

MUNICIPALITY OF WORTHING
WORTHING, SOUTH DAKOTA

AUDIT REPORT

FOR THE YEAR JANUARY 1, 2015 TO DECEMBER 31, 2015♦

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF WORTHING

MUNICIPAL OFFICIALS
DECEMBER 31, 2015

MUNICIPAL COMMISSION:

Eric Saugstad – Mayor
Eric Bunkers
Sheri Lund
Carrie McDannel
Ryan Schlieman

CITY ADMINISTRATOR:

Amanda Mack

ATTORNEY:

Larry Nelson of Frieberg, Nelson & Ask, L.L.P.

Schoenfish & Co., Inc.

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TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Schedule of Prior Audit Findings.....	3
Schedule of Current Audit Findings.....	4-6
Independent Auditor's Report	7-9
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
As of December 31, 2015:	
Statement of Net Position.....	10
For the Year Ended December 31, 2015:	
Statement of Activities.....	11
Fund Financial Statements:	
For the Year Ended December 31, 2015:	
Governmental Funds:	
Balance Sheet.....	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	13
Statement of Revenues, Expenditures, and Changes In Fund Balances.....	14-15
Reconciliation of the Statement of Revenues, Expenditures, And Changes in Fund Balances to the Government-Wide Statement of Activities.....	16
Proprietary Funds:	
Statement of Net Position.....	17
Statement of Revenues, Expenses, and Changes in Fund Net Position.....	18
Statement of Cash Flows.....	19
Notes to the Financial Statements.....	20-40
Required Supplementary Information Other than MD&A:	
For the Year Ended December 31, 2015:	
Budgetary Comparison Schedules – Budgetary Basis:	
General Fund.....	44-42
Gross Receipts Tax Fund.....	43

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CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

TABLE OF CONTENTS
(Continued)

Notes to the Required Supplementary Information – Budgetary Comparison Schedules.....	44
Schedule of the Municipality’s Proportionate Share of the Net Pension Liability (Asset).....	45
Schedule of the Municipality Contributions - South Dakota Retirement System.....	46

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CERTIFIED PUBLIC ACCOUNTANTS
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105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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

Governing Board
Municipality of Worthing
Worthing, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Worthing, South Dakota (Municipality), as of December 31, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated August 16, 2016, which was adverse because of the condition of the accounting records.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality'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 Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality'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 Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality'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 Current Audit Findings as items 2015-001 and 2015-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Current Audit Findings as item 2015-003.

Municipality's Response to Findings

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

Purpose of this Report

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



Schoenfish & Co., Inc.
Certified Public Accountants
August 16, 2016

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR AUDIT FINDINGS:

Finding Number 2014-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2015-001.

Finding Number 2014-002:

Material weaknesses were noted in internal accounting control and record keeping resulting in diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. This comment has not been corrected and a similar comment is restated as current audit finding number 2015-002.

Finding Number 2014-003:

Expenditures were in excess of the amounts budgeted for the Gross Receipts Tax Fund. This comment has not been corrected and a similar comment is restated as current audit finding number 2015-003.

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2015-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is the fifteenth consecutive audit report in which this finding has appeared.

Criteria:

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

Condition:

The Finance Officer processes all revenue transactions from beginning to end. The Finance Officer also receives money, issues receipts, records receipts, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

1. We recommend that the Municipality of Worthing officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The Municipality of Worthing Mayor, Eric Saugstad, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Worthing, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to create new polices and provide compensating controls.

Finding Number 2015-002:

Material weaknesses were noted in internal accounting control and record keeping resulting in diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. This is the fifth consecutive audit report in which this finding has appeared.

Criteria:

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

Condition:

The following deficiencies in internal accounting control and record keeping were noted:

- a. The following items were not maintained by employees of the Municipality:
 1. Bank reconciliations were not compared to the book amounts and the exact differences in each fund could not be determined.

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SCHEDULE OF CURRENT AUDIT FINDINGS
(Continued)

2. Long-term debt was not adjusted to actual amounts for new debt received.
3. The Worthing Summer Recreation activities were not included in the records.
4. Customer Deposits were not adjusted to the schedule, and the breakdown of accounts receivable and unearned revenue in the Water Fund, Sewer Fund and Solid Waste Fund was not determined and not adjusted to actual.
5. Duplicate receipts were not written for all revenue received.
6. Some revenues and expenditures were not accurately recorded and could not be determined.
7. In at least one month, the utility billings were incorrectly calculated resulting in a material loss of revenue for that month.

Items were 1 through 4 were corrected on this audit report.

- b. Actual expenses were spent out of the contingency transfers budgetary line.

SDCL 9-14-18 states that the finance officer "shall keep regular books of account in which shall be entered all indebtedness of the Municipality, and which shall at all times show the financial condition of the Municipality, the amount of bonds, warrants, certificates, or other evidences of indebtedness issued by the governing body, and the amounts of all bonds, warrants, certificates, or other evidences of indebtedness which have been redeemed and the amount of each outstanding."

SDCL 9-14-19 states that the finance officer "shall supervise the accounting system for all departments and offices of the Municipality in accordance with the recommendations of the Department of Legislative Audit"

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties, and improper records were maintained for the Municipality of Worthing.

Recommendation:

2. We recommend that the municipal officials be cognizant of the finance officer's duties and make sure that they are knowledgeable or provide proper training to perform their duties.
3. We recommend that all necessary accounting records be properly maintained.

Management's Response:

The Municipality of Worthing Mayor, Eric Saugstad, is the contact person responsible for the corrective action plan for this comment. This comment is due to the expertise of staff, which does not provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls and proper training.

Compliance – Related Finding:

Finding Number 2015-003:

Expenditures were in excess of the amounts budgeted in several departments in the General Fund. This is the fourth consecutive audit in which a similar comment has occurred.

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SCHEDULE OF CURRENT AUDIT FINDINGS
(Continued)

Criteria:

SDCL 9-21-2 states in part, "The governing body of each municipality shall, no later than its first regular meeting in September of each year or within ten days thereafter, introduce the annual appropriation ordinance for the ensuing fiscal year, in which it shall appropriate the sums of money necessary to meet all lawful expenses and liabilities of the municipality." Also, SDCL 9-21-9 states, "Neither the governing body nor any department or office of the municipality shall add to the municipal expenditures in any fiscal year any sum in excess of the amount provided for in the annual appropriation ordinance except as otherwise specially provided. Nor shall the amount spent for any purpose or any department exceed the total amount appropriated for such purpose or for such department in the annual appropriation ordinance for such year, except as otherwise specially provided."

Condition:

The Municipality expended money in excess of amounts budgeted without supplementing the budget as allowed by SDCL 9-21-7.

Effect:

Without adopting a budget or limiting expenditures, expenditures are being made without proper authority.

Recommendation:

4. We recommend that expenditures be limited to amounts budgeted or budget supplements be made in accordance with SDCL 9-21-7 to allow for expenditures.

Management's Response:

The Municipality of Worthing Mayor, Eric Saugstad, is the contact person responsible for the corrective action plan for this comment. The Municipality will be more careful to follow the budgetary guidelines prescribed by law.

CLOSING CONFERENCE

The audit findings were discussed with the officials during the course of the audit and with the Mayor, Finance Officer and Assistant Finance Officer on August 23, 2016.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Worthing
Worthing, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund Municipality of Worthing, South Dakota, (Municipality) as of December 31, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality'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 Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinions

Duplicate receipts were not written for all revenue received.

Several errors and omissions were noted in the financial statements. Some of the more serious items were improper recording of some of the revenue and expenditures and not adjusting balance sheet accounts to actual amounts.

Adverse Opinions

In our opinion, because of the effects of the items reported in the basis for adverse opinions paragraph, the financial statements referred to above do not present fairly the respective financial position of the governmental activities, business-type activities, and each major fund of the Municipality of Worthing as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows, thereof for each of the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Standard. As described in Note 13 to the financial statements, the Municipality adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 13 to the financial statements, the Municipality has retroactively restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of the Municipality's Contributions on pages 41 through 43, 45, and 46, respectively, 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.

The Municipality has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an

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essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2016 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
Certified Public Accountants
August 16, 2016

Schoenfish & Co., Inc.

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MUNICIPALITY OF WORTHING
STATEMENT OF NET POSITION
December 31, 2015

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	168,136.55	316,269.78	484,406.33
Accounts Receivable, Net	118,909.72	43,704.61	162,614.33
Restricted Assets:			
Deposits	11,290.53		11,290.53
Investments	36,271.89		36,271.89
Net Pension Asset	24,936.63	8,492.34	33,428.97
Capital Assets:			
Land and Construction Work in Progress	160,714.45	5,927.29	166,641.74
Other Capital Assets, Net of Depreciation	512,903.60	2,836,453.42	3,349,357.02
TOTAL ASSETS	1,033,163.37	3,210,847.44	4,244,010.81
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	44,501.98	15,155.44	59,657.42
Total Deferred Outflows of Resources	44,501.98	15,155.44	59,657.42
LIABILITIES :			
Accounts Payable	7,209.39	11,675.15	18,884.54
Other Current Liabilities	4,403.92	45,066.92	49,470.84
Noncurrent Liabilities:			
Due Within One Year	38,000.00	78,913.07	116,913.07
Due in More than One Year	836.27	1,373,661.50	1,374,497.77
TOTAL LIABILITIES	50,449.58	1,509,316.64	1,559,766.22
DEFERRED INFLOWS OF RESOURCES:			
Pension Related Deferred Inflows	36,794.47	12,530.60	49,325.07
Total Deferred Inflows of Resources	36,794.47	12,530.60	49,325.07
NET POSITION:			
Net Investment in Capital Assets	637,618.05	1,391,006.30	2,028,624.35
Restricted for:			
Cumulative Insurance Reserve	11,290.53		11,290.53
Debt Service Purposes	36,271.89		36,271.89
SDRS Pension Purposes	32,644.14	11,117.18	43,761.32
City Promotion and Parks	32,375.39		32,375.39
Unrestricted (Deficit)	240,221.30	302,032.16	542,253.46
TOTAL NET POSITION	990,421.30	1,704,155.64	2,694,576.94

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF WORTHING
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	168,484.08	10,622.40			(157,861.68)		(157,861.68)
Public Safety	110,357.25	348.40			(110,008.85)		(110,008.85)
Public Works	157,452.59		23,155.14	59,400.62	(74,896.83)		(74,896.83)
Culture and Recreation	23,551.12	120.00	1,395.00		(22,036.12)		(22,036.12)
Conservation and Development	41,229.06				(41,229.06)		(41,229.06)
*Interest on Long-term Debt	1,332.41				(1,332.41)		(1,332.41)
Total Governmental Activities	502,406.51	11,090.80	24,550.14	59,400.62	(407,364.95)		(407,364.95)
Business-type Activities:							
Water	182,181.38	196,785.00				14,603.62	14,603.62
Sewer	197,185.40	158,914.05	30,369.99			(7,901.36)	(7,901.36)
Solid Waste	43,057.89	63,975.45				20,917.56	20,917.56
Total Business-type Activities	422,424.67	419,674.50	30,369.99	0.00		27,619.82	27,619.82
Total Primary Government	924,831.18	430,765.30	54,920.13	59,400.62	(407,364.95)	27,619.82	(379,745.13)
General Revenues:							
Taxes:							
Property Taxes					235,654.92		235,654.92
Sales Taxes					147,003.08		147,003.08
State Shared Revenues					8,121.86		8,121.86
Unrestricted Investment Earnings					336.53		336.53
Miscellaneous Revenue					25,942.55		25,942.55
Transfers					6,209.47	(6,209.47)	0.00
Total General Revenues and Transfers					423,268.41	(6,209.47)	417,058.94
Change in Net Position					15,903.46	21,410.35	37,313.81
Net Position - Beginning					944,953.00	1,672,676.79	2,617,629.79
Adjustments:							
Prior Period Adjustment for GASB 68 - See Note 13					29,564.84	10,068.50	39,633.34
Adjusted Net Position-Beginning					974,517.84	1,682,745.29	2,657,263.13
NET POSITION - ENDING					990,421.30	1,704,155.64	2,694,576.94

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

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF WORTHING
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015

	<u>General Fund</u>	<u>Gross Receipts Tax Fund</u>	<u>Federal Grant SRTS Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS:				
Cash and Cash Equivalents	136,163.00	31,973.55		168,136.55
Taxes Receivable--Delinquent	3,588.17			3,588.17
Accounts Receivable, Net	548.75			548.75
Street Assessments Receivable - Delinquent	1,842.15			1,842.15
Notes Receivable--Lennox School	89,713.61			89,713.61
Due from Other Governments	22,815.20	401.84		23,217.04
Due from SRTS Capital Projects Fund	3,576.23			3,576.23
Deposits	11,290.53			11,290.53
Restricted Investments	36,271.89			36,271.89
TOTAL ASSETS	<u>305,809.53</u>	<u>32,375.39</u>	<u>0.00</u>	<u>338,184.92</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	7,209.39			7,209.39
Due to General Fund			3,576.23	3,576.23
Accrued Taxes Payable	4,403.92			4,403.92
Total Liabilities	<u>11,613.31</u>	<u>0.00</u>	<u>3,576.23</u>	<u>15,189.54</u>
Deferred Inflows of Resources:				
Unavailable Revenue--Property Taxes	3,588.17			3,588.17
Unavailable Revenue--Street Assessments	1,842.15			1,842.15
Total Deferred Inflows of Resources	<u>5,430.32</u>	<u>0.00</u>	<u>0.00</u>	<u>5,430.32</u>
Fund Balances:				
Nonspendable--Notes Receivable	89,713.61			89,713.61
Nonspendable--Insurance Reserve	11,290.53			11,290.53
Restricted for Debt Service	36,271.89			36,271.89
Restricted for City Promotion		32,375.39		32,375.39
Assigned for Summer Recreation	3,602.28			3,602.28
Unassigned	147,887.59		(3,576.23)	144,311.36
Total Fund Balances	<u>288,765.90</u>	<u>32,375.39</u>	<u>(3,576.23)</u>	<u>317,565.06</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>305,809.53</u>	<u>32,375.39</u>	<u>0.00</u>	<u>338,184.92</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF WORTHING
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2015

Total Fund Balances - Governmental Funds	<u>317,565.06</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	<u>24,936.63</u>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>673,618.05</u>
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>44,501.98</u>
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(38,836.27)</u>
Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds.	<u>5,430.32</u>
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>(36,794.47)</u>
Net Position - Governmental Activities	<u><u>990,421.30</u></u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF WORTHING
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	General Fund	Gross Receipts Tax Fund	Federal Grant SRTS Fund	Total Governmental Funds
Revenues:				
Taxes:				
General Property Taxes	236,632.30			236,632.30
General Sales and Use Taxes	144,338.55	2,664.53		147,003.08
Amusement Taxes	108.00			108.00
Penalties and Interest on Delinquent Taxes	1,068.98			1,068.98
Licenses and Permits	10,022.40			10,022.40
Intergovernmental Revenue:				
Federal Grants	10,000.00		404.03	10,404.03
State Grants	1,395.00			1,395.00
State Shared Revenue:				
Bank Franchise Tax	2,651.71			2,651.71
Motor Vehicle Commercial Prorate	200.15			200.15
Liquor Tax Reversion	5,470.15			5,470.15
Motor Vehicle Licenses	5,706.60			5,706.60
Local Government Highway and Bridge Fund	4,676.54			4,676.54
County Shared Revenue:				
County Highway and Bridge Reserve Tax (25%)	1,074.74			1,074.74
County Wheel Tax	1,093.08			1,093.08
Charges for Goods and Services:				
Culture and Recreation	120.00			120.00
Fines and Forfeits:				
Court Fines and Costs	348.40			348.40
Miscellaneous Revenue:				
Investment Earnings	336.53			336.53
Rentals	600.00			600.00
Street Assessments	60,931.21			60,931.21
Other	10,206.02			10,206.02
Total Revenue	496,980.36	2,664.53	404.03	500,048.92
Expenditures:				
General Government:				
Legislative	36,996.42			36,996.42
Executive	53,841.55			53,841.55
Financial Administration	36,212.99			36,212.99
Other	42,940.84			42,940.84
Total General Government	169,991.80	0.00	0.00	169,991.80

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF WORTHING
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	<u>General Fund</u>	<u>Gross Receipts Tax Fund</u>	<u>Federal Grant SRTS Fund</u>	<u>Total Governmental Funds</u>
Expenditures (continued):				
Public Safety:				
Police	63,943.25			63,943.25
Fire	44,359.00			44,359.00
Total Public Safety	108,302.25	0.00	0.00	108,302.25
Public Works:				
Highways and Streets	137,655.36			137,655.36
Sanitation	1,309.00			1,309.00
Total Public Works	138,964.36	0.00	0.00	138,964.36
Culture and Recreation:				
Parks	18,780.28			18,780.28
Total Culture and Recreation	18,780.28	0.00	0.00	18,780.28
Conservation and Development:				
Economic Development & Assistance (Industrial Development)	41,229.06			41,229.06
Total Conservation and Development	41,229.06	0.00	0.00	41,229.06
Debt Service	37,332.41	0.00	0.00	37,332.41
Capital Outlay	28,264.63	0.00	0.00	28,264.63
Total Expenditures	542,864.79	0.00	0.00	542,864.79
Excess of Revenue Over (Under) Expenditures	(45,884.43)	2,664.53	404.03	(42,815.87)
Other Financing Sources:				
Compensation for Loss or Damage to Capital Assets	15,736.53			15,736.53
Total Other Financing Sources	15,736.53	0.00	0.00	15,736.53
Net Change in Fund Balances	(30,147.90)	2,664.53	404.03	(27,079.34)
Fund Balance - Beginning	318,913.80	29,710.86	(3,980.26)	344,644.40
FUND BALANCE - ENDING	288,765.90	32,375.39	(3,576.23)	317,565.06

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF WORTHING
Reconciliation of the 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	<u>(27,079.34)</u>
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 government wide statements.	<u>28,264.63</u>
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.	<u>(26,064.07)</u>
The receipt of donated capital assets is not reported on the fund statements, but is reported as a program revenue on the long-term liabilities in the statement of net position.	<u>6,209.47</u>
Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position.	<u>36,000.00</u>
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".	<u>(2,154.36)</u>
Governmental funds report street 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.	<u>(1,530.59)</u>
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits.	<u>(821.58)</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (e.g., pension expense)	<u>3,079.30</u>
Change in Net Position of Governmental Activities	<u><u>15,903.46</u></u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF WORTHING
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2015

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	140,145.74	144,375.77	31,748.27	316,269.78
Accounts Receivable, Net	20,139.35	16,801.08	6,764.18	43,704.61
Total Current Assets	160,285.09	161,176.85	38,512.45	359,974.39
Noncurrent Assets:				
Net Pension Asset	4,246.17	4,246.17		8,492.34
Capital Assets:				
Land		1,673.49		1,673.49
Buildings	5,000.00			5,000.00
Improvements Other Than Buildings	1,509,793.27	2,003,928.62		3,513,721.89
Machinery and Equipment	35,300.67	110,553.66		145,854.33
Construction Work in Progress	4,253.80			4,253.80
Less: Accumulated Depreciation	(384,722.96)	(443,399.84)		(828,122.80)
Total Noncurrent Assets	1,173,870.95	1,677,002.10	0.00	2,850,873.05
TOTAL ASSETS	1,334,156.04	1,838,178.95	38,512.45	3,210,847.44
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Related Deferred Outflows	7,577.72	7,577.72		15,155.44
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,577.72	7,577.72	0.00	15,155.44
LIABILITIES:				
Current Liabilities:				
Accounts Payable	5,815.20	2,929.07	2,930.88	11,675.15
Accrued Interest Payable	5,096.15	7,757.82		12,853.97
Accrued Wages Payable	1,288.95	1,288.95		2,577.90
Accrued Taxes Payable			285.94	285.94
Customer Deposits	29,349.11			29,349.11
Bonds Payable Current:				
General Obligation Revenue	31,404.56	17,272.43		17,272.43
		29,236.08		60,640.64
Total Current Liabilities	72,953.97	58,484.35	3,216.82	134,655.14
Noncurrent Liabilities:				
Bonds Payable:				
General Obligation Revenue	491,623.06	13,558.92		13,558.92
Accrued Leave	600.08	868,279.36		1,359,902.42
	600.08	600.08		1,200.16
Total Noncurrent Liabilities	492,223.14	882,438.36	0.00	1,374,661.50
TOTAL LIABILITIES	565,177.11	940,922.71	3,216.82	1,509,316.64
DEFERRED INFLOWS OF RESOURCES:				
Pension Related Deferred Inflows	6,265.30	6,265.30		12,530.60
TOTAL DEFERRED INFLOWS OF RESOURCES	6,265.30	6,265.30	0.00	12,530.60
NET POSITION:				
Net Investment in Capital Assets	646,597.16	744,409.14		1,391,006.30
Restricted Net Position, Restricted for:				
SDRS Pension Purposes	5,558.59	5,558.59		11,117.18
Unrestricted Net Position	118,135.60	148,600.93	35,295.63	302,032.16
TOTAL NET POSITION	770,291.35	898,568.66	35,295.63	1,704,155.64

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF WORTHING
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2015

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
Operating Revenue:				
Charges for Goods and Services	172,859.60	95,890.23	63,975.45	332,725.28
Revenue Dedicated to Servicing Debt	23,925.40	63,023.82		86,949.22
Total Operating Revenue	196,785.00	158,914.05	63,975.45	419,674.50
Operating Expenses:				
Personal Services	45,159.82	45,073.53		90,233.35
Other Current Expense	20,502.43	73,098.45	43,057.89	136,658.77
Materials (Cost of Goods Sold)	62,224.70			62,224.70
Depreciation	32,596.95	42,502.39		75,099.34
Total Operating Expenses	160,483.90	160,674.37	43,057.89	364,216.16
Operating Income (Loss)	36,301.10	(1,760.32)	20,917.56	55,458.34
Nonoperating Revenue (Expense):				
Operating Grants		30,369.99		30,369.99
Interest Expense and Fiscal Charges	(21,697.48)	(36,511.03)		(58,208.51)
Total Nonoperating Revenue (Expense)	(21,697.48)	(6,141.04)	0.00	(27,838.52)
Income (Loss) Before Transfers	14,603.62	(7,901.36)	20,917.56	27,619.82
Capital Contributions	(6,209.47)			(6,209.47)
Change in Net Position	8,394.15	(7,901.36)	20,917.56	21,410.35
Net Position - Beginning	756,862.95	901,435.77	14,378.07	1,672,676.79
Adjustments:				
Prior Period Adjustment for GASB 68 --- See Note 13.	5,034.25	5,034.25		10,068.50
Adjusted Net Position - Beginning	761,897.20	906,470.02	14,378.07	1,682,745.29
NET POSITION - ENDING	770,291.35	898,568.66	35,295.63	1,704,155.64

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF WORTHING
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2015

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Receipts from Customers	182,308.49	156,739.59	63,268.60	402,316.68
Cash Payments to Employees for Services	(45,280.61)	(45,241.40)		(90,522.01)
Cash Payments to Suppliers of Goods and Services	(89,718.69)	(81,186.02)	(40,953.92)	(211,858.63)
Net Cash Provided (Used) by Operating Activities	47,309.19	30,312.17	22,314.68	99,936.04
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating Subsidies		30,369.99		30,369.99
Net Cash Provided (Used) by Noncapital Financing Activities	0.00	30,369.99	0.00	30,369.99
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital Contributions	(6,209.47)			(6,209.47)
Purchase of Capital Assets	(7,221.24)			(7,221.24)
Principal Paid on Capital Debt	(16,601.33)	(28,753.21)		(45,354.54)
Interest Paid on Capital Debt	(29,908.90)	(43,607.56)		(73,516.46)
Net Cash (Used) by Capital and Related Financing Activities	(59,940.94)	(72,360.77)	0.00	(132,301.71)
Net Increase (Decrease) in Cash and Cash Equivalents	(12,631.75)	(11,678.61)	22,314.68	(1,995.68)
Balances - Beginning	152,777.49	156,054.38	9,433.59	318,265.46
Balances - Ending	140,145.74	144,375.77	31,748.27	316,269.78
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income (Loss)	36,301.10	(1,760.32)	20,917.56	55,458.34
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	32,596.95	42,502.39		75,099.34
(Increase) decrease in Receivables	(4,015.22)	(2,174.46)	(706.85)	(6,896.53)
(Increase) decrease in Net Pension Asset	3,503.35	3,503.35		7,006.70
(Increase) decrease in Pension Related Deferred Outflows	(1,317.74)	(1,317.74)		(2,635.48)
(Decrease) increase in Accounts and Other Payables	(6,991.56)	(8,087.57)	2,103.97	(12,975.16)
(Decrease) increase in Accrued Wages Payable	1,288.95	1,288.95		2,577.90
(Decrease) increase in Accrued Leave Payable	(885.40)	(932.48)		(1,817.88)
(Decrease) increase in Pension Related Deferred Inflows	(2,709.95)	(2,709.95)		(5,419.90)
(Decrease) increase in Unearned Revenue	(10,109.72)			(10,109.72)
(Decrease) increase in Customer Deposits	(351.57)			(351.57)
Net Cash Provided (Used) by Operating Activities	47,309.19	30,312.17	22,314.68	99,936.04

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESa. Financial Reporting Entity:

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

b. Basis of Presentation:Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. 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 Municipality and for each function of the Municipality's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

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

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 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.

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

Governmental Funds:

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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.

Gross Receipts Tax Fund – to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the city (SDCL 10-52A-2). This 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 other governments).

Federal Grants SRTS Capital Projects Fund – to account for financial resources to be used for the construction of Safe Routes to Schools. This is a major fund.

Proprietary Funds:

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

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

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

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

Solid Waste Fund – financed primarily by user charges, this fund accounts for the collection and disposal of solid waste from the Municipality. (SDCL 9-32-11 and 34A-6) This is a major fund.

c. Measurement Focus and Basis of Accounting:

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary 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 transactions occur (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 Municipality of Worthing, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2015 are tax revenues.

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

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

All proprietary 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.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

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

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

e. Deposits and Investments:

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

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

f. 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 normally are stationary in nature and normally can be preserved for 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 Statements

Capital assets are recorded at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2015 balance of governmental activities capital assets includes approximately 16 percent for which the costs were determined by estimates of the original costs. The total December 31, 2015 balance of business-type capital assets includes approximately 15 percent for which the costs were determined by estimations of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

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 Municipality. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements Other than Buildings."

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest 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, except for that portion related to common use assets for which allocation would be

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

unduly complex, and which is reported as Unallocated Depreciation, 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.

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 and land rights	\$ -	-- N/A --	-- N/A --
Improvements other than buildings	\$ 10,000.00	Straight-line	50-60 yrs.
Buildings	\$ 50,000.00	Straight-line	15-50 yrs.
Machinery & Equipment	\$ 5,000.00	Straight-line	5-15 yrs.
Infrastructure	\$ 25,000.00	Straight-line	50-60 yrs.

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.

g. 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 general obligation bonds and revenue bonds.

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

h. Program Revenues:

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

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

i. Deferred Inflows and Deferred Outflows of Resources:

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

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

j. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues and expenses.

k. Cash and Cash Equivalents:

For the purposes of the proprietary fund's Statement of Cash Flows, the Municipality considers all highly liquid investments as deposits (including restricted assets) with a term to maturity of three months or less, at date of acquisition, to be cash equivalents.

l. Equity Classifications:

Government-wide Statements:

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

m. Application of Net Position:

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

n. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Municipality 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 the Finance Officer.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Nonspendable Fund Balance is comprised of the following:

- Amount legally or contractually required to be maintained intact such as South Dakota Insurance Reserve.
- Amount not in cash form such as long-term portion of notes receivable.

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

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

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund:</u>	<u>Revenue Source:</u>
Gross Receipts Fund	Sales Tax

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The Municipality is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts to the expenditures compared to appropriations:

	<u>Year Ended</u> <u>12/31/2015</u>
General Fund:	
Executive	\$ 272.80
Financial Administration	173.21
Police	1,448.90
Highways & Streets	2,846.89
Parks	1,387.86
Economic Development	7,170.28
Debt Service	1,332.41

The Governing Board plans to take the following actions to address these violations: use contingency transfers or supplemental budgets when legal authority exists.

3. DEFICIT FUND BALANCES/NET POSITION OF INDIVIDUAL FUNDS

As of December 31, 2015, the following individual funds had deficit fund balance/net position in the amounts shown:

Federal Grants SRTS Capital Projects Fund	\$ (3,576.23)
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4. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The Municipality 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 Municipality's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits municipal 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

Concentration of Credit Risk – the Municipality places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The Municipality 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 Municipality's policy is to credit all income from deposits and investments to the General Fund. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund should be reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings should be reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. The amount of investment earnings is immaterial.

5. RESTRICTED CASH AND INVESTMENTS

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

Amount:	Purpose:
\$36,271.89	Security for loan, bonds, and similar commitments

6. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The Municipality expects all receivables to be collected within one year.

7. PROPERTY TAXES

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

8. CHANGES IN GENERAL CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2015, is as follows:

	Balance 01/01/2015	Increases	Decreases	Balance 12/31/2015
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	97,079.46	21,527.25		118,606.71
Construction Work in Progress	29,160.89	12,946.85		42,107.74
Total, not being Depreciated	<u>126,240.35</u>	<u>34,474.10</u>	<u>0.00</u>	<u>160,714.45</u>
Capital Assets, being Depreciated:				
Buildings	99,880.33			99,880.33
Improvements Other Than Buildings	414,241.34			414,241.34
Machinery and Equipment	205,523.32		(7,115.25)	198,408.07
Total, being depreciated	<u>719,644.99</u>	<u>0.00</u>	<u>(7,115.25)</u>	<u>712,529.74</u>
Less Accumulated Depreciation for:				
Buildings	(21,366.98)	(1,664.67)		(23,031.65)
Improvements Other Than Buildings	(31,404.23)	(9,712.30)		(41,116.53)
Machinery and Equipment	(127,906.11)	(14,687.10)	7,115.25	(135,477.96)
Total Accumulated Depreciation	<u>(180,677.32)</u>	<u>(26,064.07)</u>	<u>7,115.25</u>	<u>(199,626.14)</u>
Total Governmental Activities Capital Assets, being Depreciated, Net	<u>538,967.67</u>	<u>(26,064.07)</u>	<u>0.00</u>	<u>512,903.60</u>
Governmental Activity Capital Assets, Net	<u>665,208.02</u>	<u>8,410.03</u>	<u>0.00</u>	<u>673,618.05</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 750.00
Public Safety	2,055.00
Public Works	18,488.23
Culture and Recreation	4,770.84
Total Depreciation Expense - Governmental Activities	<u>\$ 26,064.07</u>

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

	Balance 01/01/2015	Increases	Decreases	Balance 12/31/2015
Business-Type Activities:				
Capital Assets, not being Depreciated:				
Land	1,673.49			1,673.49
Construction Work in Progress	4,253.80			4,253.80
Total Capital Assets, not being Depreciated	5,927.29	0.00	0.00	5,927.29
Capital Assets, being Depreciated:				
Buildings	5,000.00			5,000.00
Improvements Other Than Buildings	3,506,500.65	7,221.24		3,513,721.89
Machinery and Equipment	145,854.33			145,854.33
Total, being Depreciated	3,657,354.98	7,221.24	0.00	3,664,576.22
Less Accumulated Depreciation for:				
Buildings	(5,000.00)			(5,000.00)
Improvements Other Than Buildings	(648,055.00)	(70,634.16)		(718,689.16)
Machinery and Equipment	(99,968.46)	(4,465.18)		(104,433.64)
Total Accumulated Depreciation	(753,023.46)	(75,099.34)	0.00	(828,122.80)
Total Business-Type Activities Capital Assets, being Depreciated, Net	2,904,331.52	(67,878.10)	0.00	2,836,453.42
Business-Type Activity Capital Assets, Net	2,910,258.81	(67,878.10)	0.00	2,842,380.71

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Water	\$ 32,596.95
Sewer	42,502.39
Total Depreciation Expense - Business-Type Activities	\$ 75,099.34

Construction Work in Progress at December 31, 2015 is composed of the following:

Project Name	Project Authorization	Expended Thru 12/31/2015	Committed
Industrial Park	\$ 60,290.00	\$ 25,070.42	\$ 35,219.58
Recreation Complex	30,950.00	21,291.12	9,658.88
Total	\$ 91,240.00	\$ 46,361.54	\$ 44,878.46

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance 01/01/15	Additions	Deletions	Ending Balance 12/31/2015	Due Within One Year
Primary Government:					
Governmental Activities:					
Notes Payable:					
First National Bank of Sioux Falls	72,000.00		36,000.00	36,000.00	36,000.00
Total Debt	<u>72,000.00</u>	<u>0.00</u>	<u>36,000.00</u>	<u>36,000.00</u>	<u>36,000.00</u>
Accrued Compensated Absences-					
Governmental Funds	2,014.69	2,836.27	2,014.69	2,836.27	2,000.00
Total Governmental Activities	<u>74,014.69</u>	<u>2,836.27</u>	<u>38,014.69</u>	<u>38,836.27</u>	<u>38,000.00</u>
Business-Type Activities:					
Bonds Payable:					
General Obligation - SRF - Clean Water # 1	47,226.02		16,394.67	30,831.35	17,272.43
Revenue - SRF - Drinking Water # 1	177,652.30		14,259.24	163,393.06	14,764.91
Revenue - USDA Rural Development Drinking Water # 1	48,675.99		6,676.20	41,999.79	7,036.33
Revenue - SRF - Clean Water # 2	510,059.29		12,633.23	497,426.06	13,081.17
Revenue - USDA Rural Development Drinking Water # 2	235,450.46		5,709.73	229,740.73	5,991.62
Revenue - SRF - Drinking Water # 2	91,157.77	1,706.00	4,969.73	87,894.04	3,611.70
Revenue - SRF - Clean Water # 3	414,669.04	1,079.00	15,658.66	400,089.38	16,154.91
Accrued Compensated Absences-					
Business-Type Funds	3,018.04	1,200.16	3,018.04	1,200.16	1,000.00
Total Business-Type Activities	<u>1,527,908.91</u>	<u>3,985.16</u>	<u>79,319.50</u>	<u>1,452,574.57</u>	<u>78,913.07</u>
TOTAL PRIMARY GOVERNMENT	<u>1,601,923.60</u>	<u>6,821.43</u>	<u>117,334.19</u>	<u>1,491,410.84</u>	<u>116,913.07</u>

Long-term liabilities at December 31, 2015 are comprised of the following:

General Obligation Bonds:

State Revolving Fund Loan due in quarterly installments of \$4,638.68 which includes interest at 5.25%. Final payment is due on July 1, 2017. Payment is made thru the Sewer Fund. \$ 30,831.35

Revenue Bonds:

The Municipality was granted a loan from the Drinking Water State Revolving Fund program with the South Dakota Department of Environment and Natural Resources. This revenue bond was issued for \$288,000. Interest is at a rate of 3.5% which includes a 1.0% administration surcharge. Maturity will be on April 1, 2025. Payments for this loan are made by the Water Fund. \$163,393.06

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Note payable to USDA – Rural Development due in annual Installments of \$9,110 which includes interest at 5%. This note is being retired by user fees through the Water Fund and matures on May 15, 2021, if not sooner paid. \$ 41,999.79

The Municipality was granted a loan from the Clean Water State Revolving Fund program with the South Dakota Department of Environment and Natural Resources. This revenue bond was issued for \$580,000. Interest is at a rate of 3.5%. Final payment is due April 15, 2040. Payments for this loan are made by the Sewer Fund. \$497,426.06

The Municipality was granted a loan from the USDA – Rural Development. This revenue bond is issued for \$300,000 at an interest rate of 4.5%. The final amount of this loan for Drinking Water will depend on the actual costs of the associated improvements. Final payment is due October 23, 2038. Payments for this loan are made by the Water Fund. \$229,740.73

The Municipality was granted a loan from the Drinking Water State Revolving Fund program with the South Dakota Department of Environment and Natural Resources. This revenue bond was issued for \$301,227. Interest is at a rate of 3.0%. Final Payment is due April 15, 2034. Payments for this loan are made by the Water Fund. \$ 87,894.04

The Municipality was granted a loan from the Clean Water State Revolving Fund program with the South Dakota Department of Environment and Natural Resources. This revenue bond was issued for \$459,832. Interest is at a rate of 3.0%. Final Payment is due July 15, 2034. Payments for this loan are made by the Sewer Fund. \$400,089.38

Notes Payable to First National Bank due in yearly installments of \$36,000.00 and quarterly interest at 2.25% Payments for this loan are made by the General Fund. Final Payment is due September 30, 2016 \$ 36,000.00

Compensated Absences:
 Paid by General Fund \$ 2,836.27
 Paid by Water Fund \$ 600.08
 Paid by Sewer Fund \$ 600.08

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

Annual Requirements to Maturity for Long-Term Debt
December 31, 2015

Year Ending	General Obligation Bonds - SRF Loan Clean Water #1		Revenue Borrower Bond, Series 2003, SRF Loan - Drinking Water #1		Revenue Bond - USDA Rural Development Note Payable - Drinking Water # 1	
	Principal	Interest	Principal	Interest	Principal	Interest
December 31, 2016	17,272.43	1,282.29	14,764.91	5,526.37	7,036.33	2,073.67
2017	13,558.92	357.07	15,288.50	5,002.78	7,388.15	1,721.85
2018			15,830.66	4,460.62	7,757.56	1,352.44
2019			16,392.05	3,899.23	8,145.43	964.57
2020			16,973.34	3,317.94	8,552.71	557.29
2021-2025			84,143.60	7,167.16	3,119.61	129.66
2026-2030						
2031-2035						
2036-2040						
Totals	<u>30,831.35</u>	<u>1,639.36</u>	<u>163,393.06</u>	<u>29,374.10</u>	<u>41,999.79</u>	<u>6,799.48</u>

Year Ending	Revenue Borrower Bond, Series 2008, SRF Loan - Clean Water # 2		Revenue Bond -USDA Rural Development - Note Payable - Drinking Water # 2		Revenue Borrower Bond, Series 2012, SRF Loan - Drinking Water # 2	
	Principal	Interest	Principal	Interest	Principal	Interest
December 31, 2016	13,081.17	17,239.47	5,991.62	10,313.38	3,611.70	2,596.46
2017	13,545.06	16,775.58	6,261.24	10,043.76	3,721.28	2,486.88
2018	14,025.39	16,295.25	6,543.00	9,762.00	3,834.18	2,373.98
2019	14,522.76	15,797.88	6,837.43	9,467.57	3,950.50	2,257.66
2020	15,037.77	15,282.87	7,145.12	9,159.88	4,070.35	2,137.81
2021-2025	83,576.32	68,026.88	40,847.85	40,677.15	22,280.81	8,762.99
2026-2030	99,484.22	52,118.98	50,903.86	30,401.14	25,872.09	5,168.71
2031-2035	118,420.03	33,183.17	63,435.47	17,869.53	20,553.13	1,174.86
2036-2040	125,733.34	10,709.54	41,775.14	3,030.31		
Totals	<u>497,426.06</u>	<u>245,429.62</u>	<u>229,740.73</u>	<u>140,724.72</u>	<u>87,894.04</u>	<u>26,959.35</u>

Year Ending	Revenue Borrower Bond, Series 2012, SRF Loan - Clean Water # 3		Note Payable - First National Bank		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
December 31, 2016	16,154.91	11,822.09	36,000.00	616.50	113,913.07	51,470.23
2017	16,645.04	11,331.96			76,408.19	47,719.88
2018	17,150.03	10,826.97			65,140.82	45,071.26
2019	17,670.35	10,306.65			67,518.52	42,693.56
2020	18,206.45	9,770.55			69,985.74	40,226.34
2021-2025	99,660.74	40,224.26			333,628.93	164,988.10
2026-2030	115,724.43	24,160.57			291,984.60	111,849.40
2031-2035	98,877.43	6,036.11			301,286.06	58,263.67
2036-2040					167,508.48	13,739.85
Totals	<u>400,089.38</u>	<u>124,479.16</u>	<u>36,000.00</u>	<u>616.50</u>	<u>1,487,374.41</u>	<u>576,022.29</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

10. LONG-TERM COMMITMENT

The Municipality of Worthing entered into a 10 year commitment with the Worthing Community Fire Department, Inc. (WCFD, Inc.) to provide financial support for a fire truck purchase. A yearly payment in the amount of \$17,856.00 is paid by the Municipality to the WCFD, Inc. The Municipality will not acquire ownership of the fire truck. Payments are made from the Municipality's General Fund. The following are the minimum payments on this existing commitment:

2016	\$ 17,856.00
2017	17,856.00
2018	17,856.00
2019	17,856.00
2020	17,856.00
2021-2023	53,568.00

11. OPERATING LEASES

The Municipality entered into an operating lease for a copier paid by the General Fund. The Municipality also entered into an operating lease for city-wide garbage service paid by the Solid Waste Fund. The following are the minimum payments on existing operating leases:

<u>Year</u>	<u>Copier</u>	<u>Garbage Service</u>
2016	384.16	36,781.25
2017		15,468.75

12. RESTRICTED NET POSITION

Restricted net position for the year ended December 31, 2015 was as follows:

Major Funds:	
General Fund - Insurance Reserve	\$ 11,290.53
General Fund - Debt Service	36,271.89
City Promotions and Parks	32,375.39
SDRS Pension Purposes	43,761.32
Total Restricted Net Position	<u>\$ 123,699.13</u>

These balances are restricted due to bond and loan requirements, statutory requirements, and requirements of the South Dakota Public Assurance Alliance.

13. PRIOR PERIOD ADJUSTMENTS

The Municipality 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 and deferred outflows of resources as of January 1, 2015 as follows:

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

	Governmental Activities	Business-Type Activities	Total
Net Position January 1, 2015, as previously reported	944,953.00	1,672,676.79	2,617,629.79
Restatement for pension accounting:			
Net Pension Asset	45,510.88	15,499.04	61,009.92
Pension Related Deferred Outflows of Resources	36,763.23	12,519.96	49,283.19
Pension Related Deferred Inflows of Resources	(52,709.27)	(17,950.50)	(70,659.77)
Net Position January 1, 2015, as restated	<u>974,517.84</u>	<u>1,682,745.29</u>	<u>2,657,263.13</u>

14. PENSION PLAN

Plan Information:

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

Benefits Provided:

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014, and 2013 were \$8,327.07, \$8,829.23, and \$8,905.90, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of this measurement period and reported by the Municipality as of December 31, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 849,384.83
Less proportionate share of total pension liability	<u>\$ 815,955.86</u>
Proportionate share of net pension liability (asset)	<u>\$ (33,428.97)</u>

At December 31, 2015, the Municipality reported a liability (asset) of \$(33,428.97) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the Municipality's proportion was 0.0078818%, which is a decrease of 0.0005864% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Municipality recognized pension expense (revenue) of \$4,199.10. At December 31, 2015 the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience.	\$ 6,844.73	
Changes in assumption.	\$ 26,507.07	
Net Difference between projected and actual earnings on pension plan investments.	\$ 20,421.19	\$ 49,325.07
Changes in proportion and difference between Municipality contributions and proportionate share of contributions.	\$ 1,895.91	
Municipality contributions subsequent to the measurement date.	<u>\$ 3,988.53</u>	
TOTAL	<u>\$ 59,657.43</u>	<u>\$ 49,325.07</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

\$3,988.53 reported as deferred outflow of resources related to pensions resulting from Municipality 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:

Year Ended		
December 31:		
2016	\$	1,584.01
2017	\$	1,584.01
2018	\$	(4,261.43)
2019	\$	5,541.31
TOTAL	\$	<u>4,447.90</u>

Actuarial Assumptions:

The total pension liability (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.

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%
Total	<u>100%</u>	

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Discount Rate:

The discount rate used to measure the total pension liability (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 plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate:

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

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$ 84,140.33	\$(33,428.97)	\$(129,296.60)

Pension Plan Fiduciary Net Position:

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

15. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2015, the Municipality was not involved in any significant litigation.

16. RISK MANAGEMENT

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

Employee Health Insurance:

The Municipality purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The Municipality 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 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 Municipality'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 Municipality. The Municipality pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the member based on their exposure or type

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

of coverage. The Municipality pays an annual premium to the pool to provide coverage for general officials, vehicles, and property liability.

The agreement with the SDPAA provides that the above coverages will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit.

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

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

As of December 31, 2015, the Municipality has vested balance in the cumulative reserve fund of \$11,290.53.

The Municipality carries a \$250 deductible for the property and vehicles coverage and \$500 deductible for the officials coverage.

The Municipality 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.

Worker's Compensation:

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality'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 Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

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

Unemployment Benefits:

The Municipality has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the year ended December 31, 2015, no claims for unemployment benefits were paid. At December 31, 2015, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

17. ACCOUNTABILITY FOR RELATED ORGANIZATIONS

The Municipal Finance Officer is also the bookkeeper for the Worthing Economic Development Association. The Municipality provides finance support to this organization.

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF WORTHING
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes	242,000.00	242,000.00	236,632.30	(5,367.70)
General Sales and Use Taxes	130,000.00	130,000.00	144,338.55	14,338.55
Amusement Taxes	100.00	100.00	108.00	8.00
Penalties & Interest on Delinquent Taxes	0.00	0.00	1,068.98	1,068.98
Total Taxes	372,100.00	372,100.00	382,147.83	10,047.83
Licenses and Permits	4,450.00	4,450.00	10,022.40	5,572.40
Intergovernmental Revenue:				
Federal Grants	0.00	0.00	10,000.00	10,000.00
State Grants	0.00	0.00	1,395.00	1,395.00
State Shared Revenue:				
Bank Franchise Tax	2,000.00	2,000.00	2,651.71	651.71
Motor Vehicle Commercial Prorate	150.00	150.00	200.15	50.15
Liquor Tax Reversion	3,500.00	3,500.00	5,470.15	1,970.15
Motor Vehicle Licenses	3,000.00	3,000.00	5,706.60	2,706.60
Local Government Highway and Bridge Fund	2,500.00	2,500.00	4,676.54	2,176.54
County Shared Revenue:				
County Highway & Bridge Reserve Tax (25%)	500.00	500.00	1,074.74	574.74
County Wheel Tax	1,000.00	1,000.00	1,093.08	93.08
Total Intergovernmental Revenue	12,650.00	12,650.00	32,267.97	19,617.97
Charges for Goods and Services:				
General Government	100.00	100.00	0.00	(100.00)
Sanitation	100.00	100.00	0.00	(100.00)
Culture and Recreation	0.00	0.00	120.00	120.00
Total Charges for Goods and Services	200.00	200.00	120.00	(80.00)
Fines and Forfeits:				
Court Fines and Costs	0.00	0.00	348.40	348.40
Total Fines and Forfeits	0.00	0.00	348.40	348.40
Miscellaneous Revenue:				
Investment Earnings	200.00	200.00	336.53	136.53
Rentals	9,500.00	9,500.00	600.00	(8,900.00)
Maintenance Assessments	84,905.00	84,905.00	60,931.21	(23,973.79)
Other	2,199.54	2,199.54	10,206.02	8,006.48
Total Miscellaneous Revenue	96,804.54	96,804.54	72,073.76	(24,730.78)
Total Revenue	486,204.54	486,204.54	496,980.36	10,775.82

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF WORTHING
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
General Government:				
Legislative	21,393.70	37,753.69	36,996.42	757.27
Contingency	20,355.19	20,355.19		
Amount Transferred				20,355.19
Executive	53,568.75	53,568.75	53,841.55	(272.80)
Financial Administration	35,201.68	36,039.78	36,212.99	(173.21)
Other	25,350.00	43,744.44	42,940.84	803.60
Total General Government	<u>155,869.32</u>	<u>191,461.85</u>	<u>169,991.80</u>	<u>21,470.05</u>
Public Safety:				
Police	47,874.50	62,494.35	63,943.25	(1,448.90)
Fire	49,350.00	49,350.00	44,359.00	4,991.00
Total Public Safety	<u>97,224.50</u>	<u>111,844.35</u>	<u>108,302.25</u>	<u>3,542.10</u>
Public Works:				
Highways and Streets	134,808.47	134,808.47	137,655.36	(2,846.89)
Sanitation	6,000.00	7,309.00	1,309.00	6,000.00
Total Public Works	<u>140,808.47</u>	<u>142,117.47</u>	<u>138,964.36</u>	<u>3,153.11</u>
Culture and Recreation:				
Parks	23,701.75	27,323.72	28,711.58	(1,387.86)
Total Culture and Recreation	<u>23,701.75</u>	<u>27,323.72</u>	<u>28,711.58</u>	<u>(1,387.86)</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	32,600.50	52,392.11	59,562.39	(7,170.28)
Total Conservation and Development	<u>32,600.50</u>	<u>52,392.11</u>	<u>59,562.39</u>	<u>(7,170.28)</u>
Debt Service	<u>36,000.00</u>	<u>36,000.00</u>	<u>37,332.41</u>	<u>(1,332.41)</u>
Total Expenditures	<u>486,204.54</u>	<u>561,139.50</u>	<u>542,864.79</u>	<u>18,274.71</u>
Excess of Revenue Over (Under) Expenditures	<u>0.00</u>	<u>(74,934.96)</u>	<u>(45,884.43)</u>	<u>29,050.53</u>
Other Financing Sources (Uses):				
Compensation for Loss or Damage to Capital Assets	0.00	0.00	15,736.53	15,736.53
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>0.00</u>	<u>15,736.53</u>	<u>15,736.53</u>
Net Change in Fund Balances	<u>0.00</u>	<u>(74,934.96)</u>	<u>(30,147.90)</u>	<u>44,787.06</u>
Fund Balance - Beginning	<u>318,913.80</u>	<u>318,913.80</u>	<u>318,913.80</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>318,913.80</u>	<u>243,978.84</u>	<u>288,765.90</u>	<u>44,787.06</u>

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF WORTHING
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GROSS RECEIPTS TAX FUND
For the Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	5,500.00	5,500.00	2,664.53	(2,835.47)
Total Revenue	<u>5,500.00</u>	<u>5,500.00</u>	<u>2,664.53</u>	<u>(2,835.47)</u>
Expenditures:				
Culture and Recreation:				
Parks	5,500.00	5,500.00	0.00	5,500.00
Total Culture and Recreation:	<u>5,500.00</u>	<u>5,500.00</u>	<u>0.00</u>	<u>5,500.00</u>
Total Expenditures	<u>5,500.00</u>	<u>5,500.00</u>	<u>0.00</u>	<u>5,500.00</u>
Net Change in Fund Balances	<u>0.00</u>	<u>0.00</u>	<u>2,664.53</u>	<u>2,664.53</u>
Fund Balance - Beginning	<u>29,710.86</u>	<u>29,710.86</u>	<u>29,710.86</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u><u>29,710.86</u></u>	<u><u>29,710.86</u></u>	<u><u>32,375.39</u></u>	<u><u>2,664.53</u></u>

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

NOTE 1. Budgets and Budgetary Accounting

The Municipality followed 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 Municipal Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Municipal Commission, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Municipal Commission to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpected appropriations lapse at year end unless encumbered by resolution of the Municipal Commission.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with the accounting principles generally accepted in the United States (USGAAP).

NOTE 2. GAAP/Budgetary Accounting Basis Differences

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 Revenue, 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.

REQUIRED SUPPLEMENTARY INFORMATIONSCHEDULE OF THE MUNICIPALITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

(Dollar amounts in thousands)

	<u>2015</u>
Municipality's proportion of the net pension liability (asset)	0.0078818%
Municipality's proportionate share of net pension liability (asset)	\$ (33)
Municipality's covered-employee payroll	\$ 144
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(22.29%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	(104.1%)

The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is 06/30/15.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE MUNICIPALITY CONTRIBUTIONS

South Dakota Retirement System

(Dollar amounts in thousands)

	<u>2015</u>
Contractually required contribution	\$ 8
Contributions in relation to the contractually required contribution	<u>\$ 8</u>
Contribution deficiency (excess)	\$ -
Municipality's covered-employee payroll	\$ 140
Contributions as a percentage of covered-employee payroll	6%