



Financial Statements
December 31, 2016
City of Waubay

City of Waubay
Municipal Officials (Unaudited)
December 31, 2016

Mayor.....Kevin Jens

Governing Board..... Roger Johanning
Curtis Koepp
Robert Grebel
Eric Niles
Kim Jorgenson

Finance OfficerJulie Jorgenson

Attorney Tom Sannes

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Independent Auditor's Report

The City Council
City of Waubay
Waubay, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities and each major fund of the City of Waubay as of December 31, 2016, and for the fiscal year then ended and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Basis of Accounting

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

Other Matters

Other Information

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

The schedules of net pension liability (asset) and pension contributions, budgetary comparison schedule and schedule of long-term debt are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2017 on our consideration of the City of Waubay'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 the City's internal control over financial reporting and compliance.



Aberdeen, South Dakota
August 15, 2017

City of Waubay
Statement of Net Position—Modified Cash Basis
December 31, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 564,241	\$ 394,795	\$ 959,036
Total current assets	564,241	394,795	959,036
Noncurrent assets			
Restricted cash and cash equivalents	11,862	493,171	505,033
Total noncurrent assets	11,862	493,171	505,033
	<u>\$ 576,103</u>	<u>\$ 887,966</u>	<u>\$ 1,464,069</u>
Net Position			
Restricted for:			
Library	\$ 11,862	\$ -	\$ 11,862
Repayment of debt	-	43,746	43,746
Construction	-	426,376	426,376
Replacement of assets	-	23,049	23,049
Unrestricted	564,241	394,795	959,036
	<u>\$ 576,103</u>	<u>\$ 887,966</u>	<u>\$ 1,464,069</u>

City of Waubay
Statement of Activities—Modified Cash Basis
Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Loan Proceeds	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 66,078	\$ 7,490	\$ -	\$ -	\$ (58,588)	\$ -	\$ (58,588)
Public safety	16,702	-	-	-	(16,702)	-	(16,702)
Public works	129,959	-	58,312	-	(71,647)	-	(71,647)
Health and welfare	1,225	-	-	-	(1,225)	-	(1,225)
Culture and recreation	46,655	-	-	-	(46,655)	-	(46,655)
Conservation and development	6,913	-	-	-	(6,913)	-	(6,913)
Miscellaneous expenditures	2,989	-	-	-	(2,989)	-	(2,989)
Debt service	4,344	-	-	-	(4,344)	-	(4,344)
Total governmental activities	274,865	7,490	58,312	-	(209,063)	-	(209,063)
Business-type activities:							
Water	219,191	117,416	-	-	-	(101,775)	(101,775)
Sewer	111,092	153,135	-	-	-	42,043	42,043
Total business-type activities	330,283	270,551	-	-	-	(59,732)	(59,732)
	<u>\$ 605,148</u>	<u>\$ 278,041</u>	<u>\$ 58,312</u>	<u>\$ -</u>	<u>(209,063)</u>	<u>(59,732)</u>	<u>(268,795)</u>
General Revenues							
Taxes:							
Property taxes					116,872	-	116,872
Sales taxes					112,744	-	112,744
State shared revenues					6,949	-	6,949
Unrestricted investing earnings					3,259	1,501	4,760
Miscellaneous revenue					59,005	-	59,005
Extraordinary Items - HMGP Expenses					(203,316)	-	(203,316)
Total general revenues and extraordinary items					95,513	1,501	97,014
Change in Net Position					(113,550)	(58,231)	(171,781)
Net Position, Beginning					689,653	946,197	1,635,850
Net Position, Ending					<u>\$ 576,103</u>	<u>\$ 887,966</u>	<u>\$ 1,464,069</u>

See Notes to Financial Statements

City of Waubay
Balance Sheet—Modified Cash Basis—Governmental Funds
December 31, 2016

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 564,241
Restricted cash	<u>11,862</u>
	<u>\$ 576,103</u>
Fund Balances	
264 Restricted for:	
Library	11,862
267 Unassigned	<u>564,241</u>
	<u>576,103</u>
Total fund balances	<u>\$ 576,103</u>

City of Waubay

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2016

	General Fund
Revenues	
310 Taxes	
311 General property taxes	\$ 116,512
313 General sales and use taxes	112,744
315 Amusement taxes	360
Total taxes	229,616
320 Licenses and permits	3,923
330 Intergovernmental revenue	
335 State shared revenue	
335.01 Bank franchise tax	1,302
335.02 Motor vehicle commercial prorated	3,054
335.03 Liquor tax reversion	3,758
335.04 Motor vehicle licenses (5%)	12,930
335.08 Local government highway and bridge fund	36,404
338 County shared revenue	
338.01 County road tax (25%)	1,066
338.02 County HBR tax (25%)	868
338.03 County wheel tax	3,990
339 Other intergovernmental revenues	1,889
Total intergovernmental revenue	65,261
340 Charges for goods and services	
341 General government	3,567
Total charges for goods and services	3,567
360 Miscellaneous revenue	
361 Investment earnings	3,259
367 Contributions and donations from private sources	20,181
368 Liquor operating agreement income	21,291
369 Other	17,533
Total miscellaneous revenue	62,264
Total revenues	364,631

City of Waubay

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2016

	General Fund
Expenditures	
410 General government	
414 Financial administration	66,078
Total general government	66,078
420 Public safety	
421 Police	1,053
422 Fire	14,952
429 Other protection	697
Total public safety	16,702
430 Public works	
431 Highway and streets	125,321
437 Cemetery	4,338
435 Airport	300
Total public works	129,959
440 Health and welfare	
441 Health	1,225
Total health and welfare	1,225
450 Culture and recreation	
451 Recreation	46,655
Total culture and recreation	46,655
460 Conservation and development	
465 Economic development and assistance (industrial development)	6,913
Total conservation and development	6,913
470 Debt service	
Principal	1,493
Interest	2,851
Total debt service	4,344

City of Waubay

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2016

	<u>General Fund</u>
490 Miscellaneous	
492 Other expenditures	2,989
Total miscellaneous	<u>2,989</u>
Total expenditures	<u>274,865</u>
515 Extraordinary Items - HMGP Expenses	<u>203,316</u>
Net Change in Fund Balance	(113,550)
Fund Balance, Beginning	<u>689,653</u>
Fund Balance, Ending	<u><u>\$ 576,103</u></u>

City of Waubay
Balance Sheet—Modified Cash Basis—Proprietary Funds
December 31, 2016

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 162,325	\$ 232,470	\$ 394,795
Total current assets	<u>162,325</u>	<u>232,470</u>	<u>394,795</u>
Noncurrent assets			
Restricted cash and cash equivalents	31,339	461,832	493,171
Total noncurrent assets	<u>31,339</u>	<u>461,832</u>	<u>493,171</u>
	<u>\$ 193,664</u>	<u>\$ 694,302</u>	<u>\$ 887,966</u>
Net Position			
253.20 Restricted for			
253.21 Debt service	\$ 9,245	\$ 34,501	\$ 43,746
253.26 Equipment repair	5,504	17,545	23,049
253.29 Construction	16,590	409,786	426,376
253.90 Unrestricted	<u>162,325</u>	<u>232,470</u>	<u>394,795</u>
	<u>\$ 193,664</u>	<u>\$ 694,302</u>	<u>\$ 887,966</u>

City of Waubay

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2016

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenue			
380 Charges for goods and services	\$ 114,983	\$ 150,660	\$ 265,643
369 Miscellaneous	2,433	2,475	4,908
Total operating revenue	<u>117,416</u>	<u>153,135</u>	<u>270,551</u>
Operating Expenses			
410 Personal services	15,231	13,129	28,360
420 Other current expenses	15,103	31,351	46,454
426 Supplies and materials	20,618	12,733	33,351
430 Capital assets	118,942	-	118,942
Total operating expenses	<u>169,894</u>	<u>57,213</u>	<u>227,107</u>
Operating Income (Loss)	<u>(52,478)</u>	<u>95,922</u>	<u>43,444</u>
Nonoperating Revenue (Expense)			
361 Investment earnings	255	1,246	1,501
440 Debt service principal	(26,181)	(17,556)	(43,737)
441 Interest expense	(23,116)	(36,323)	(59,439)
Total nonoperating revenue (expense)	<u>(49,042)</u>	<u>(52,633)</u>	<u>(101,675)</u>
Change in Net Position	(101,520)	43,289	(58,231)
Net Position, Beginning	<u>295,184</u>	<u>651,013</u>	<u>946,197</u>
Net Position, Ending	<u>\$ 193,664</u>	<u>\$ 694,302</u>	<u>\$ 887,966</u>

City of Waubay
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2016

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from (used for) Operating Activities			
Receipts from customers	\$ 117,416	\$ 153,135	\$ 270,551
Payments to suppliers	(35,721)	(44,084)	(79,805)
Payments to employees	(15,231)	(13,129)	(28,360)
Net Cash from Operating Activities	<u>66,464</u>	<u>95,922</u>	<u>162,386</u>
Cash Flows from Noncapital Financing Activities			
Payments from other funds	-	59	59
Net Cash from Noncapital Activities	<u>-</u>	<u>59</u>	<u>59</u>
Cash Flows used for Capital and Related Financing Activities			
Purchase of capital assets	(118,942)	-	(118,942)
Principal paid on capital debt	(26,181)	(17,556)	(43,737)
Interest paid on capital debt	(23,116)	(36,323)	(59,439)
Net Cash used for Capital and Related Financing Activities	<u>(168,239)</u>	<u>(53,879)</u>	<u>(222,118)</u>
Cash Flows from Investing Activity			
Cash received for interest	255	1,246	1,501
Net Cash from Investing Activities	<u>255</u>	<u>1,246</u>	<u>1,501</u>
Net Change in Cash and Cash Equivalents	(101,520)	43,348	(58,172)
Cash and Cash Equivalents, Beginning	<u>295,184</u>	<u>650,954</u>	<u>946,138</u>
Cash and Cash Equivalents, Ending	<u>\$ 193,664</u>	<u>\$ 694,302</u>	<u>\$ 887,966</u>
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	\$ 162,325	\$ 232,470	\$ 394,795
Restricted cash and cash equivalents	31,339	461,832	493,171
	<u>\$ 193,664</u>	<u>\$ 694,302</u>	<u>\$ 887,966</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income (loss)	\$ (52,478)	\$ 95,922	\$ 43,444
Adjustments to reconcile operating income to net cash from operating activities:			
Purchase of capital assets	118,942	-	118,942
Net Cash from Operating Activities	<u>\$ 66,464</u>	<u>\$ 95,922</u>	<u>\$ 162,386</u>

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

The reporting entity of the City of Waubay (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the City's financial statements to be misleading or incomplete.

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

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

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

B. Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

- 1) Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type.
- 2) Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.
- 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 are described below:

Governmental Funds

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

Proprietary Funds

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

Water Fund - Financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL 9-47-1) This is a major fund.

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

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

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

Basis of Accounting

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

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

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

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

D. Deposits and Investments

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares or similar investments in external investment pools are also considered to be cash equivalents.

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

E. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. The City did not have interfund receivables and payables which required elimination as of December 31, 2016.
2. The City did not have internal service fund activity which required elimination as of December 31, 2016.

F. Capital Assets

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

G. Long-Term Liabilities

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

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

H. Program Revenues

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

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

I. Proprietary Funds Revenue and Expense Classifications

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

J. Cash and Cash Equivalents

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

K. Equity Classifications

Government-Wide Statements

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between nonspendable, restricted, committed, assigned and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

L. Application of Net Position and Fund Balance

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

M. Fund Balance Classification Policies and Procedures

The following classifications describe the relative strength of the spending constraints placed on the government's fund balances:

- Nonspendable Fund Balance - Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.

- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance - Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance.
- Assigned Fund Balance - Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).
- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

N. Rounding

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

Note 2 - Deposits and Investments

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

Deposits

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

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

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2016, the City’s deposits in financial institutions were exposed to custodial credit risk as follows:

	2016	
Depository Name	Percent Under-Collateralized	At-Risk Amount
First Savings Bank	0.36%	\$ 3,478

The actual bank balances at December 31, 2016 are as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 500,000
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	966,161
Total deposits	\$ 1,466,161

The City’s carrying amount of deposits at December 31, 2016 is as follows:

Cash and cash equivalents	\$ 1,464,069
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Investments

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

As of December 31, 2016, the City did not hold any investments as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. The City also does not have a formal investment policy that addresses custodial credit risk, interest rate risk, or credit risk.

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

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

Note 3 - Property Taxes

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

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

Note 4 - Restricted Net Position

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

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
General Fund	Statute	\$ 11,862
Sewer Fund	Contractual	461,832
Water Fund	Contractual	31,339

Note 5 - Retirement Plan

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

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

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by State statute to contribute the following percentages of their salary to the plan; Class A members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Member, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City’s share of contributions made to the SDRS for the years ended December 31, 2016, 2015 and 2014 were \$3,607, \$3,747, and \$3,893, respectively, equal to the required contributions each year.

Pension Liability

At June 30, 2016, SDRS is 96.89% funded and, accordingly, has a net pension liability. The proportionate share of the components of the net pension liability of SDRS for the City as of this measurement period ending June 30, 2016 and reported by the City as of December 31, 2016 is as follows:

	2016
Proportionate share of total pension liability	\$ 345,677
Less proportionate share of net position restricted for pension benefits	334,916
Proportionate share of net pension liability	\$ 10,761

At December 31, 2016, the City reported a liability of \$10,761 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 0.00319%, which was a decrease of 0.0003% from its proportion measured as of June 30, 2015 of 0.00353%. The City’s proportionate share net pension liability is not reported in financial statements shown under modified cash basis of accounting.

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

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

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

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

Discount Rate

The discount rate used to measure the total pension liability (asset) was 7.25% through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions 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 City’s proportionate share of net pension liability (asset) as of December 31, 2016 calculated using the discount rate of 7.25% through 2017 and 7.50% thereafter, as well as what the City’s proportionate share of the net pension asset (liability) would be if it were calculated using a discount rate that is one percentage point lower (6.25/6.50%) or one percentage point higher (8.25/8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 60,216	\$ 10,761	\$ (29,576)

Pension Plan Fiduciary Net Position

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

Note 6 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2016, the City managed its risks as follows:

Employee Health Insurance

The City does not offer health insurance as an employee benefit.

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 accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, official’s liability, automobile liability and law enforcement liability.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverages will be provided to a \$1,500,000 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. 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 on the following basis:

End of City's first full year	50%
End of City's second full year	60%
End of City's third full year	70%
End of City's fourth full year	80%
End of City's fifth full year	90%
End of 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 \$13,905.

The City carries the following deductibles for the coverages listed above:

<u>Coverage</u>	<u>Deductible</u>
Officials liability	\$ 500

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

Worker's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The 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 never exceeded the liability coverage.

Unemployment Benefits

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

Note 7 - Extraordinary Item

In 2011, the City experienced severe flooding of the lakes around the City. In 2012 the City received a grant that allowed for the purchase of uninhabitable properties for City residents. The grant activity ended in 2016. Extraordinary expenses include cost of purchasing, removal and clean-up of properties along with final payment back to the granting agency of \$203,316 for the year ended December 31, 2016.

Note 8 - Loan Commitment

During 2015, the City entered into an agreement with the state for funding for a lagoon project. The City is to receive \$1.08 million in the form of a clean water state revolving loan with 46.3% principal forgiveness as well as a consolidated water facilities construction program grant for 21% of project costs not to exceed \$700,000. The term of the loan is 30 years with a 3.25% interest rate. No contracts have been entered into as part of this project as of the report date.

Note 9 - Significant Contingencies – Litigation

At December 31, 2016, the City was not involved in any litigation that would be material to the financial statements.



Supplementary Information
December 31, 2016
City of Waubay

City of Waubay

Schedules of Employer's Share of Net Pension Liability (Asset) and Pension Contributions
Year Ended December 31, 2016

Pension Plan	Fiscal Year Ending	City's Percentage of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered- Employee Payroll (b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2016	0.0032%	\$ 10,761	\$ 60,058	17.9%	96.89%
SDRS	6/30/2015	0.0035%	(14,965)	64,422	-23.2%	104.1%

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
SDRS	12/31/2016	\$ 3,607	\$ 3,607	-	\$ 60,117	6.0%
SDRS	12/31/2015	3,747	3,747	-	62,450	6.0%

City of Waubay
Schedule of Long-Term Debt
Year Ended December 31, 2016

Indebtedness	Long-Term Debt 01/01/16	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/16
Governmental Long-Term Debt				
239.00 Other	\$ 60,700	\$ -	\$ 1,493	\$ 59,207
Enterprise Long-Term Debt				
231.02 Revenue bonds:				
Wastewater	627,569	-	14,802	612,767
Water	471,433	-	5,918	465,515
237 Other long-term debt:				
Wastewater	132,048	-	2,754	129,294
Water	621,458	-	20,263	601,195
Total	<u>\$ 1,913,208</u>	<u>\$ -</u>	<u>\$ 45,230</u>	<u>\$ 1,867,978</u>

City of Waubay
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 116,850	\$ 116,850	\$ 116,512	\$ (338)
313 General sales and use taxes	94,000	94,000	112,744	18,744
319 Penalties and interest on delinquent taxes	-	-	360	360
Total taxes	<u>210,850</u>	<u>210,850</u>	<u>229,616</u>	<u>18,766</u>
320 Licenses and permits	<u>3,500</u>	<u>3,500</u>	<u>3,923</u>	<u>423</u>
330 Intergovernmental revenue				
335 State shared revenue				
335.01 Bank franchise tax	500	500	1,302	802
335.02 Motor vehicle commercial prorate	2,400	2,400	3,054	654
335.03 Liquor tax reversion	4,000	4,000	3,758	(242)
335.04 Motor vehicle licenses (5%)	5,550	5,550	12,930	7,380
335.08 Local government highway and bridge fund	22,000	22,000	36,404	14,404
338 County shared revenue				
338.01 County road tax (25%)	1,000	1,000	1,066	66
338.02 County HBR tax (25%)	1,100	1,100	868	(232)
338.03 County wheel tax	4,000	4,000	3,990	(10)
339 Other intergovernmental revenues	-	-	1,889	1,889
Total intergovernmental revenue	<u>40,550</u>	<u>40,550</u>	<u>65,261</u>	<u>24,711</u>
340 Charges for goods and services				
341 General government	<u>1,000</u>	<u>1,000</u>	<u>3,567</u>	<u>2,567</u>
Total charges for goods and services	<u>1,000</u>	<u>1,000</u>	<u>3,567</u>	<u>2,567</u>
360 Miscellaneous revenue				
361 Investment earnings	5,000	5,000	3,259	(1,741)
367 Contributions and donations from private sources	-	-	20,181	20,181
368 Liquor operating agreements	17,500	17,500	21,291	3,791
369 Other	<u>4,000</u>	<u>4,000</u>	<u>17,533</u>	<u>13,533</u>
Total miscellaneous revenue	<u>26,500</u>	<u>26,500</u>	<u>62,264</u>	<u>35,764</u>
Total revenues	<u>282,400</u>	<u>282,400</u>	<u>364,631</u>	<u>82,231</u>
Expenditures				
410 General government				
411 Legislative	7,000	7,000	-	7,000
411.5 Contingency	10,000	10,000	-	10,000
Amount transferred	-	(3,389)	-	(3,389)
414 Financial administration	<u>69,160</u>	<u>70,160</u>	<u>66,078</u>	<u>4,082</u>
Total general government	<u>86,160</u>	<u>83,771</u>	<u>66,078</u>	<u>17,693</u>

City of Waubay
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
420 Public safety				
421 Police	3,000	4,989	1,053	3,936
422 Fire	14,700	15,000	14,952	48
423 Building inspector	1,000	1,000	697	303
Total public safety	<u>18,700</u>	<u>20,989</u>	<u>16,702</u>	<u>4,287</u>
430 Public works				
431 Highways and streets	121,200	145,200	125,321	19,879
437 Cemetery	7,000	7,000	4,338	2,662
439 Transit	300	300	300	-
Total public works	<u>128,500</u>	<u>152,500</u>	<u>129,959</u>	<u>22,541</u>
440 Health and welfare				
441 Health	4,000	4,000	1,225	2,775
Total health and welfare	<u>4,000</u>	<u>4,000</u>	<u>1,225</u>	<u>2,775</u>
450 Culture and recreation				
451 Recreation	49,920	52,920	46,655	6,265
Total culture and recreation	<u>49,920</u>	<u>52,920</u>	<u>46,655</u>	<u>6,265</u>
460 Conservation and development				
465 Economic development assistance	2,900	7,000	6,913	87
Total conservation and development	<u>2,900</u>	<u>7,000</u>	<u>6,913</u>	<u>87</u>
470 Debt service				
471 Principal	4,220	4,220	1,493	2,727
472 Interest	4,000	4,000	2,851	1,149
Total debt service	<u>8,220</u>	<u>8,220</u>	<u>4,344</u>	<u>3,876</u>
490 Miscellaneous				
492 Other expenditures	-	-	2,989	(2,989)
Total miscellaneous	<u>-</u>	<u>-</u>	<u>2,989</u>	<u>(2,989)</u>
Total expenditures	<u>298,400</u>	<u>329,400</u>	<u>274,865</u>	<u>54,535</u>
391.06 (515) Extraordinary items - HMGP expenses	-	-	203,316	(203,316)
Excess of Revenue under Expenditures	(16,000)	(47,000)	(113,550)	(66,550)
Fund Balance, Beginning	<u>689,653</u>	<u>689,653</u>	<u>689,653</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 673,653</u>	<u>\$ 642,653</u>	<u>\$ 576,103</u>	<u>\$ (66,550)</u>

Note 1 - Budgets and Budgetary Accounting

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

1. At the first regular City Council meeting in September of each year or within ten days thereafter, the City Council introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City Council, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total municipal budget and may be transferred by resolution of the City Council to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the City Council.

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 and capital projects funds.

The City did not encumber any amounts at December 31, 2016.

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

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

The financial statements prepared on the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances; however, in the budgetary schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

Note 3 - Pension Schedules

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



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

The City Council
City of Waubay
Waubay, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Waubay 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 August 15, 2017. The statements were 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.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2016-A and 2016-B in the accompanying schedule of findings to be material weaknesses.

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

Compliance and Other Matters

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

City of Waubay’s Responses to Findings

The City’s responses to the findings identified in our audit are described in the accompanying schedule of findings. The City’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Aberdeen, South Dakota
August 15, 2017

Section II – Financial Statement Findings

2016-A Preparation of Financial Statements, Footnotes and Adjusting Journal Entries

Material Weakness

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

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As part of the financial statement preparation process, at times, we propose material audit adjustments that are not identified as a result of the City's existing internal controls and, therefore, could result in a misstatement of the City's financial statements.

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

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

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

Views of Responsible Officials: Management agrees with the finding.

Finding 2016-B - Lack of Segregation of Duties

Material Weakness

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

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

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

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

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

Views of Responsible Officials: Management agrees with the finding.