total governmental activities</i>	-	50,000
<i>Business-type activities:</i>		
Liquor Fund		
General Fund	50,000	-
<i>Total business-type activities</i>	50,000	-
<i>Total primary government</i>	\$ 50,000	\$ 50,000

The City typically budgets transfers to the General Fund from the Liquor Fund to conduct the indispensable functions of the City.

9. PENSION PLAN

Plan Information

All employees, working more than 20 hours per week during the year, participate in the SDRS, a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

9. PENSION PLAN, continued

Benefits Provided

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation.

All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

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

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2016, 2015 and 2014 was \$50,305, \$47,609 and \$46,019 respectively, equal to the required contributions each year.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2016

9. PENSION PLAN, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2016, SDRS is 96.9% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the City as of June 30, 2016 are as follows:

Proportionate share of pension liability	\$4,700,578
Less proportionate share of net pension restricted for pension benefits	<u>4,554,253</u>
Proportionate share of net pension liability	<u>\$ 146,325</u>

At December 31, 2016, the City reported a liability of \$146,325 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016, the City's proportion was 0.04331830%, which is a decrease of (0.0001569%) from its proportion measured at June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$53,152. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 50,939	\$ -
Changes in assumptions	87,642	-
Net difference between projected and actual earnings on pension plan investments	343,490	180,727
Changes in proportion and difference between the City's contributions and proportionate share of contributions	3,507	-
City contributions subsequent to the measurement date	<u>25,194</u>	<u>-</u>
Total	<u>\$ 510,772</u>	<u>\$ 180,727</u>

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

9. PENSION PLAN, continued

\$25,194 reported as deferred outflow of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

	<u>Year Ended</u> <u>December 31</u>	
	2017	\$ 82,683
	2018	50,557
	2019	103,761
	2020	<u>67,850</u>
	Total	<u>\$ 304,851</u>

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2017 and 7.50 percent thereafter, net of pension plan investment expense

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.).

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2016

9. PENSION PLAN, continued

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	<u>2.0%</u>	0.7%
Total	<u>100%</u>	

Discount Rate

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

The following presents the Commission's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the City'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 (liability) asset	\$ 818,833	\$ 146,325	\$ (402,177)

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

9. PENSION PLAN, continued

Pension Plan Fiduciary Net Position

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

10. 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, 2016, the City managed its risks as follows:

Employee Health Insurance

The City is a member of the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members.

Property Insurance

The City purchases insurance coverage for its buildings and contents from a commercial insurance carrier. The deductible for this coverage varies from \$250 to \$1,000. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium to the pool to provide coverage for general liability, auto liability and damage, and errors and omissions of public officials, including law enforcement personnel.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

10. RISK MANAGEMENT, continued

The agreement with the South Dakota Public Assurance Alliance provides that the above coverage will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The City carries a \$500 deductible for the official liability and a \$2,000 deductible for law enforcement liability coverage. The remaining coverages are \$ -0- deductible.

A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve on the following formula:

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

As of December 31, 2016, the City has a vested balance in the cumulative reserve fund of \$44,466.

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

The City purchases liability insurance for risks related to airport liability from a commercial insurance carrier.

Worker's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage to its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date to the Fund Members. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance which covers up to \$1,675,000 per individual per incident.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2016

10. RISK MANAGEMENT, continued

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

Unemployment Benefits

The 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.

11. LITIGATION

The City is the defendant in one lawsuit. The case has been turned over to the City's insurance company to defend the allegations set forth in the complaint. The insurance company has taken the position that there is no liability on behalf of the City with regard to the lawsuit.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SISSETON

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - PAGE 1 OF 2
YEAR ENDED DECEMBER 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
REVENUES				
Taxes:				
General property taxes	\$ 775,000	\$ 775,000	\$ 767,104	\$ (7,896)
General sales and use taxes	950,000	950,000	1,021,955	71,955
Amusement taxes	150	150	204	54
Penalties and interest on delinquent taxes	-	-	3,046	3,046
Licenses and permits	9,250	9,250	12,754	3,504
Intergovernmental revenue:				
Federal grants	-	25,000	25,891	891
State grants	-	-	4,938	4,938
State shared revenues	110,000	110,000	122,864	12,864
State payments in lieu of taxes	14,000	14,000	16,904	2,904
County shared revenues	2,200	2,200	4,493	2,293
Charges for goods and services:				
General government	10,000	10,000	-	(10,000)
Public safety	29,300	29,300	20,862	(8,438)
Highway and streets	1,000	1,000	3,261	2,261
Airport	-	-	9,736	9,736
Culture and recreation	8,500	8,500	9,143	643
Fines and forfeits:				
Court fines and costs	500	500	468	(32)
Animal control fines	200	200	410	210
Miscellaneous revenue:				
Interest earned	2,000	2,000	5,505	3,505
Rentals	18,000	18,000	24,925	6,925
Contributions and donations from private sources	-	36,000	78,900	42,900
Other	58,000	58,000	59,016	1,016
Total revenues	<u>1,988,100</u>	<u>2,049,100</u>	<u>2,192,379</u>	<u>143,279</u>
EXPENDITURES				
General government:				
Legislative	45,400	45,400	43,747	1,653
Contingency	100,000	100,000	-	100,000
(Amount transferred)				
Executive	12,000	12,000	9,803	2,197
Elections	2,200	2,200	23	2,177
Financial administration	139,850	139,850	114,623	25,227
Other	47,000	47,000	24,323	22,677
Public safety:				
Police	524,500	524,500	486,164	38,336
Fire	72,525	100,525	99,623	902
Public works:				
Highways and streets	615,800	615,800	491,176	124,624
Sanitation	9,000	9,000	3,856	5,144
Airport	39,000	64,000	42,564	21,436
Health and welfare:				
Health	9,000	9,000	6,090	2,910
Culture and recreation:				
Recreation	50,400	50,400	47,634	2,766
Parks	45,975	45,975	32,147	13,828
Libraries	147,350	147,350	143,606	3,744

See Independent Auditor's Report

CITY OF SISSETON

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - PAGE 2 OF 2
 YEAR ENDED DECEMBER 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
Conservation and development:				
Economic development and assistance	<u>118,600</u>	<u>154,600</u>	<u>148,580</u>	<u>6,020</u>
Total expenditures	<u>1,978,600</u>	<u>2,067,600</u>	<u>1,693,959</u>	<u>373,641</u>
(Deficiency) excess of revenues over expenditures	<u>9,500</u>	<u>(18,500)</u>	<u>498,420</u>	<u>516,920</u>
OTHER FINANCING SOURCES				
Transfers in	50,000	50,000	50,000	-
Sale of surplus property	-	-	5,978	5,978
Compensation for loss	-	-	<u>125,522</u>	<u>125,522</u>
Total other financing sources	<u>50,000</u>	<u>50,000</u>	<u>181,500</u>	<u>131,500</u>
Net change in fund balances	59,500	31,500	679,920	648,420
CHANGE IN NONSPENDABLE	-	-	78	78
Fund balances - beginning	<u>4,944,813</u>	<u>4,944,813</u>	<u>4,944,813</u>	<u>-</u>
Fund balances - ending	<u>\$ 5,004,313</u>	<u>\$ 4,976,313</u>	<u>\$ 5,624,811</u>	<u>\$ 648,498</u>

See Independent Auditor's Report

CITY OF SISSETON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2016

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 governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
3. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
4. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.

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, 2016.

5. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds and capital projects funds.
6. The Budgetary Comparison Schedules have been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedule presents expenditures for capital outlay purposes within each function while the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances present capital outlay expenditures as a separate function.

CITY OF SISSETON

**SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

South Dakota Retirement System

	<u>2014</u>	<u>2015</u>	<u>2016</u>
City's proportion of the net pension liability	0.0447509%	0.0434752%	0.0433183%
City's proportionate share of net pension liability (asset)	\$ (322,412)	\$ (184,391)	\$ 146,325
City's covered-employee payroll	\$ 700,141	\$ 714,506	\$ 739,773
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-46.05%	-25.81%	19.78%
Plan fiduciary net position as a percentage of the total pension liability	107.3%	104.1%	96.9%

Note: The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is June 30.

See Independent Auditor's Report

CITY OF SISSETON

SCHEDULE OF CONTRIBUTIONS

South Dakota Retirement System

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 46,019	\$ 47,609	\$ 50,305
Contributions in relation to the contractually required contribution	<u>46,019</u>	<u>\$ 47,609</u>	<u>\$ 50,305</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 689,531	\$ 713,645	\$ 751,485
Contributions as a percentage of covered-employee payroll	6.67%	6.67%	6.69%

See Independent Auditor's Report

CITY OF SISSETON

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFITS - SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2016

The following schedule of funding progress is presented to provide trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarially Accrued Liability (Unit Credit Method)	Unfunded Actuarially Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2009	\$ -	\$ 30,273	\$ 30,273	0.00%	\$ 539,771	5.61%
January 1, 2012	\$ -	\$ 156,333	\$ 156,333	0.00%	\$ 586,661	26.65%
January 1, 2015	\$ -	\$ 40,914	\$ 40,914	0.00%	\$ 659,444	6.20%

See Independent Auditor's Report

SUPPLEMENTARY INFORMATION

CITY OF SISSETON

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	Special Revenue Fund Entertainment Tax	Debt Service Fund TIF # 1	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 140,207	\$ -	\$ 140,207
Receivables, (net of allowances for uncollectibles, if any):			
Interest	76	-	76
Due from other governments	<u>9,507</u>	<u>-</u>	<u>9,507</u>
 Total assets	 <u>\$ 149,790</u>	 <u>\$ -</u>	 <u>\$ 149,790</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Restricted:			
Promotion	149,790	-	149,790
Debt service	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>149,790</u>	<u>-</u>	<u>149,790</u>
 Total liabilities and fund balances	 <u>\$ 149,790</u>	 <u>\$ -</u>	 <u>\$ 149,790</u>

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CITY OF SISSETON

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016

	Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
	Entertainment Tax	TIF # 1	
REVENUES			
Taxes:			
General property taxes	\$ -	\$ 69,520	\$ 69,520
General sales and use taxes	77,649	-	77,649
Miscellaneous revenue:			
Interest earned	168	-	168
Total revenues	77,817	69,520	147,337
EXPENDITURES			
Conservation and development	83,501	-	83,501
Debt Service:			
Principal	-	69,520	69,520
Total expenditures	83,501	69,520	153,021
Excess (deficiency) of revenues over expenditures	(5,684)	-	(5,684)
OTHER FINANCING SOURCES			
Transfers out	-	-	-
Total other financing sources	-	-	-
Net change in fund balances	(5,684)	-	(5,684)
Fund balances - beginning	155,474	-	155,474
Fund balances - ending	\$ 149,790	\$ -	\$ 149,790

See Independent Auditor's Report

*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

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

To the Honorable Mayor and
Members of the City Commission
City of Sisseton, 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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Sisseton, South Dakota** (hereinafter referred to as the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 15, 2017, which includes a reference to other auditors. Other auditors audited the financial statements of the Sisseton Housing and Redevelopment Commission, a discretely presented component unit, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit findings and responses that we consider to be a significant deficiency: Finding 2016-001.

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's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of audit findings and responses. The City's response was not subject to 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 results of that testing, and not to provide an opinion on the effectiveness of the City'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 City'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 matter of public record and its distribution is not limited.

Wohlberg Ritzman + Co., LLC

Yankton, South Dakota
December 15, 2017

CITY OF SISSETON

**STATUS OF PRIOR AUDIT RECOMMENDATIONS
DECEMBER 31, 2016**

PRIOR OTHER AUDIT FINDINGS

2015-001 Segregation of Duties – Significant Deficiency

Condition

The City has a lack of segregation of duties in certain areas due to a limited staff.

Recommendation

Management and the City Commission should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. The most effective controls lie in the Management's knowledge of the matters relating to the City's operations, establishing a procedure of rotation of duties and strict enforcement of a vacation policy requiring all personnel to be absent from the City for specified times.

Status

This is a continuing condition.

CITY OF SISSETON

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES
DECEMBER 31, 2016**

**2016-001 Revenue and Receivables – Segregation of Duties
Repeat of Finding 2015-001
Significant Deficiency**

Condition

Two members of the office staff process all cash receipts and disbursement transactions, including receiving money, issuing receipts, recording and posting receipts in the accounting records, preparing bank deposits, reconciling bank statements, and preparing financial statements.

Criteria

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Cause

Because of the nature and size of the entity, resources are limited to provide adequate levels of control.

Effect

At times there is an inadequate segregation of duties for these accounting functions. Although the staff attempts to divide the various tasks so that one person does not control a transaction from beginning to end, that is not always possible.

Recommendation

Management and the City Commission should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. The most effective controls lie in the Management's knowledge of the matters relating to the City's operations, establishing a procedure of rotation of duties and strict enforcement of a vacation policy requiring all personnel to be absent from the City for specified times.

CITY OF SISSETON

SCHEDULE OF AUDIT FINDINGS AND RESPONSES, continued
DECEMBER 31, 2016

2016-001 Revenue and Receivables – Segregation of Duties, continued

Management's Response

The Mayor and the City Commission of the City of Sisseton, South Dakota, are the contact persons responsible for the response to this comment. This comment is a result of the size of the City of Sisseton which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City's management has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for accounting functions. The City's management is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding accounting functions continues to exist.