

CITY OF SUMMERSET, SOUTH DAKOTA

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016

CASEY  PETERSON
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

City of Summerset, South Dakota
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December 31, 2016

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Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards*

To the Honorable Mayor and City Commissioners
City of Summerset, South Dakota

We have audited, in accordance with the 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 modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Summerset, South Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Summerset, South Dakota's basic financial statements and have issued our report thereon dated June 22, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Summerset, South Dakota'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 of Summerset, South Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Summerset, South Dakota'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. We did identify certain deficiencies in internal control that we consider to be a material weaknesses which are described in the accompanying schedule of findings and management's responses as items 2016-001 and 2016-002.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Summerset, South Dakota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Summerset, South Dakota's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Casey Peterson, LTD." The signature is written in a cursive style.

Casey Peterson, Ltd.

Rapid City, South Dakota

June 22, 2017

City of Summerset, South Dakota
Schedule of Findings and Management's Responses
December 31, 2016

FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weakness

Internal Control Over Financial Reporting

2016-001 *Condition:* There is a lack of oversight and monitoring related to various accounting functions and reconciliations. Material adjustments resulting from the audit were necessary in the areas of long-term debt, capital purchases, state receipts, and transfers between bank accounts.

Criteria: Management should be monitoring the general ledger and ensuring accounts are properly reconciled. In addition, due to the numerous errors identified in the accounting records, qualified personnel should review all reconciliations and adjustments.

Cause: There is a lack of oversight and monitoring over monthly reconciliations.

Effect: The Finance Officer performs closing entries and reconciliations with limited oversight. Numerous errors were identified as a result of our audit procedures. The possibility of fraud or errors occurring and not being detected or corrected is present.

Auditor's Recommendation: The City should seek training for the Finance Office on how to properly maintain and reconcile all accounts. Additionally, the City should consider requesting the former Finance Officer to provide additional training to the new Finance Officer. The City may also consider acquiring financial training for the Mayor and/or Commissioners to gain knowledge over providing adequate reviews and oversight over the financial records.

Management's Response: The City understands the deficiencies within the Finance office and will seek outside aid and training to elevate the Finance Office's skills and knowledge to an appropriate level.

Material Weakness

Internal Control Over Financial Reporting

2016-002 *Condition:* The small size of the staff limits the ability of the Finance Office to prepare financial statements being audited as required under a properly designed system of internal controls.

Criteria: The City should have an internal control system designed to provide for drafting the financial statements being audited.

Cause: This condition exists due to the small staff size and limited experience within the finance function of the City. These issues are common in a City of this size.

Effect: The City engages their auditor to draft the financial statements and notes to the financial statements. The possibility of fraud or errors occurring and not being detected or corrected is present.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the City's auditors drafting the financial statements and related notes, because of cost or other considerations.

Management's Response: We concur with the recommendation and will seek to implement the various suggestions to improve internal controls whenever cost effective. The City does accept the risk associated with the City's auditors drafting the financial statement.

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Independent Auditor's Report

To the Honorable Mayor and City Commissioners
City of Summerset, South Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Summerset, South Dakota, 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Summerset, South Dakota, as of December 31, 2016, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Summerset, South Dakota's basic financial statements. The budgetary comparison schedule and schedule of City Officials, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2017, on our consideration of the City of Summerset, South Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Summerset, South Dakota's internal control over financial reporting and compliance.



Casey Peterson, Ltd.

Rapid City, South Dakota
June 22, 2017

BASIC FINANCIAL STATEMENTS

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City of Summerset, South Dakota
Statement of Net Position - Modified Cash Basis
December 31, 2016

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|---------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 1,540,639 | \$ 249,805 | \$ 1,790,444 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | <u>257,167</u> | <u>-</u> | <u>257,167</u> |
| TOTAL ASSETS | <u>\$ 1,797,806</u> | <u>\$ 249,805</u> | <u>\$ 2,047,611</u> |
| NET POSITION | | | |
| Restricted for: | | | |
| Debt Service | \$ 499,685 | \$ - | \$ 499,685 |
| Contractor Surety | 396,000 | - | 396,000 |
| Economic Development and Capital Acquisition | 36,744 | - | 36,744 |
| Unrestricted | <u>865,377</u> | <u>249,805</u> | <u>1,115,182</u> |
| TOTAL NET POSITION | <u>\$ 1,797,806</u> | <u>\$ 249,805</u> | <u>\$ 2,047,611</u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2016

| Functions/Programs | Disbursements | Program Receipts | |
|-------------------------------|---------------------|----------------------|---|
| | | Charges for Services | Capital Grants, Loans and Contributions |
| PRIMARY GOVERNMENT | | | |
| Governmental Activities: | | | |
| General Government | \$ 1,107,296 | \$ 139,146 | \$ 267,500 |
| Public Safety | 398,711 | 295 | 55,582 |
| Public Works | 390,350 | 143,140 | - |
| Health and Welfare | 63 | - | - |
| Culture and Recreation | 60,799 | - | - |
| Conservation and Development | 75,634 | - | - |
| Debt Service* | 348,400 | - | - |
| Total Governmental Activities | <u>2,381,253</u> | <u>282,581</u> | <u>323,082</u> |
| Business-type Activities: | | | |
| Sewer | <u>397,481</u> | <u>599,910</u> | <u>-</u> |
| Total Primary Government | <u>\$ 2,778,734</u> | <u>\$ 882,491</u> | <u>\$ 323,082</u> |

GENERAL RECEIPTS

Taxes:

Property Taxes

Sales Tax

State Shared Receipts

County Shared Receipts

Unrestricted Investment Earnings

Miscellaneous Receipts

Transfers

Total General Receipts and Transfers

CHANGE IN NET POSITION

NET POSITION - BEGINNING

NET POSITION - ENDING

* The Municipality does not have interest and principal expenses directly related to the functions presented above. This amount includes indirect interest and principal expenses on general long-term debt.

The accompanying notes are an integral part of this statement.

Net (Disbursements) Receipts and
Changes in Net Position

| Primary Government | | |
|----------------------------|-----------------------------|--------------|
| Governmental Activities | Business-type Activities | Total |
| \$ (700,650) | \$ - | \$ (700,650) |
| (342,834) | - | (342,834) |
| (247,210) | - | (247,210) |
| (63) | - | (63) |
| (60,799) | - | (60,799) |
| (75,634) | - | (75,634) |
| (348,400) | - | (348,400) |
| (1,775,590) | - | (1,775,590) |
| - | 202,429 | 202,429 |
| (1,775,590) | 202,429 | (1,573,161) |
| 759,131 | - | 759,131 |
| 523,826 | - | 523,826 |
| 42,592 | - | 42,592 |
| 6,827 | - | 6,827 |
| 484 | - | 484 |
| 391,296 | - | 391,296 |
| 150,000 | (150,000) | - |
| 1,874,156 | (150,000) | 1,724,156 |
| 98,566 | 52,429 | 150,995 |
| 1,699,240 | 197,376 | 1,896,616 |
| \$ 1,797,806 | \$ 249,805 | \$ 2,047,611 |

The accompanying notes are an integral part of this statement.

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City of Summerset, South Dakota
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2016

| | <u>General Fund</u> | <u>Tax Increment District #1 - Debt Service Fund</u> | <u>Non-major Third Penny Fund</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|--|---|---|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 1,261,377 | \$ 242,518 | \$ 36,744 | \$ 1,540,639 |
| Restricted Cash and Cash Equivalents | <u>-</u> | <u>257,167</u> | <u>-</u> | <u>257,167</u> |
| TOTAL ASSETS | <u>\$ 1,261,377</u> | <u>\$ 499,685</u> | <u>\$ 36,744</u> | <u>\$ 1,797,806</u> |
| FUND BALANCES | | | | |
| Restricted: | | | | |
| For Debt Service | \$ - | \$ 499,685 | \$ - | \$ 499,685 |
| For Contractor Surety | 396,000 | - | - | 396,000 |
| For Economic Development | - | - | 36,744 | 36,744 |
| Unassigned | <u>865,377</u> | <u>-</u> | <u>-</u> | <u>865,377</u> |
| TOTAL FUND BALANCES | <u>\$ 1,261,377</u> | <u>\$ 499,685</u> | <u>\$ 36,744</u> | <u>\$ 1,797,806</u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Revenues, Expenditures and Changes in Fund Balances -
Modified Cash Basis - Governmental Funds
For the Year Ended December 31, 2016

| | General Fund | Tax Increment District #1 - Debt Service Fund | Non-major Third Penny Fund | Total Governmental Funds |
|---|------------------|--|----------------------------------|--------------------------------|
| RECEIPTS | | | | |
| Taxes: | | | | |
| General Property Taxes | \$ 546,874 | \$ 211,480 | \$ - | \$ 758,354 |
| General Sales and Use Taxes | 492,591 | - | - | 492,591 |
| Amusement Taxes | 4,398 | - | 26,837 | 31,235 |
| Penalties and Interest on Delinquent Taxes | 777 | - | - | 777 |
| Licenses and Permits | 139,146 | - | - | 139,146 |
| Intergovernmental Receipts: | | | | |
| State Grants | 9,869 | - | - | 9,869 |
| State Shared Receipts: | | | | |
| Liquor Tax Reversion | 18,868 | - | - | 18,868 |
| Motor Vehicle Licenses | 23,724 | - | - | 23,724 |
| County Shared Receipts: | | | | |
| County Road Tax | 1,310 | - | - | 1,310 |
| Other | 5,517 | - | - | 5,517 |
| Charges for Goods and Services: | | | | |
| Solid Waste Collections | 140,237 | - | - | 140,237 |
| Fines and Forfeits: | | | | |
| Court Fines and Costs | 295 | - | - | 295 |
| Miscellaneous Receipts: | | | | |
| Street Light Fees | 2,700 | - | - | 2,700 |
| Maintenance Assessments | 203 | - | - | 203 |
| Investment Earnings | - | 484 | - | 484 |
| Other | 391,296 | - | - | 391,296 |
| TOTAL RECEIPTS | 1,777,805 | 211,964 | 26,837 | 2,016,606 |

The accompanying notes are an integral part of this statement.

| | General Fund | Tax Increment District #1 - Debt Service Fund | Non-major Third Penny Fund | Total Governmental Funds |
|-------------------------------------|---------------------|--|----------------------------------|--------------------------------|
| DISBURSEMENTS | | | | |
| General Government: | | | | |
| Legislative | 32,468 | - | - | 32,468 |
| Executive | 13,972 | - | - | 13,972 |
| Financial Administration | 447,246 | - | - | 447,246 |
| Government Building and Engineering | 77,581 | - | - | 77,581 |
| Public Safety: | | | | |
| Police | 344,715 | - | - | 344,715 |
| Protective Inspection | 33,490 | - | - | 33,490 |
| Public Works: | | | | |
| Highways and Streets | 252,776 | - | - | 252,776 |
| Sanitation | 137,574 | - | - | 137,574 |
| Health and Welfare: | | | | |
| Humane Society | 63 | - | - | 63 |
| Culture and Recreation: | | | | |
| Culture-Recreation | 150 | - | - | 150 |
| Parks and Recreation | 60,649 | - | - | 60,649 |
| Conservation and Development: | | | | |
| Planning and Zoning | 43,238 | - | - | 43,238 |
| Economic Development | - | - | 32,396 | 32,396 |
| Debt Service | 72,106 | 296,800 | - | 368,906 |
| Capital Outlay | 536,029 | - | - | 536,029 |
| TOTAL DISBURSEMENTS | <u>2,052,057</u> | <u>296,800</u> | <u>32,396</u> | <u>2,381,253</u> |
| OTHER FINANCING SOURCES | | | | |
| Debt Proceeds | 313,213 | - | - | 313,213 |
| Net Transfers | - | 150,000 | - | 150,000 |
| Total Other Financing Sources | <u>313,213</u> | <u>150,000</u> | <u>-</u> | <u>463,213</u> |
| NET CHANGE IN FUND BALANCE | 38,961 | 65,164 | (5,559) | 98,566 |
| FUND BALANCE - BEGINNING | <u>1,222,416</u> | <u>434,521</u> | <u>42,303</u> | <u>1,699,240</u> |
| FUND BALANCE - ENDING | <u>\$ 1,261,377</u> | <u>\$ 499,685</u> | <u>\$ 36,744</u> | <u>\$ 1,797,806</u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Net Position - Modified Cash Basis - Proprietary Funds
December 31, 2016

| | <u>Sewer Fund</u> |
|---------------------------|--------------------------|
| ASSETS | |
| Cash and Cash Equivalents | <u>\$ 249,805</u> |
| TOTAL ASSETS | <u><u>\$ 249,805</u></u> |
| NET POSITION | |
| Unrestricted | <u>\$ 249,805</u> |
| TOTAL NET POSITION | <u><u>\$ 249,805</u></u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Revenues, Expenses and Changes in Fund Net Position -
Modified Cash Basis - Proprietary Funds
For the Year Ended December 31, 2016

| | <u>Sewer Fund</u> |
|-------------------------------------|--------------------------|
| OPERATING RECEIPTS | |
| Revenue Dedicated to Servicing Debt | \$ <u>599,910</u> |
| Total Operating Receipts | <u>599,910</u> |
| OPERATING DISBURSEMENTS | |
| Personal Services | 105,426 |
| Other Current Disbursements | <u>216,706</u> |
| Total Operating Disbursements | <u>322,132</u> |
| Total Operating Income | <u>277,778</u> |
| NONOPERATING DISBURSEMENTS | |
| Debt Service | (17,199) |
| Capital Outlay | <u>(58,150)</u> |
| Total Nonoperating Disbursements | <u>(75,349)</u> |
| TRANSFERS | |
| Transfers Out | <u>(150,000)</u> |
| CHANGE IN NET POSITION | 52,429 |
| NET POSITION - BEGINNING | <u>197,376</u> |
| NET POSITION - ENDING | <u>\$ <u>249,805</u></u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The reporting entity of the City of Summerset, South Dakota (the City) consists of the primary government which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity; those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the City. These statements include all funds of the overall government except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

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, receipts, and disbursements. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City, or it meets the following criteria:

1. Total assets, liabilities, receipts, or disbursements of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, receipts, or disbursements 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.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The funds of the City 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 and report the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City has the following special revenue fund:

Third Penny Fund - To account for the collection of a 1% tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions. The use of this tax is restricted by City Ordinance 34.21.020 and shall be levied for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium, or athletic facility buildings including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the City, its facilities, attractions, and activities per SDCL 10-52A-2. This is not a major fund.

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.

Tax Increment District #1 - Accounts for the accumulation of property tax receipts received on the tax increment district and the payment of long-term debt principal and interest as related to the tax increment district. This fund is a major fund.

Proprietary Funds:

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

Sewer Fund - Financed primarily by user charges this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-48-2). This fund is a major fund.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds and are used to account for resources held by the City in a purely custodial capacity (assets equal liabilities). The City did not have fiduciary funds as of December 31, 2016.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City's basis of accounting is the modified cash basis, which is a basis of accounting other than US GAAP. Under US GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus

Government-Wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting.

Fund Financial Statements:

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

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, and business-type activities are presented using the modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the balance sheet reports only cash and cash equivalents (those investments with terms to maturity of 90 days or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed.

Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements include the recording of investments arising from cash transactions. The City also presents negative cash balances rather than interfund loans.

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

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

D. CASH AND CASH EQUIVALENTS

The City pools its cash resources for deposit purposes. The proprietary funds have access to their cash resources on demand.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. RESTRICTED CASH DEPOSITS

The City maintains restricted cash deposits for debt reserves required by loan agreements in relation to the Tax Increment Financing.

F. DEPOSITS AND INVESTMENTS

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

G. 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.

H. CAPITAL ASSETS

Government-wide Financial Statements

Under the modified cash basis of accounting, the City's capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. In the Statement of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary, to match the cost with the program that benefits from the use of the capital assets.

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as expenditures of the governmental fund when paid for in cash. Capital assets acquired for use in proprietary fund operations are accounted for in the same manner as the government-wide financial statements.

I. LONG-TERM LIABILITIES

Long-term liabilities include, but are not limited to, a mortgage loan and financing notes.

As discussed in Note 1.C. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The City has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the City. The City does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities, the principal and interest are reported as Debt Service.

J. REVENUE RECEIVED IN ADVANCE

Under the cash basis of accounting, cash may have been received in advance of the City's providing a good or service to a customer. These amounts are reported in the financial statements at the time of receipt, as applicable.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. PROGRAM RECEIPTS

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

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

L. PROPRIETARY FUNDS RECEIPTS AND DISBURSEMENTS CLASSIFICATION

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

M. EQUITY CLASSIFICATIONS

Government-Wide Financial Statements:

Equity is classified as net position and is displayed in two components under the modified cash basis:

1. Restricted Net Position - Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position - All other net assets that do not meet the definition of "restricted."

It is the City's policy to first use restricted net position prior to the use of unrestricted net position when a disbursement is made for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance, which is distinguished between the following classifications:

Nonspendable - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted - Constraints are placed on the use of resources by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by resolutions of the City Commissioners.

Assigned - Amounts that are constrained by the City management and are intended to be used for specific purposes but are neither restricted nor committed. The City Commissioners have given management the authority to create assignments of fund equity.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unassigned - Represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned.

The City uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents or 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.

Proprietary fund equity is classified the same as in the government-wide financial statements.

The City has established a fund balance reserve policy for the General Fund. The total amount set aside is \$500,000. The policy provides for a budget stabilization reserve of 15-20% of annual operating expenditures; an emergency reserve for unforeseen disasters or accidents of 15-20% of annual operating expenditures, and a working capital reserve of 5-10% of annual operating expenditures. These reserves have not been designated for specific purposes and, as such, are presented in unassigned fund balance in the General Fund.

NOTE 2 - INTERFUND TRANSFERS

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

| | Transfer In | Transfer Out |
|---|-------------|--------------|
| Tax Increment District #1 - Debt Service Fund | \$ 150,000 | \$ - |
| Sewer Fund | - | 150,000 |
| | \$ 150,000 | \$ 150,000 |

The transfer from the Sewer Fund to the Tax Increment District #1 was to make debt payments.

NOTE 3 - 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 as follows:

Deposits

The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 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.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any banker trust company designated by the political subdivision as its fiscal agent.

The City had no investments at December 31, 2016.

Custodial Credit Risk - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2016, the City's deposits were adequately secured by FDIC Insurance and collateralized with pledged securities.

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

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.

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

NOTE 4 - PROPERTY TAXES

Property taxes are levied on or before October 1 of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

NOTE 5 - COMMITMENTS

The following is a summary of changes in long-term debt commitments for the year ended December 31, 2016:

| | Beginning Balance 12/31/2015 | Additions | Payments | Other Adjustments | Ending Balance 12/31/2016 | Due in One Year |
|------------------------------|------------------------------------|-------------------|---------------------|----------------------|---------------------------------|--------------------|
| Tax Increment Financing Note | \$ 2,781,352 | \$ - | \$ (173,579) | \$ - | \$ 2,607,773 | \$ 179,931 |
| First Interstate Bank | - | 267,500 | - | - | 267,500 | 44,898 |
| State Revolving Fund Loan | 243,489 | - | (10,005) | - | 233,484 | 10,309 |
| Ford Explorer Loan | - | 45,713 | (7,657) | - | 38,056 | 8,699 |
| Ford Lease | 23,307 | - | (9,975) | - | 13,332 | 10,585 |
| Contract for Deed | 710,310 | - | (16,458) | (693,852) | - | - |
| | <u>\$ 3,758,458</u> | <u>\$ 313,213</u> | <u>\$ (217,674)</u> | <u>\$ (693,852)</u> | <u>\$ 3,160,145</u> | <u>\$ 254,422</u> |

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 5 - COMMITMENTS (CONTINUED)

The Tax Increment District Bond was created in October 2008 for the purpose of paying project costs associated with Tax Increment District #1 for an original principal amount of \$3,500,000. Semiannual payments began in December 2011 and continue each December and June in the amount of \$148,400 including interest at 4.5%. Interest paid for the year ended December 31, 2016 was \$123,221. The final payment is due December 2028 for \$112,220. The fund balance of the Tax Increment District #1 Fund is restricted to the purpose of paying this debt.

The City secured a mortgage through First Interstate Bank for the purchase of the new City Office located at 7055 Leisure Lane in Summerset. The purchase closed in December of 2017, with a total purchase price of \$536,029. The City paid \$268,529 in cash from the General Fund, and mortgaged the remaining \$267,500 with a maturity date of January 2022 and an interest rate of 3.8%. Installment payments are \$4,912 made monthly beginning in February 2017. No interest or principal payments were made for the year ended December 31, 2016. This debt is paid by the General Fund.

The City was awarded a \$300,000 State Revolving Fund Loan for the installation of reed beds at the Wastewater Treatment Plant, of which the City received a total of \$257,947. The repayment period is twenty years and began in August 2014 with quarterly payments of \$4,300, including interest at 3% due every February, May, August, and November. Interest paid for the year ended December 31, 2016 was \$7,193. This debt is paid by the Sewer Fund.

The City financed the purchase of 2016 Ford Explorer patrol vehicle through First Interstate Bank on January 2016. The total amount financed was \$45,713 with a maturity date of January 2021 and an interest rate of 4.59%. Installment payments are made monthly in the amount of \$856, with the first installment was paid in February 2016. Interest paid for the year ended December 31, 2016 was \$1,756. This debt is paid by the General Fund.

The City entered into a capital lease agreement with Ford Motor Credit Company LLC for the purchase of a 2014 Ford Police Interceptor Sedan. The total cash price of the lease was \$39,171 plus a \$425 underwriting fee amortized into the lease payments, and an interest rate of 5.95%. Installment payments are made monthly in the amount of \$924, with the first installment paid in April 2014 and a maturity date of March 2018. Interest paid for the year ended December 31, 2016 was \$1,118. This debt is paid by the General Fund.

A contract for deed was entered into in December 2010. The contract allowed for the purchase of the property that the City Office was located at for \$775,000. The contract required monthly payments of \$4,300 through April 2018, and then monthly payments of \$5,300 until December 2020, at which time a balloon payment of \$589,158 would be due. All payments included interest at 5%. Interest paid for the year ended December 31, 2016 was \$35,142. This debt was paid by the General Fund. In December 2016, the City was released from contract for deed, terminating all future obligations associated from said contract.

The City was in compliance with debt covenants for the year ending December 31, 2016. The debt covenants consist of a bond reserve of \$257,167 recorded in the Statement of Net Position - Modified Cash Basis. Deposits are maintained in a savings account.

Pledged Revenues

Tax increment financing is a method of financing improvements and development in an area which has been determined to be blighted according to the criteria set forth in SDCL 11-9. In some instances, the City pledges future tax revenues generated by the tax increment district to acquire public improvements within the established district.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 5 - COMMITMENTS (CONTINUED)

The City has pledged future tax revenues generated by Tax Increment District #1 - Debt Service Fund and future revenues of the Sewer Fund for the retirement of its Tax Increment Financing Note listed in the table above. This debt was used to fund capital projects. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison of principal and interest payments and total pledged revenue for the current year:

| | |
|-------------------------------------|-------------------|
| Current Year Principal and Interest | <u>\$ 389,389</u> |
| Pledged Revenue: | |
| Tax Increment Receipts | \$ 211,480 |
| Sewer Fund Receipts | <u>599,910</u> |
| Total Pledged Revenue | <u>\$ 811,390</u> |

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

| | Tax Increment Financing Note | | First Interstate Bank | | State Revolving Fund | |
|------------|---------------------------------|---------------------|-----------------------|-------------------|----------------------|-------------------|
| | Interest | Principal | Interest | Principal | Interest | Principal |
| 2017 | \$ 116,869 | \$ 179,931 | \$ 9,131 | \$ 44,898 | \$ 6,889 | \$ 10,309 |
| 2018 | 108,681 | 188,119 | 7,569 | 51,372 | 6,577 | 10,622 |
| 2019 | 100,120 | 196,680 | 5,582 | 53,359 | 6,254 | 10,944 |
| 2020 | 91,170 | 205,630 | 3,531 | 55,410 | 5,922 | 11,276 |
| 2021 | 81,813 | 214,987 | 1,377 | 57,565 | 5,580 | 11,618 |
| Thereafter | <u>250,980</u> | <u>1,622,426</u> | <u>16</u> | <u>4,896</u> | <u>36,260</u> | <u>178,715</u> |
| | <u>\$ 749,633</u> | <u>\$ 2,607,773</u> | <u>\$ 27,206</u> | <u>\$ 267,500</u> | <u>\$ 67,482</u> | <u>\$ 233,484</u> |

| Vehicle Loans | | Totals | |
|-----------------|------------------|-------------------|---------------------|
| Interest | Principal | Interest | Principal |
| \$ 2,078 | \$ 19,284 | \$ 134,967 | \$ 254,422 |
| 1,189 | 11,853 | 124,016 | 261,966 |
| 736 | 9,533 | 112,692 | 270,516 |
| 289 | 9,980 | 100,912 | 282,296 |
| 12 | 738 | 88,782 | 284,908 |
| <u>-</u> | <u>-</u> | <u>287,256</u> | <u>1,806,037</u> |
| <u>\$ 4,304</u> | <u>\$ 51,388</u> | <u>\$ 848,625</u> | <u>\$ 3,160,145</u> |

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 6 - RETIREMENT PLAN

Plan Information

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

Benefits Provided

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

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

- If the SDRS market value funded ratio is
 - 100% or more - 3.1% COLA
 - 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

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.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 6 - RETIREMENT PLAN (CONTINUED)

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 years ended December 31, 2016, 2015, and 2014 were \$25,938, \$19,818, and \$20,355, respectively, and were equal to the required contributions each year.

Pension Liabilities (Assets)

At June 30, 2016, SDRS is 96.89% funded and accordingly, has a net pension liability. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the City as of December 31, 2016 are as follows:

| | |
|--|--------------|
| Proportionate Share of Pension Liability | \$ 1,977,706 |
| Less: Proportionate Share of Net Pension Restricted for Pension Benefits | 1,916,142 |
| Proportionate Share of Net Pension Liability (Asset) | \$ 61,564 |

The net pension liability (asset) was measured as of June 30, 2016 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At December 31, 2016, the City's proportion was 0.01823%, which is a decrease of 0.00076% from its proportion measured as of June 30, 2015.

Actuarial Assumptions

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

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

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

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

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 6 - RETIREMENT PLAN (CONTINUED)

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

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|---------------|----------------------|--|
| Global Equity | 61.0% | 4.5% |
| Fixed Income | 27.0% | 1.8% |
| Real Estate | 10.0% | 5.2% |
| Cash | 2.0% | 0.0% |
| Total | 100.0% | |

Discount Rate

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions 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 liability (asset).

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

The following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|--|-----------------------------|-------------|
| | City's Proportionate Share of the Net Pension Liability (Asset) | \$ 344,513 | \$ 61,564 |

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 6 - RETIREMENT 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.

NOTE 7 - RISK ASSESSMENT

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 year ended December 31, 2016, the City managed risks as follows:

Unemployment Benefits

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the year ended December 31, 2016, no claims were paid for unemployment benefits. At December 31, 2016, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Health Insurance

The City purchases health insurance for its employees from a commercial insurance carrier. 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 provide liability coverage detailed below, under a claims-made policy, and the premiums are based on their exposure or type of coverage to the pool to provide coverage for general liability, officials' liability, automobile liability and damage, property damage and law enforcement liability.

The agreement with the SDPAA provides that the above coverage will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund based on the number of years participated in the pool.

As of the December 31, 2016, the City has a vested balance in the cumulative reserve fund of \$12,035, which is not recorded in the cash basis financial statements of the City. 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.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2016

NOTE 7 - RISK ASSESSMENT (CONTINUED)

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the 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 for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

The 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.

NOTE 8 - RESTRICTIONS OF NET POSITION

Net position of \$499,685 is restricted by debt covenants for debt service and \$36,744 is restricted economic development and capital acquisition by State law. In addition, \$396,000 is restricted by funding source to repay a contractor surety.

NOTE 9 - SUBSEQUENT EVENTS

The City has considered subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

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SUPPLEMENTARY INFORMATION

City of Summerset, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - General Fund
For the Year Ended December 31, 2016

| | <u>Budgeted Amounts</u> | | <u>Budgetary Basis - Actual Amounts</u> | <u>Positive (Negative) Variance</u> |
|---|-------------------------|------------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| RECEIPTS | | | | |
| Taxes: | | | | |
| General Property Taxes | \$ 553,670 | \$ 553,670 | \$ 546,874 | \$ (6,796) |
| General Sales and Use Taxes | 350,000 | 350,000 | 492,591 | 142,591 |
| Amusement Taxes | 3,800 | 3,800 | 4,398 | 598 |
| Penalties and Interest on Delinquent Taxes | 200 | 200 | 777 | 577 |
| Licenses and Permits | 64,750 | 64,750 | 139,146 | 74,396 |
| Intergovernmental Revenue: | | | | |
| State Grants | 17,208 | 17,208 | 9,869 | (7,339) |
| State Shared Revenue: | | | | |
| Liquor Tax Reversion | 8,000 | 8,000 | 18,868 | 10,868 |
| Motor Vehicle Licenses (5%) | 16,000 | 16,000 | 23,724 | 7,724 |
| County Shared Revenue: | | | | |
| County Road Tax | 1,300 | 1,300 | 1,310 | 10 |
| Other | 3,000 | 3,000 | 5,517 | 2,517 |
| Charges for Goods and Services: | | | | |
| Solid Waste Collections | 162,000 | 162,000 | 140,237 | (21,763) |
| Fines and Forfeits: | | | | |
| Court Fines and Costs | 250 | 250 | 295 | 45 |
| Miscellaneous Revenue: | | | | |
| Street Light Fees | 4,500 | 4,500 | 2,700 | (1,800) |
| Maintenance Assessments | 1,000 | 1,000 | 203 | (797) |
| Other | 2,700 | 2,700 | 391,296 | 388,596 |
| TOTAL RECEIPTS | <u>1,188,378</u> | <u>1,188,378</u> | <u>1,777,805</u> | <u>589,427</u> |

See independent auditor's report.

| | Budgeted Amounts | | Budgetary Basis - Actual Amounts | Positive (Negative) Variance |
|---------------------------------|---------------------|-------------------|--|------------------------------------|
| | Original | Final | | |
| DISBURSEMENTS | | | | |
| General Government: | | | | |
| Legislative | 48,018 | 49,918 | 32,468 | 17,450 |
| Executive | 14,063 | 14,063 | 13,972 | 91 |
| Elections | 800 | 800 | - | 800 |
| Financial Administration | 199,983 | 488,648 | 447,246 | 41,402 |
| Building and Engineering | 89,260 | 1,383,210 | 77,581 | 1,305,629 |
| Public Safety: | | | | |
| Police | 307,685 | 327,485 | 344,715 | (17,230) |
| Fire Department | 1,000 | 1,000 | - | 1,000 |
| Protective Inspection | 23,500 | 33,500 | 33,490 | 10 |
| Public Works: | | | | |
| Highways and Streets | 293,600 | 343,600 | 252,776 | 90,824 |
| Sanitation | 139,000 | 139,000 | 137,574 | 1,426 |
| Health and Welfare: | | | | |
| Humane Society | 500 | 500 | 63 | 437 |
| Culture and Recreation: | | | | |
| Parks and Recreation | 49,500 | 61,000 | 60,799 | 201 |
| Conservation and Development: | | | | |
| Planning and Zoning | 47,489 | 47,639 | 43,238 | 4,401 |
| Debt Service | 67,980 | 67,980 | 72,106 | (4,126) |
| TOTAL DISBURSEMENTS | <u>1,282,378</u> | <u>2,958,343</u> | <u>1,516,028</u> | <u>1,442,315</u> |
| OTHER FINANCING SOURCES | | | | |
| Debt Proceeds | <u>-</u> | <u>980,000</u> | <u>313,213</u> | <u>(666,787)</u> |
| CHANGE IN CASH BASIS | | | | |
| FUND BALANCE | (94,000) | (789,965) | 574,990 | 1,364,955 |
| FUND BALANCE - BEGINNING | <u>1,222,416</u> | <u>1,222,416</u> | <u>1,222,416</u> | <u>-</u> |
| FUND BALANCE - ENDING | <u>\$ 1,128,416</u> | <u>\$ 432,451</u> | <u>\$ 1,797,406</u> | <u>\$ 1,364,955</u> |

See independent auditor's report.

City of Summerset, South Dakota
Notes to Supplementary Information
For the Year Ended December 31, 2016

NOTE 1 - BASIS OF PRESENTATION

The Budgetary Comparison Schedules have been prepared on the modified cash basis of accounting and present capital outlay and debt service expenditures within each function rather than as a separate line item on the Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the required supplementary information:

1. At the regular board meeting in June each year, the governing board introduces the annual appropriations ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board. The City did not encumber any amounts at December 31, 2016.

The budget for the general fund is adopted on a basis consistent with that which is presented in the financial statements.

See independent auditor's report.

City of Summerset, South Dakota
City Officials
December 31, 2016

Mayor

George Mandas

Commissioners

Bryce Lutz

Michael Pogany

Michael Kitzmiller

Alyssa Pogany

City Administrator

Jeff Mizenko

See independent auditor's report.