



CITY OF WHITEWOOD

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2015



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CITY OF WHITEWOOD

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Whitewood
Whitewood, South Dakota

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 10 and budgetary comparison information and pension schedules on pages 40 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



KETEL THORSTENSON, LLP
Certified Public Accountants

June 2, 2016

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2015

This section of the City of Whitewood (the City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended December 31, 2015. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The City's net position from governmental and business-type activities increased by \$123,157 for the year ended December 31, 2015.

During the year ended December 31, 2015, the City's revenues generated from charges for services, taxes and other revenue of the governmental programs was \$907,352; \$42,837 more than the \$864,515 of governmental program expenditures, before transfers.

The City's proprietary funds revenues exceeded expenses by \$80,320 before transfers for the year ended December 31, 2015.

For the year ended December 31, 2015, the general fund reported an increase in fund balance of \$83,920 primarily due to an increase in sales tax revenue and a reduction in expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.

Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has two proprietary funds – the Water Fund and Sewer Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

CITY OF WHITEWOOD

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The table below summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

	Government-wide	Fund Statements	
	Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water and sewer systems
Required Financial Statements	Statement of Net Position and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/ Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health.

Increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the City you need to consider additional nonfinancial factors, such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

Governmental Activities -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.

Business-Type Activities -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water and sewer systems are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending for particular purposes.

State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

Governmental Funds – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the end of the year that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

CITY OF WHITEWOOD

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position increased by 2.46 percent between 2015 and 2014 – increasing by \$123,157.

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The difference between the City's assets and liabilities is its net position.

Table A-1 Statement of Net Position						
	Governmental Activities		Business-type Activities		Total	
	2014	2015	2014	2015	2014	2015
Current & Other Assets	\$1,091,770	\$ 1,208,517	\$ 486,175	\$ 668,895	\$ 1,577,945	\$ 1,877,412
Capital Assets	1,611,664	1,552,238	3,530,337	3,431,275	5,142,001	4,983,513
Total Assets	2,703,434	2,760,755	4,016,512	4,100,170	6,719,946	6,860,925
Pension Related Deferred Outflows of Resources	\$ -	\$ 78,603	\$ -	\$ 68,641	\$ -	\$ 147,244
Long-Term Debt	\$ 499,628	\$ 468,351	\$ 1,248,482	\$ 1,212,130	\$ 1,748,110	\$ 1,680,481
Other Liabilities	24,111	30,363	41,081	51,221	65,192	81,584
Total Liabilities	523,739	498,714	1,289,563	1,263,351	1,813,302	1,762,065
Pension Related Deferred Inflows of Resources	\$ -	\$ 63,154	\$ -	\$ 55,149	\$ -	\$ 118,303
Net Position:						
Net Investment in Capital						
Assets	\$1,122,151	\$ 1,089,969	\$ 2,283,789	\$ 2,221,898	\$ 3,405,940	\$ 3,311,867
Restricted	349,600	416,514	46,116	101,818	395,716	518,332
Unrestricted	707,944	771,007	397,044	526,595	1,104,988	1,297,602
Total Net Position	\$2,179,695	\$ 2,277,490	\$ 2,726,949	\$ 2,850,311	\$ 4,906,644	\$ 5,127,801
Beginning Net Position	\$2,246,000	\$ 2,179,695	\$ 2,803,041	\$ 2,726,949	\$ 5,049,041	\$ 4,906,644
Change in Accounting Principle	-	52,315	-	45,685	-	98,000
Change in Net Position	(66,305)	45,480	(76,092)	77,677	(142,397)	123,157
Percentage of Change Net Position	-2.95%	2.04%	-2.71%	2.80%	-2.82%	2.46%

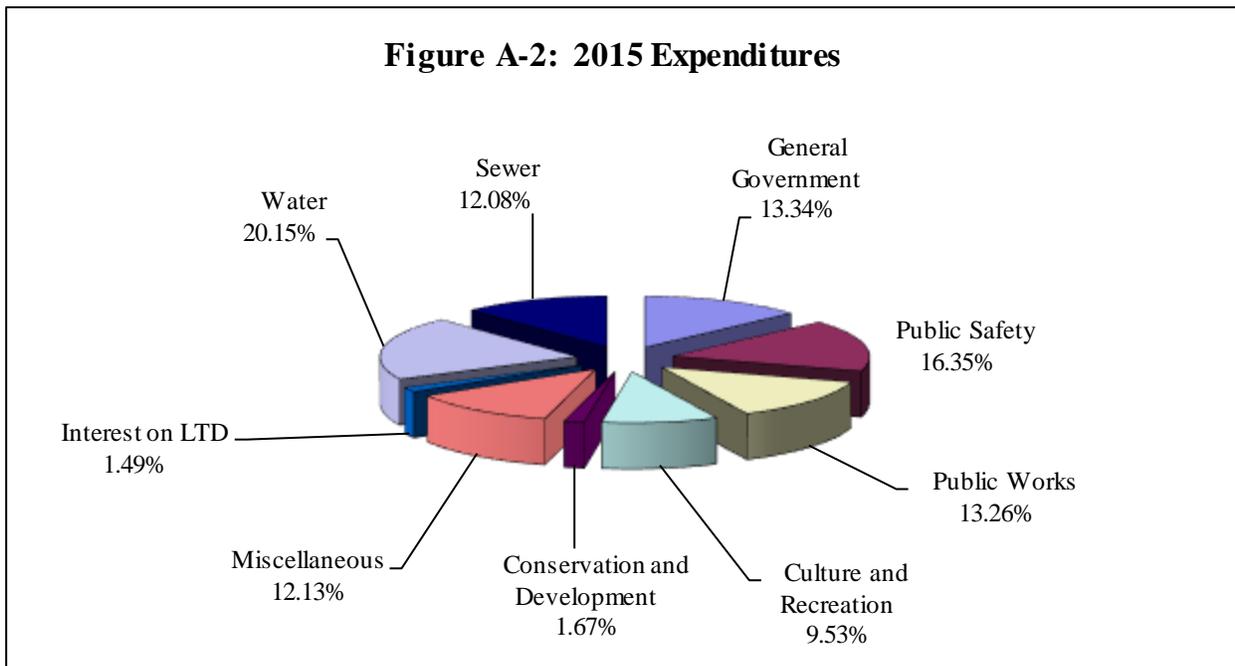
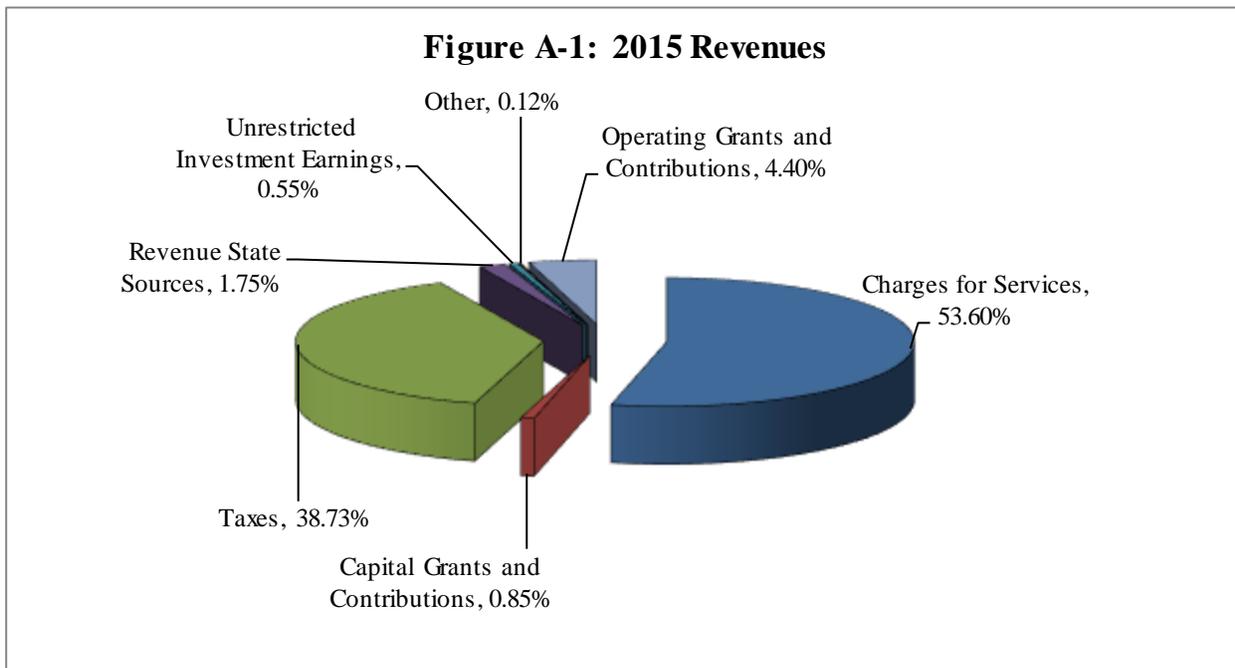
CITY OF WHITEWOOD

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City's revenues (excluding transfers) totaled \$1,399,006 for the year ended December 31, 2015. (See Figure A-1). The total cost of all programs and services decreased for the year ended December 31, 2015. The City's expenses cover a range of services, including public works, public safety, culture and recreation, and general government. (See Figure A-2).



CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Change in Net Position (Concluded)

Table A-2						
	Total Governmental Activities		Total Business-type Activities		Grand Total	
	2014	2015	2014	2015	2014	2015
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 186,035	\$ 260,897	\$ 430,526	\$ 489,011	\$ 616,561	\$ 749,908
Operating Grants and Contributions	61,320	61,320	-	-	61,320	61,320
Capital Grants and Contributions	22,350	11,911	-	-	22,350	11,911
<i>General Revenues</i>						
Taxes	495,824	541,903	-	-	495,824	541,903
Revenue State Sources	25,756	24,550	-	-	25,756	24,550
Unrestricted Investment Earnings	3,783	5,071	2,110	2,643	5,893	7,714
Other	1,257	1,700	-	-	1,257	1,700
Total Revenues	\$ 796,325	\$ 907,352	\$ 432,636	\$ 491,654	\$ 1,228,961	\$ 1,399,006
Expenses						
General Government	\$ 173,513	\$ 169,972	\$ -	\$ -	\$ 173,513	\$ 169,972
Public Safety	217,071	208,615	-	-	217,071	208,615
Public Works	198,113	169,193	-	-	198,113	169,193
Culture and Recreation	146,374	121,562	-	-	146,374	121,562
Conservation and Development	21,004	21,333	-	-	21,004	21,333
Interest on Long-Term Debt	22,385	19,069	-	-	22,385	19,069
Miscellaneous	86,280	154,771	-	-	86,280	154,771
Water Services	-	-	307,949	257,161	307,949	257,161
Sewer Services	-	-	198,669	154,173	198,669	154,173
Total Expenses	\$ 864,740	\$ 864,515	\$ 506,618	\$ 411,334	\$ 1,371,358	\$ 1,275,849
Excess (Deficit) Revenues						
Before Transfers	\$ (68,415)	\$ 42,837	\$ (73,982)	\$ 80,320	\$ (142,397)	\$ 123,157
Transfers	2,110	2,643	(2,110)	(2,643)	-	-
Increase (Decrease) in Net Position	\$ (66,305)	\$ 45,480	\$ (76,092)	\$ 77,677	\$ (142,397)	\$ 123,157
Change in Accounting Principle	-	52,315	-	45,685	-	98,000
Ending Net Position	\$ 2,179,695	\$ 2,277,490	\$ 2,726,949	\$ 2,850,311	\$ 4,906,644	\$ 5,127,801

CITY OF WHITEWOOD

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

During 2015, revenues of the City’s governmental activities exceeded expenses by \$45,480. This is an increase over the prior year due to an increase in sales tax revenue and a decrease operating expenses.

Business-type Activities

During 2015, revenues of the City’s business-type activities were more than expenses by \$77,677. This increase was due primarily to an increase in revenue.

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

The financial analysis of the City’s funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains several governmental funds and two business-type funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. These amendments fall into two categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

CAPITAL ASSET ADMINISTRATION

The City had invested in a broad range of capital assets at December 31, 2015, including land, buildings, and various machinery and equipment. (See Table A-3)

Table A-3 Capital Assets (Net of Depreciation)				
	Governmental Activities		Business-type Activities	
	2014	2015	2014	2015
Land	\$ 20,200	\$ 20,200	\$ 23,253	\$ 23,253
Buildings	156,305	150,552	561,733	543,700
Improvements	1,251,358	1,219,958	2,923,078	2,844,898
Machinery and Equipment	183,801	161,528	22,273	19,424
Totals	\$ 1,611,664	\$ 1,552,238	\$ 3,530,337	\$ 3,431,275

CITY OF WHITEWOOD

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2015**

LONG-TERM DEBT

At December 31, 2015, the City had \$1,680,481 in long-term debt.

	Governmental Activities		Business-type Activities	
	2014	2015	2014	2015
Sales Tax Revenue Bonds	\$ 141,794	\$ 133,106	\$ -	\$ -
Special Assessment Bonds	347,719	329,163	-	-
Compensated Absences	10,115	6,082	1,934	2,753
Water Revenue Bonds	-	-	843,412	831,435
Sewer Revenue Bonds	-	-	263,873	259,031
State Revolving Fund Loans	-	-	82,676	71,788
NRWA Loan	-	-	56,587	47,123
Total	\$ 499,628	\$ 468,351	\$ 1,248,482	\$ 1,212,130

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the year ended December 31, 2015, the City experienced an increase in total property valuation of \$789,311. The increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes by approximately \$8,786 for the year ended December 31, 2015. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City experienced an increase in taxable sales of 14 percent during 2015 and has budgeted for an increase in sales tax revenue for 2016.

The City's adopted General Fund budget for 2016 will be \$814,232.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Whitewood Finance Office, 1025 Meade Street, Whitewood, SD 57793.

CITY OF WHITEWOOD

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash and Investments (Note 2)	\$ 857,999	\$ 526,912	\$ 1,384,911
Receivables (Note 11)	245,994	53,657	299,651
Restricted Cash and Investments (Notes 2 and 5)	49,473	50,950	100,423
Deposit (Note 10)	12,250	-	12,250
Net Pension Asset (Note 8)	42,801	37,376	80,177
Capital Assets (Note 7):			
Land	20,200	23,253	43,453
Other Capital Assets, Net of Depreciation	1,532,038	3,408,022	4,940,060
TOTAL ASSETS	2,760,755	4,100,170	6,860,925
Deferred Outflows of Resources			
Pension Related Deferred Outflows of Resources (Note 8)	78,603	68,641	147,244
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,839,358	\$ 4,168,811	\$ 7,008,169
Liabilities:			
Accounts Payable	\$ 16,347	\$ 14,246	\$ 30,593
Other Current Liabilities	14,016	36,975	50,991
Noncurrent Liabilities (Note 5):			
Due Within One Year	34,350	41,147	75,497
Due in More Than One Year	434,001	1,170,983	1,604,984
TOTAL LIABILITIES	498,714	1,263,351	1,762,065
Deferred Inflows of Resources			
Pension Related Deferred Inflows of Resources (Note 8)	63,154	55,149	118,303
Net Position:			
Net Investment in Capital Assets	1,089,969	2,221,898	3,311,867
Restricted for:			
Debt Service	57,450	50,950	108,400
Deposit - SDPAA (Note 10)	12,250	-	12,250
Library	52,235	-	52,235
Facilities and Promoting the City	236,329	-	236,329
Pension-SDRS (Note 8)	58,250	50,868	109,118
Unrestricted	771,007	526,595	1,297,602
TOTAL NET POSITION	2,277,490	2,850,311	5,127,801
TOTAL LIABILITIES AND NET POSITION	\$ 2,839,358	\$ 4,168,811	\$ 7,008,169

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Expenses	--- Program Revenues ---			Net (Expense) Revenue and		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	----- Changes in Net Position -----		
					Governmental Activities	Business-Type Activities	
Primary Government							
Governmental Activities:							
General Government	\$ 169,972	\$ 8,414	\$ -	\$ -	\$ (161,558)	\$ -	\$ (161,558)
Public Safety	208,615	2,061	-	-	(206,554)	-	(206,554)
Public Works	169,193	65,036	-	9,911	(94,246)	-	(94,246)
Culture and Recreation	121,562	5,863	61,320	2,000	(52,379)	-	(52,379)
Conservation and Development	21,333	-	-	-	(21,333)	-	(21,333)
Miscellaneous	154,771	179,523	-	-	24,752	-	24,752
Interest on Long Term Debt	19,069	-	-	-	(19,069)	-	(19,069)
Total Governmental Activities	864,515	260,897	61,320	11,911	(530,387)	-	(530,387)
Business-Type Activities:							
Water	257,161	259,346	-	-	-	2,185	2,185
Sewer	154,173	229,665	-	-	-	75,492	75,492
Total Business-Type Activities	411,334	489,011	-	-	-	77,677	77,677
Total Primary Government	\$ 1,275,849	\$ 749,908	\$ 61,320	\$ 11,911	(530,387)	77,677	(452,710)
General Revenues:							
Taxes:							
Property Taxes					228,068	-	228,068
Sales Taxes					313,835	-	313,835
State Shared Revenue					24,550	-	24,550
Unrestricted Investment Earnings					5,071	2,643	7,714
Miscellaneous Revenue					1,700	-	1,700
Transfers (Note 6)					2,643	(2,643)	-
Total General Revenue					575,867	-	575,867
Change in Net Position					45,480	77,677	123,157
Net Position, Beginning					2,179,695	2,726,949	4,906,644
Change in Accounting Principle (Note 12)					52,315	45,685	98,000
Net Position, Beginning, as Restated					2,232,010	2,772,634	5,004,644
Net Position, Ending					\$ 2,277,490	\$ 2,850,311	\$ 5,127,801

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	<u>General</u> <u>Fund</u>	<u>Library</u> <u>Fund</u>	<u>Additional</u> <u>Sales Tax</u> <u>Fund</u>	<u>Economic</u> <u>Development</u> <u>Fund</u>
Assets				
101 Cash and Investments (Note 2)	\$ 560,143	\$ 53,330	\$ 63,294	\$ 173,254
107 Restricted Cash and Investments (Notes 2 and 5)	14,718	-	-	-
108 Property Taxes Receivable	1,405	-	-	-
115 Accounts Receivable	19,436	-	-	-
121 Special Assessments Receivable - Current	-	-	-	-
123 Special Assessments Receivable - Deferred	-	-	-	-
128 Loan Receivable - West River Foundation (Note 11)	-	-	-	40,000
132 Due From State Government - Sales Taxes	16,364	-	212	-
154 Deposit - SDPAA (Note 10)	12,250	-	-	-
Total Assets	\$ 624,316	\$ 53,330	\$ 63,506	\$ 213,254
Liabilities, Deferred Inflows of Resources and Fund Balances				
<i>Liabilities</i>				
202 Accounts Payable	\$ 15,866	\$ 50	\$ 431	\$ -
216 Accrued Wages Payable	10,721	1,045	-	-
220 Customer Deposits	2,250	-	-	-
Total Liabilities	28,837	1,095	431	-
<i>Deferred Inflows of Resources (Note 3)</i>				
245 Unavailable Revenue - Property Taxes	1,405	-	-	-
246 Unavailable Revenue - Special Assesments	-	-	-	-
Total Deferred Inflows of Resources	1,405	-	-	-
<i>Fund Balances:</i>				
<i>Nonspendable Fund Balances</i>				
263.02 SDPAA Deposit (Note 10)	12,250	-	-	-
263.05 West River Foundation (Note 11)	-	-	-	40,000
<i>Restricted Fund Balances</i>				
264.01 Debt Service	14,718	-	-	-
264.04 Facilities and Promoting the City	-	-	63,075	173,254
264.05 Library	-	52,235	-	-
<i>Committed Fund Balances</i>				
265.02 Capital Replacements	25,000	-	-	-
265.04 Street/Sidewalk Improvements	86,676	-	-	-
267.00 <i>Unassigned Fund Balances</i>	455,430	-	-	-
Total Fund Balances	594,074	52,235	63,075	213,254
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 624,316	\$ 53,330	\$ 63,506	\$ 213,254

The accompanying notes are an integral part of the financial statements.

Special Assessment Debt Service Fund	Total Governmental Funds
\$ 7,978	\$ 857,999
34,755	49,473
-	1,405
-	19,436
11,239	11,239
157,338	157,338
-	40,000
-	16,576
-	12,250
\$ 211,310	\$ 1,165,716

\$ -	\$ 16,347
-	11,766
-	2,250
-	30,363

-	1,405
168,578	168,578
168,578	169,983

-	12,250
-	40,000
42,732	57,450
-	236,329
-	52,235
-	25,000
-	86,676
-	455,430
42,732	965,370
\$ 211,310	\$ 1,165,716

CITY OF WHITEWOOD

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2015**

Total Fund Balances - Governmental Funds \$ 965,370

Amounts reported for governmental activities in the Statement
of Net Position are different because:

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds. 1,552,238

Long-term liabilities, including bonds payable and compensated absences, are not
due and payable in the current period and therefore are not reported in the funds. (468,351)

Assets, such as delinquent taxes receivable, special assessments receivable and due
from governments, are not available to pay for current period expenditures and
therefore are deferred in the funds. 169,983

Net pension asset reported in governmental activities is not an available
financial resource and therefore is not reported in the funds. 42,801

Pension related deferred outflows are components of pension asset and
therefore are not reported in the funds. 78,603

Pension related deferred inflows are components of pension asset and therefore
are not reported in the funds. (63,154)

Total Net Position - Governmental Funds \$ 2,277,490

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>
Revenue				
<i>Taxes:</i>				
311 General Property Taxes	\$ 227,191	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	291,759	-	22,076	-
319 Penalties and Interest on Delinquent Taxes	481	-	-	-
320 Licenses and Permits	8,414	-	-	-
<i>Intergovernmental Revenue:</i>				
330 Intergovernmental Revenue	-	61,320	-	-
331 Federal Grants	-	-	-	-
334 State Grants	1,819	-	-	-
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	792	-	-	-
335.03 Liquor Tax Reversion	5,764	-	-	-
335.04 Motor Vehicle Licenses (5%)	10,038	-	-	-
335.08 Local Government Highway and Bridge Fund	12,566	-	-	-
335.20 Other	17,994	-	-	-
<i>Charges for Goods and Services:</i>				
344 Sanitation	40,701	-	-	-
345 Health	130	-	-	-
346 Culture and Recreation	5,708	25	-	-
349 Other	1,731	-	-	-
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	1,921	-	-	-
359 Other	140	-	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	2,989	456	327	944
363 Special Assessments	-	-	-	-
367 Contributions and Donations	2,000	-	-	-
368 Liquor Operating Agreement Income	179,523	-	-	-
369 Miscellaneous Revenue	1,700	-	-	-
Total Revenue	813,361	61,801	22,403	944

Capital Projects Fund	Special Assessment Debt Service Fund	Total Governmental Funds
\$ -	\$ -	\$ 227,191
-	-	313,835
-	-	481
-	-	8,414
-	-	61,320
-	-	-
-	-	1,819
-	-	792
-	-	5,764
-	-	10,038
-	-	12,566
-	-	17,994
-	-	40,701
-	-	130
-	-	5,733
-	-	1,731
-	-	1,921
-	-	140
-	355	5,071
-	33,378	33,378
-	-	2,000
-	-	179,523
-	-	1,700
<hr/>	<hr/>	<hr/>
-	33,733	932,242

CITY OF WHITEWOOD

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>
Expenditures				
<i>General Government:</i>				
411 Legislative	65,909	-	-	-
412 Executive	5,167	-	-	-
413 Elections	646	-	-	-
414 Financial Administration	64,871	-	-	-
419 Other	34,958	-	-	-
<i>Public Safety:</i>				
421 Police	194,194	-	-	-
423 Protective Inspection	7,889	-	-	-
<i>Public Works:</i>				
431 Highway and Streets	83,651	-	-	-
432 Sanitation	37,601	-	-	-
<i>Culture and Recreation:</i>				
452 Parks	60,664	-	-	-
455 Library	-	57,536	-	-
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	300	-	19,460	-
470 Debt Service	14,718	-	-	-
485 Capital Outlay	6,250	-	-	-
<i>Miscellaneous:</i>				
499 Liquor Operating Agreements	154,771	-	-	-
Total Expenditures	731,589	57,536	19,460	-
Other Financing Sources (Uses)				
391.01 Transfers In (Note 6)	4,269	-	-	-
391.04 Compensation for Loss or Damage	2,435	-	-	-
511 Transfers Out (Note 6)	(4,556)	-	(327)	(944)
Total Other Financing Sources (Uses)	2,148	-	(327)	(944)
Net Change in Fund Balances	83,920	4,265	2,616	-
Fund Balances - December 31, 2014	510,154	47,970	60,459	213,254
Fund Balances - December 31, 2015	\$ 594,074	\$ 52,235	\$ 63,075	\$ 213,254

The accompanying notes are an integral part of the financial statements.

Capital Projects Fund	Special Assessment Debt Service Fund	Total Governmental Funds
-	-	65,909
-	-	5,167
-	-	646
-	-	64,871
-	-	34,958
-	-	194,194
-	-	7,889
4,556	-	88,207
-	-	37,601
-	-	60,664
-	-	57,536
-	-	19,760
-	31,595	46,313
-	-	6,250
-	-	154,771
<u>4,556</u>	<u>31,595</u>	<u>844,736</u>
4,556	-	8,825
-	-	2,435
-	(355)	(6,182)
<u>4,556</u>	<u>(355)</u>	<u>5,078</u>
-	1,783	92,584
-	40,949	872,786
<u>\$ -</u>	<u>\$ 42,732</u>	<u>\$ 965,370</u>

CITY OF WHITEWOOD

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2015

Net change in fund balances - total governmental funds \$ 92,584

Amounts reported for governmental activities in the Statement of Activities are different because:

This amount represents capital asset purchases which are reported as expenditures on the fund financial statements, but increase assets on the Statement of Net Position. 6,250

This amount represents the current year depreciation expense reported in the Statement of Activities, which is not reported on the fund financial statements because it does not require the use of current financial resources. (65,676)

The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in that the fund financial statements require the amounts to be "available." 396

Governmental funds report special assessments as revenue when available, but the Statement of Activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises. (25,286)

Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds. 10,606

Pension expense reported in the Statement of Activities does not require the use of current financial resources and are not reported as expenditures in the governmental funds. (4,671)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 27,244

Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures. 4,033

Change in Net Position of Governmental Activities \$ 45,480

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Assets			
Current Assets			
101 Cash and Investments (Note 2)	\$ 273,152	\$ 253,760	\$ 526,912
107 Restricted Cash and Investments (Notes 2 and 5)	38,266	12,684	50,950
115 Accounts Receivable	20,935	19,308	40,243
117 Unbilled Accounts Receivable	6,978	6,436	13,414
Total Current Assets	339,331	292,188	631,519
Noncurrent Assets			
189 Net Pension Asset (Note 8)	18,170	19,206	37,376
Capital Assets (Note 7):			
160 Land	-	23,253	23,253
162 Buildings	664,728	845,641	1,510,369
163 Accumulated Depreciation - Buildings	(168,406)	(798,263)	(966,669)
164 Improvements Other Than Buildings	2,568,027	1,488,916	4,056,943
165 Accumulated Depreciation - Improvements Other than Buildings	(737,175)	(474,870)	(1,212,045)
166 Machinery and Equipment	95,045	66,035	161,080
167 Accumulated Depreciation - Machinery and Equipment	(83,284)	(58,372)	(141,656)
Total Noncurrent Assets	2,357,105	1,111,546	3,468,651
Total Assets	2,696,436	1,403,734	4,100,170
Deferred Outflows of Resources:			
196 Pension Related Deferred Outflows (Note 8)	33,370	35,271	68,641
Total Assets and Deferred Outflows of Resources	\$ 2,729,806	\$ 1,439,005	\$ 4,168,811

The accompanying notes are an integral part of the financial statements.

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Liabilities and Net Position			
Current Liabilities			
202 Accounts Payable	\$ 12,003	\$ 2,243	\$ 14,246
205 Current Portion of Long-Term Debt (Note 5)	21,957	16,437	38,394
215 Accrued Interest Payable	2,252	-	2,252
216 Accrued Wages Payable	2,187	1,659	3,846
220 Customer Deposits	17,449	13,428	30,877
233 Accrued Leave Payable (Note 5)	1,510	1,243	2,753
Total Current Liabilities	57,358	35,010	92,368
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion (Note 5)	856,601	314,382	1,170,983
Total Liabilities	913,959	349,392	1,263,351
Deferred Inflows of Resources:			
248 Pension Related Deferred Inflows (Note 8)	26,811	28,338	55,149
Net Position			
253.1 Net Investment in Capital Assets	1,460,377	761,521	2,221,898
253.2 Restricted for Debt Service	38,266	12,684	50,950
264 Restricted for Pension (Note 8)	24,729	26,139	50,868
252.0 Unrestricted Net Position	265,664	260,931	526,595
Total Net Position	1,789,036	1,061,275	2,850,311
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 2,729,806	\$ 1,439,005	\$ 4,168,811

CITY OF WHITEWOOD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Operating Revenue			
380 Charges for Goods and Services (Note 5)	\$ 259,346	\$ 229,665	\$ 489,011
Total Operating Revenue	259,346	229,665	489,011
Operating Expenses			
410 Personal Services	82,326	65,836	148,162
420 Other Current Expense	67,710	32,586	100,296
457 Depreciation	69,222	43,843	113,065
Total Operating Expenses	219,258	142,265	361,523
Operating Income	40,088	87,400	127,488
Non-Operating Income (Expense)			
361 Earnings on Deposits and Investments	1,572	1,071	2,643
470 Interest Expense and Fiscal Charges	(37,903)	(11,908)	(49,811)
Total Non-Operating Expense	(36,331)	(10,837)	(47,168)
Income before Transfers	3,757	76,563	80,320
Transfers			
511 Transfers Out (Note 6)	(1,572)	(1,071)	(2,643)
Total Transfers	(1,572)	(1,071)	(2,643)
Change in Net Position	2,185	75,492	77,677
Net Position - December 31, 2014	1,764,641	962,308	2,726,949
Change in Accounting Principle (Note 12)	22,210	23,475	45,685
Net Position - December 31, 2014, as Restated	1,786,851	985,783	2,772,634
Net Position - December 31, 2015	\$ 1,789,036	\$ 1,061,275	\$ 2,850,311

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 256,541	\$ 226,898	\$ 483,439
Payments to Suppliers	(67,330)	(32,918)	(100,248)
Payments to Employees	(83,961)	(67,831)	(151,792)
Net Cash Flows Provided by Operating Activities	105,250	126,149	231,399
Cash Flows Used in Noncapital Financing Activities:			
Transfers Out	(1,572)	(1,071)	(2,643)
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	(6,420)	-	(6,420)
Principal Paid on Capital Debt	(21,441)	(15,730)	(37,171)
Interest Paid	(37,903)	(11,908)	(49,811)
Net Cash Flows Used in Capital and Related Financing Activities	(65,764)	(27,638)	(93,402)
Cash Flows Provided by Investing Activities:			
Earnings on Deposit and Investments	1,572	1,071	2,643
Increase in Cash and Cash Equivalents	39,486	98,511	137,997
Cash and Cash Equivalents - December 31, 2014	271,932	167,933	439,865
Cash and Cash Equivalents - December 31, 2015	\$ 311,418	\$ 266,444	\$ 577,862
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities			
Operating Income	\$ 40,088	\$ 87,400	\$ 127,488
<i>Adjustments to Reconcile Operating Income to Net Cash Flows Provided by Operating Activities:</i>			
Depreciation Expense	69,222	43,843	113,065
Change in Assets and Liabilities:			
Accounts Receivable and Unbilled Accounts Receivable	(3,538)	(3,809)	(7,347)
Pension Asset	15,863	16,765	32,628
Pension Related Deferred Outflows	(5,778)	(6,106)	(11,884)
Accounts Payable	380	(332)	48
Accrued Wages Payable	425	309	734
Customer Deposits	733	1,042	1,775
Accrued Leave Payable	459	360	819
Pension Related Deferred Inflows	(12,604)	(13,323)	(25,927)
Net Cash Flows Provided by Operating Activities	\$ 105,250	\$ 126,149	\$ 231,399
Noncash Operating and Capital and Related Financing Activities			
Purchase of Equipment with Accounts Payable	\$ 7,583	\$ -	\$ 7,583

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

(1) Summary of Significant Accounting Policies

Reporting Entity

The reporting entity of the City of Whitewood (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.

The City participates in a cooperative unit with Northern Hills Multi-Jurisdictional Drug Task Force. See Note 9 entitled Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. 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 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, deferred inflows and outflows, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, deferred inflows and outflows, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued):

The funds of the City financial reporting entity are described below:

Governmental Funds:

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

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Library Fund – to account for the fines and similar charges deposited into the library board bank account (SDCL 14-2-42). This fund is a major fund.

Additional Sales Tax Fund – to account for an additional one percent gross receipts tax which may be used only for acquisition of land, capital improvement, and promotion of the City. This fund is a major fund.

Economic Development Fund – to account for the CDBG monies received in 1991. The money is used to create revolving loans for economic development purposes. This fund is a major fund.

Capital Projects Funds – capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or governments).

Capital Projects Fund – to account for financial resources to be used for the safe routes to school project. This fund is 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.

Special Assessment Debt Service Fund – to account for assessment payments from property owners which are used only for the payment of the Special Assessment debt principal, interest, and related cost. 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 (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.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

Proprietary Funds (Continued):

Water Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City 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 City sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Whitewood, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2015, are property, sales tax and special assessments.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015

(1) Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting (Continued)

Fund Financial Statements (Continued):

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

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. There are no significant inter-fund utility charges.

Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

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

Government-wide Financial Statements:

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

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

Construction-period interest for capital assets used in governmental activities is not capitalized in accordance with USGAAP; however, construction-period interest for capital assets used in business-type activities/proprietary fund's operations, is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Government-wide Financial Statements: (Continued)

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ -0-	----N/A----	----N/A----
Improvements Other Than Buildings	\$ 10,000	Straight-line	15-75 years
Buildings	\$ -0-	Straight-line	50 years
Machinery and Equipment	\$ 2,500	Straight-line	5-20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of sales tax, water, and sewer revenue bonds; state revolving loan funds; special assessment debt; and compensated absences.

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

Program Revenues

Program revenues are derived 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 – 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 – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015

(1) Summary of Significant Accounting Policies (Continued)

Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses and Changes in 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, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of the cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool, including restricted investments, is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

Equity Classifications

Government-wide Financial Statements:

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

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

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

Governmental Funds:

The City classifies governmental fund balances as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by action of the Mayor and the City Council.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015

(1) Summary of Significant Accounting Policies (Concluded)

Equity Classifications (Continued)

The City classifies governmental fund balances as follows (Continued):

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories.

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

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

Proprietary Funds:

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

Inventory

The City maintains no significant amounts of inventory at December 31, 2015.

Emerging Accounting Standard

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining fair value measurement according to a three level hierarchy for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value investments. Management has not yet determined the impact of this statement on the financial statements. This statement is effective for the City's year ending December 31, 2016.

(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 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 duly authorized to do business in South Dakota.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(2) 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, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2015, the City’s cash consisted only of checking and savings. The bank balances at December 31, 2015 are as follows, described below:

	<u>Bank Balance</u>
Insured - FDIC	\$ 264,113
Uninsured, collateralized in accordance with SDCL 4-6A-3	466,007
Total Deposits	\$ 730,120

Investments of the City consist of the following:

	<u>Credit Rating</u>	<u>Maturity</u>	<u>Fair Value at 12/31/2015</u>
Certificates of Deposit	Unrated	1-5 years	766,760
Total Investments			\$ 766,760

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.

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, 2015, none of the City’s deposits were exposed to custodial credit risk.

Concentration of Credit Risk:

The City places no limit on the amount that may be invested in any one issuer. More than five percent of the City’s certificates of deposit are in: Goldman Sachs New York, NY CD (13 percent), Discover Bank CD Greenwood, DE (9 percent), Ally Bank CD Midvale, UT (8 percent), GE Capital Retail Bank (26 percent), American Express CD Salt Lake City, UT (13 percent), BMW Bank NA CD, Salt Lake City, UT (13 percent) and Ally Bank CD Midvale, UT (13 percent).

Interest Rate Risk:

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

Assignment of Investment Income:

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City’s policy per ordinance is to credit all income from investments to the fund making the investment and then transferring the cash to the general fund for spending purposes, except for the Library Fund.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(3) Deferred Inflows and Outflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that apply to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period. Deferred outflows of resources consist of pension activity.

In addition to liabilities, the Statement of Net Position and Governmental Funds Balance Sheet report a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as inflow of resources until the applicable future period. Deferred inflows of resources consist of property taxes on the Governmental Funds Balance Sheet and pension activity on the Statement of Net Position.

(4) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. 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.

(5) Long-Term Debt

	Balance 12/31/2014	Earned/ Borrowings	Used/ Repayments	Balance 12/31/2015	Due Within One Year
Primary Government:					
Governmental Activities:					
Sales Tax Revenue Bonds	\$ 141,794	\$ -	\$ 8,688	\$ 133,106	\$ 9,047
Special Assessment Bonds	347,719	-	18,556	329,163	19,221
Compensated Absences	10,115	6,175	10,208	6,082	6,082
Total Governmental Activities	499,628	6,175	37,452	468,351	34,350
Business-type Activities:					
Water Revenue Bonds	843,412	-	11,977	831,435	12,257
Sewer Revenue Bonds	263,873	-	4,842	259,031	4,967
State Revolving Fund Loans	82,676	-	10,888	71,788	11,470
NRWA Loan	56,587	-	9,464	47,123	9,700
Compensated Absences	1,934	3,019	2,200	2,753	2,753
Total Business-Type Activities	1,248,482	3,019	39,371	1,212,130	41,147
Total Primary Government	\$ 1,748,110	\$ 9,194	\$ 76,823	\$ 1,680,481	\$ 75,497

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(5) Long-Term Debt (Continued)

Long-term debt at December 31, is comprised of the following:

Revenue Bonds

Rural Development Water Revenue Bonds, Series 2007; bears interest at 4.375 percent; due in monthly installments of \$4,028 through January 2048. Financed through the Water Fund. \$ 831,435

Rural Development Sewer Revenue Bonds, Series 2010; bears interest at 3.00 percent; due in monthly installments of \$1,057 through December 2047. Financed through the Sewer Fund. 259,031

Sales Tax Revenue Bond, Series 2004; bears interest at 4.375 percent; due in monthly installments of \$1,227 through June 2026. Financed through the General Fund. 133,106

Special Assessments:

Special Assessment Bond, Series 2010; bears interest at 3.75 percent; due in annual installments of \$31,595 through December 2030. Financed through the Debt Service Fund. 329,163

State Revolving Fund Revenue Bonds:

State Revolving Fund Revenue Bonds, 2001; bears interest at 5 percent; due in quarterly installments of \$3,739 through July 2021. Financed through the Sewer Fund. 71,788

Loan:

National Rural Water Association Loan, 2010; bears interest at 3.00 percent; due in monthly installments of \$917 through August 2020. Financed through the Water Fund. 47,123

1,671,646

Compensated Absences

Governmental Funds 6,082

Water Fund 1,510

Sewer Fund 1,243

Total Compensated Absences 8,835

Total Long-Term Debt \$ 1,680,481

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(5) Long-Term Debt (Continued)

The annual requirements to amortize long-term debt outstanding as of December 31, 2015, except for compensated absences, are as follows:

	Revenue Bonds		Special Assessments	
	Interest	Principal	Interest	Principal
2016	\$ 49,538	\$ 26,271	\$ 12,374	\$ 19,221
2017	48,402	27,336	11,620	19,975
2018	47,254	28,484	10,871	20,724
2019	46,674	29,680	10,093	21,502
2020	44,350	30,896	9,313	22,282
2021-2025	203,428	175,262	33,262	124,713
2026-2030	167,143	160,732	25,634	100,746
2031-2035	135,330	169,770	-	-
2036-2040	97,327	207,773	-	-
2041-2045	50,584	254,516	-	-
2046-2048	4,291	112,852	-	-
Total	\$ 894,321	\$ 1,223,572	\$ 113,167	\$ 329,163

	State Revolving		NRWA Loan		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2016	\$ 3,504	\$ 11,470	\$ 1,308	\$ 9,700	\$ 66,724	\$ 66,662
2017	2,921	12,034	1,009	9,999	63,952	69,344
2018	2,308	12,647	705	10,303	61,138	72,158
2019	1,663	13,292	391	10,617	58,821	75,091
2020	986	13,969	82	6,504	54,731	73,651
2021-2025	274	8,376	-	-	236,964	308,351
2026-2030	-	-	-	-	192,777	261,478
2031-2035	-	-	-	-	135,330	169,770
2036-2040	-	-	-	-	97,327	207,773
2041-2045	-	-	-	-	50,584	254,516
2046-2048	-	-	-	-	4,291	112,852
Total	\$ 11,656	\$ 71,788	\$ 3,495	\$ 47,123	\$ 1,022,639	\$ 1,671,646

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(5) Long-Term Debt (Concluded)

Business-type Activities

The City has pledged future revenues of the Water Fund and Sewer Fund for the retirement of debt issuances associated with those funds through the maturity dates listed above. All debt secured by pledged revenues funded capital projects and improvements. 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 by fund of principal and interest payments and total pledged revenue for the current year.

Funds	Water Fund	Sewer Fund
Current Year Principal and Interest	\$ 59,344	\$ 27,638
Pledged Revenue	259,346	229,665

Restricted Cash and Investments:

Debt covenants require \$97,263 of reserves. The City has restricted \$100,423 of cash and investments for debt service as of December 31, 2015.

(6) Interfund Transfers

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

Funds	Transfers In	Transfers Out
General Fund	\$ 4,269	\$ 4,556
Special Assessment Debt Service Fund	-	355
Capital Projects Fund	4,556	-
Additional Sales Tax Fund	-	327
Water Fund	-	1,572
Sewer Fund	-	1,071
Economic Development Fund	-	944
Total Transfers	\$ 8,825	\$ 8,825

Transfers are used to move interest earnings from the fund that earned the revenue to the general fund for reporting in the governmental funds statement of revenue, expenditures and changes in fund balances and government-wide statement of activities in accordance with the policy adopted by the City. The general fund transferred funds to the capital projects fund for expenditures related to the safe routes to school program.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(7) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31 is as follows:

<i>Governmental Activities:</i>	Balance <u>12/31/2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2015</u>
Capital Assets, not being Depreciated:				
Land	\$ 20,200	\$ -	\$ -	\$ 20,200
Total Capital Assets, not being Depreciated	20,200	-	-	20,200
Capital Assets, being Depreciated:				
Buildings	245,458	-	-	245,458
Improvements Other Than Buildings	1,508,740	-	-	1,508,740
Machinery and Equipment	544,454	6,250	-	550,704
Total Capital Assets, being Depreciated	2,298,652	6,250	-	2,304,902
Less Accumulated Depreciation for:				
Buildings	89,153	5,753	-	94,906
Improvements Other Than Buildings	257,382	31,400	-	288,782
Machinery and Equipment	360,653	28,523	-	389,176
Total Accumulated Depreciation	707,188	65,676	-	772,864
Total Governmental Activities Capital Assets, being Depreciated, Net	1,591,464	(59,426)	-	1,532,038
Total Governmental Capital Assets, Net	\$ 1,611,664	\$ (59,426)	\$ -	\$ 1,552,238

Depreciation expense was charged to functions as follows:

Public Works	\$ 47,937
General Government	1,607
Culture and Recreation	4,405
Public Safety	10,154
Conservation and Development	1,573
Total Depreciation Expense - Governmental	\$ 65,676

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(7) Changes in Capital Assets (Continued)

	Balance <u>12/31/2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2015</u>
Business-type Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 23,253	\$ -	\$ -	\$ 23,253
Total Capital Assets, not being Depreciated	23,253	-	-	23,253
Capital Assets, being Depreciated:				
Buildings	1,510,369	-	-	1,510,369
Improvements Other Than Buildings	4,050,523	6,420	-	4,056,943
Machinery and Equipment	153,497	7,583	-	161,080
Total Capital Assets, being Depreciated	5,714,389	14,003	-	5,728,392
Less Accumulated Depreciation for:				
Buildings	948,636	18,033	-	966,669
Improvements Other Than Buildings	1,127,445	84,600	-	1,212,045
Machinery and Equipment	131,224	10,432	-	141,656
Total Accumulated Depreciation	2,207,305	113,065	-	2,320,370
Total Business-type Activities Capital Assets, being Depreciated, Net				
	3,507,084	(99,062)	-	3,408,022
Total Business-type Capital Assets, Net	\$ 3,530,337	\$ (99,062)	\$ -	\$ 3,431,275

Depreciation expense was charged to functions as follows:

Water	\$ 69,222
Sewer	43,843
Total Depreciation Expense - Business-type	\$ 113,065

(8) Pension Plan

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

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(8) Pension Plan (Continued)

Benefits Provided:

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014, and 2013 were **\$19,869**, \$21,985, and \$21,326, respectively, equal to the required contributions each year.

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

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

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 1,087,516	\$ 949,680	\$ 2,037,196
Less: Proportionate Share of Total Pension Liability	(1,044,715)	(912,304)	(1,957,019)
Proportionate Share of Net Pension Asset	\$ 42,801	\$ 37,376	\$ 80,177

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(8) Pension Plan (Continued)

At December 31, 2015, the City reported an asset of \$80,177 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the City's proportion was 0.01890400 percent, which is a decrease of .002 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$8,751. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 16,417	\$ -
Changes in Assumption	63,576	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	48,979	118,303
Changes in Proportion and Difference between City Contributions and Proportionate Share of Contributions	8,390	-
City Contributions Subsequent to the Measurement Date	9,882	-
Total	\$ 147,244	\$ 118,303

Deferred outflow of resources includes \$9,882 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

2016	\$ 12,190
2017	3,799
2018	(10,221)
2019	13,291
	\$ 19,059

Actuarial Assumptions:

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

Inflation	3.25 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 2016 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, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(8) Pension Plan (Concluded)

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:

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

Discount Rate:

The discount rate used to measure the total pension asset was 7.25 percent through 2016 and 7.50 percent 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 asset.

Sensitivity of Asset to Changes in the Discount Rate:

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City’s Proportionate Share of the Net Pension Asset	\$ (201,805)	\$ 80,177	\$ 310,110

Pension Plan Fiduciary Net Position:

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

CITY OF WHITEWOOD

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(9) Joint Venture

The City participates in a joint venture, known as the Northern Hills Multi-Jurisdictional Drug Task Force, formed for the purpose of implementing and improving state and local drug law enforcement.

The members of the joint venture, each with 10 percent participation, are as follows:

Butte County	Newell City
Lawrence County	Deadwood City
Meade County	Belle Fourche City
Spearfish City	Lead City
Sturgis City	Whitewood City

The joint venture's governing board is composed of 10 representatives, who are the sheriffs from each county and the police chief for each city. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

The City retains no equity in the net position of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Lawrence County Sheriff's Office.

(10) Risk Management

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

Employee Health Insurance:

The City carries health insurance coverage from a commercial provider. The coverage includes a \$2,000,000 lifetime maximum payment per person. The City pays a monthly premium to provide health insurance coverage for its employees.

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

Liability Insurance:

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

CITY OF WHITEWOOD

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED) DECEMBER 31, 2015

(10) Risk Management (Continued)

The agreement with the SDPAA provides that the above coverage will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 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 100% of the amount allocated to the cumulative reserve fund. As of December 31, 2015, the City has a vested balance in the cumulative reserve fund of **\$12,250**.

The City carries a \$2,000 deductible for the police and fire coverage and \$100 to \$250 deductible for the vehicle coverage.

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

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 statutory limits in addition to a separate combined employer liability limit of \$2,000,000 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.

Unemployment Benefits:

The City pays for unemployment benefits as incurred.

(11) Loan Receivable – West River Foundation

The City loaned \$40,000 from their Economic Development Fund to the West River Foundation (the Foundation) during 2003, which is to be repaid to the City upon default of the agreement or at such time the Foundation chooses to repay the loan. The loan receivable is non-interest bearing and unsecured.

(12) Change in Accounting Principle

In 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset totaling \$150,169, deferred outflows of resources totaling \$121,752, and deferred inflows of resources totaling (\$173,921) at December 31, 2014. The result was an increase of net position of \$98,000 at December 31, 2014. See Note 8.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WHITEWOOD

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

Revenue	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
<i>Taxes:</i>				
311 General Property Taxes	\$ 231,482	\$ 231,482	\$ 227,191	\$ (4,291)
313 General Sales and Use Taxes	245,000	245,000	291,759	46,759
319 Penalties and Interest on Delinquent Taxes	1,500	1,500	481	(1,019)
320 Licenses and Permits	5,200	5,200	8,414	3,214
<i>Intergovernmental Revenue:</i>				
334 State Grants	7,000	7,000	1,819	(5,181)
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	700	700	792	92
335.03 Liquor Tax Reversion	6,000	6,000	5,764	(236)
335.04 Motor Vehicle Licenses (5%)	9,000	9,000	10,038	1,038
335.08 Local Government Highway and Bridge Fund	10,000	10,000	12,566	2,566
335.20 Other	27,000	27,000	17,994	(9,006)
<i>County Shared Revenue:</i>				
338.02 County HBR Tax	2,000	2,000	-	(2,000)
<i>Charges for Goods and Services:</i>				
344 Sanitation	44,000	44,000	40,701	(3,299)
345 Health	11,000	11,000	130	(10,870)
346 Culture and Recreation	4,150	4,150	5,708	1,558
349 Other	-	-	1,731	1,731
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	500	500	1,921	1,421
359 Other	-	-	140	140
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	7,000	7,000	2,989	(4,011)
367 Contributions and Donations	3,000	3,000	2,000	(1,000)
368 Liquor Operating Agreement Income	130,300	130,300	179,523	49,223
369 Miscellaneous Revenue	-	-	1,700	1,700
Total Revenue	744,832	744,832	813,361	68,529

CITY OF WHITEWOOD

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Expenditures				
<i>General Government:</i>				
411 Legislative	67,200	67,200	65,909	1,291
412 Executive	5,375	5,375	5,167	208
413 Elections	650	650	646	4
414 Financial Administration	66,190	66,190	64,871	1,319
419 Other	47,000	47,000	34,958	12,042
<i>Public Safety:</i>				
421 Police	208,100	208,100	194,194	13,906
423 Protective Inspection	9,475	9,475	7,889	1,586
<i>Public Works:</i>				
431 Highways and Streets	101,600	101,600	89,901	11,699
432 Sanitation	46,000	46,000	37,601	8,399
<i>Culture and Recreation:</i>				
452 Parks	78,000	78,000	60,664	17,336
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	550	550	300	250
470 Debt Service	14,730	14,730	14,718	12
499 Liquor Operating Agreements	113,500	113,500	154,771	(41,271)
Total Expenditures	758,370	758,370	731,589	26,781
Other Financing Sources:				
391.01 Transfers In	-	-	4,269	4,269
391.04 Compensation for Loss or Damage	-	-	2,435	2,435
511 Transfers Out	-	-	(4,556)	(4,556)
Total Other Financing Sources	-	-	2,148	2,148
Net Change in Fund Balance	(13,538)	(13,538)	83,920	97,458
Fund Balance - December 31, 2014	510,154	510,154	510,154	-
Fund Balance - December 31, 2015	\$ 496,616	\$ 496,616	\$ 594,074	\$ 97,458

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
LIBRARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Revenue				
<i>Intergovernmental Revenue:</i>				
330 Intergovernmental Revenue	\$ 61,320	\$ 61,320	\$ 61,320	\$ -
<i>Miscellaneous Revenue:</i>				
346 Culture and Recreation	-	-	25	25
361 Earnings on Deposits and Investments	-	-	456	456
369 Miscellaneous Revenue	1,000	1,000	-	(1,000)
Total Revenue	62,320	62,320	61,801	(519)
Expenditures				
<i>Culture and Recreation:</i>				
455 Library	62,320	62,320	57,536	4,784
Total Expenditures	62,320	62,320	57,536	4,784
Net Change in Fund Balance	-	-	4,265	4,265
Fund Balance - December 31, 2014	47,970	47,970	47,970	-
Fund Balance - December 31, 2015	\$ 47,970	\$ 47,970	\$ 52,235	\$ 4,265

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 ADDITIONAL SALES TAX FUND
 FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 15,000	\$ 15,000	\$ 22,076	\$ 7,076
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	-	-	327	327
Total Revenue	15,000	15,000	22,403	7,403
Expenditures				
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	17,000	17,000	19,460	(2,460)
Total Expenditures	17,000	17,000	19,460	(2,460)
Other Financing Sources (Uses)				
511 Transfers Out	-	-	(327)	327
Net Change in Fund Balance	(2,000)	(2,000)	2,616	5,270
Fund Balance - December 31, 2014	60,459	60,459	60,459	-
Fund Balance - December 31, 2015	\$ 58,459	\$ 58,459	\$ 63,075	\$ 5,270

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET
DECEMBER 31, 2015**

	<u>2015</u>
City's Proportion of the Net Pension Asset	0.01890400%
City's Proportionate Share of Net Pension Asset	\$ 80,177
City's Covered-Employee Payroll	\$ 313,661
City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered-Employee Payroll	25.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	104.10%

CITY OF WHITEWOOD

**SCHEDULE OF THE CITY CONTRIBUTIONS
DECEMBER 31, 2015**

	<u>2015</u>
Contractually Required Contribution	\$ 19,869
Contributions in Relation to the Contractually Required Contribution	19,869
Contribution Deficiency (Excess)	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 291,279
Contributions as a Percentage of Covered- Employee Payroll	6.8%

CITY OF WHITEWOOD

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2015

(1) Budgets and Budgetary Accounting

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five 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.
6. The City did not encumber any amounts at December 31, 2015.
7. Formal budgetary integration is employed as a management control device during the year for the General Fund, special revenue funds and debt service funds. The City did not adopt a budget for the Economic Development Fund for the year ended December 31, 2015.
8. Budgets for the General Fund and major special revenue funds are adopted on a basis consistent with the modified-cash basis of accounting, except for the following:

The financial statements prepared in conformity with USGAAP 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 RSI 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.

OTHER REPORTS



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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

City Council
City of Whitewood
Whitewood, 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 financial statements of the governmental activities, the business-type activities, and each major fund of the **City of Whitewood** (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 2, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings Part B Findings #2015-001 and #2015-002 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. We consider the deficiencies described in the accompanying Schedule of Findings Part B as Findings #2015-003 and #2015-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Scheduling of Findings, as #2015-004.

City's Response to Findings

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

Purpose of this Report

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



KETEL THORSTENSON, LLP
Certified Public Accountants

June 2, 2016

CITY OF WHITEWOOD

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015**

A. Status of Prior Audit Findings and Recommendations

Finding No. 2014-001: Financial Statement Preparation

The City has accepted the risk associated with Finding #2014-001 regarding the preparation of the financial statements. The finding, originally issued years ago, is repeated as Finding #2015-001 below.

Finding No. 2014-002: Internal Control over Significant Accounts

The City made efforts to record all year-end entries, but several audit adjustments were made. The finding, originally issued years ago but altered based on specific entries each year, is repeated as Finding #2015-002 below.

Finding No. 2014-003: Segregation of Duties

The City has implemented the recommendations as mitigating controls, but continues to have a lack of adequate segregation of duties as a result of the size of the Finance Office and has accepted the risk involved with such, due to the small size of the Finance Office. The finding, originally issued years ago, is repeated as Finding #2015-003 below.

B. Current Year Audit Findings and Recommendations

Material Weaknesses

Finding No. 2015-001: Financial Statement Preparation

Condition and Cause: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do this with cities of your size.

Criteria and Effect: It is our responsibility to inform the Council that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the City's management.

Recommendation: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy, we have answered any questions they might have, and we have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and the City Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: The City is willing to accept the risk associated with this situation. Cory Heckenlaible, Finance Officer, is responsible for this finding.

CITY OF WHITEWOOD

**SCHEDULE OF FINDINGS (CONTINUED)
DECEMBER 31, 2015**

B. Current Year Audit Findings and Recommendations (Continued)

Material Weaknesses (Continued)

Finding No. 2015-002: Internal Control over Significant Accounts

Condition and Cause: During the course of our engagement, we proposed several audit adjustments. Adjustments included recording additional accounts payable, recording capital assets and depreciation expense, adjusting debt balances at year end, and various reclassification entries.

Criteria and Effect: These adjustments were not identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Recommendation: We recommend the City's operations be continually reviewed for potential changes in the accounting processes so that the appropriate journal entries can be made throughout the year. The balance sheet accounts should be adjusted to actual at year-end.

Response/Corrective Action Plan: The City Finance Officer, Cory Heckenlaible, will be diligent in the year-end closing process to properly adjust balance sheet accounts in 2016.

Significant Deficiencies

Finding No. 2015-003: Segregation of Duties

Condition and Cause: The City Finance Office lacks adequate segregation of duties over the cash receipts and disbursements processes. This is not uncommon for a finance office with only two employees.

Criteria and Effect: Lack of adequate segregation of duties exists and could result in misappropriated cash receipts or disbursements.

Recommendation: We recommend a member of the City Council and the Finance Officer continue to review the bank statements, including cancelled check copies, and adjustments to customer accounts, in detail, to mitigate the risk of misappropriated cash receipts and disbursements. The Mayor and Finance Committee should meet quarterly to review budget to actual expense reports for any unusual overages/underages. Also, we recommend the Assistant Finance Officer continue to prepare the claims listing and mail the checks prepared by the Finance Officer.

Response/Corrective Action Plan: The City personnel and City Council will continue establishing internal controls where feasible in 2016.

Finding No. 2015-004: Budgetary Overdraft

Condition and Cause: The City failed to perform supplemental budget appropriations and as a result has a budgetary overdraft in the Additional Sales Tax Fund totaling \$2,460 for Economic Development and Assistance expenditures.

Criteria and Effect: This finding causes the City to be in violation of South Dakota Codified Law 9-21-9.

Recommendation: We recommend the City perform the necessary supplemental appropriations during the year to ensure they do not have expenditures in excess of budgeted amounts.

Response/Corrective Action Plan: City personnel and the City Finance Office, Cory Heckenlaible, will compare budget to actual amounts in 2016 to ensure that budgetary overdrafts do not occur.