

HUTCHINSON COUNTY

AUDIT REPORT

For the Two Years Ended December 31, 2014

HUTCHINSON COUNTY
COUNTY OFFICIALS
December 31, 2014

Board of Commissioners:

Jerome E. Hoff
Brad Henke
Steve Friesen
Leon Edlund
Larry Mehlhaff

Auditor:
Diane Murtha

Treasurer:
Tamara Miller

State's Attorney
Glenn Roth:

Register of Deeds:
Julie Herrboldt

Sheriff:
James Zeeb

HUTCHINSON COUNTY
TABLE OF CONTENTS

Page

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
Schedule of Prior Audit Findings.....	3
Schedule of Current Audit Findings.....	3
Independent Auditor's Report.....	9
<i>Basic Financial Statements</i>	
<u>Government-wide Financial Statements:</u>	
As of December 31, 2014:	
Statement of Net Position--Modified Cash Basis.....	11
For the Year Ended December 31, 2014:	
Statement of Activities--Modified Cash Basis.....	12
For the Year Ended December 31, 2013:	
Statement of Activities--Modified Cash Basis.....	13
<u>Fund Financial Statements:</u>	
<u>Governmental Funds</u>	
As of December 31, 2014:	
Balance Sheet--Modified Cash Basis.....	14
For the Year Ended December 31, 2014:	
Statement of Revenues, Expenditures and Changes in Fund Balances--Modified Cash Basis.....	16
For the Year Ended December 31, 2013:	
Statement of Revenues, Expenditures and Changes in Fund Balances--Modified Cash Basis.....	20
<u>Fiduciary Funds</u>	
As of December 31, 2014:	
Statement of Fiduciary Net Position--Modified Cash Basis.....	24
Notes to the Modified Cash Basis Financial Statements.....	25
<i>Supplementary Information:</i>	
Schedule of Changes in Long-Term Debt.....	36



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

County Commission
Hutchinson County
Olivet, 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 modified cash basis of accounting financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hutchinson County, South Dakota (County), as of December 31, 2014, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated April 5, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County'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 County'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 No. 2014-001, No. 2014-002, and No. 2014-003 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

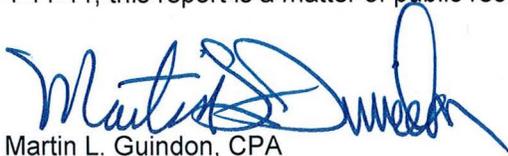
and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Current Audit Findings as item No. 2014-005.

County's Response to Findings

The County did not wish to respond to the findings identified in our audit as described in the accompanying Schedule of Current Audit Findings.

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 County'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.



Martin L. Guindon, CPA
Auditor General

April 5, 2016

HUTCHINSON COUNTY
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Audit Findings:

Finding No. 2012-01:

The County's internal controls over accounting for cash assets were inadequate resulting in diminished assurance that the County's financial transactions were properly recorded and its assets were adequately safeguarded. This finding has not been resolved and is restated under current audit finding No. 2014-001.

Finding No. 2012-02:

Internal accounting controls over financial reporting were inadequate resulting in inaccurate and incomplete information being presented to users of the annual reports. This finding has not been resolved and is restated under current audit finding No. 2014-002.

Finding No. 2012-03:

Deficiencies were noted in the accounting records which diminished the reliability of the accounting data generated by the County. This finding has not been resolved and is restated under current audit finding No. 2014-003.

Finding No. 2012-04:

The unassigned fund balance of the General Fund exceeded the maximum allowed by SDCL 7-21-18.1 by approximately \$2,356,000 as of December 31, 2012. This finding has not been resolved and is restated under current audit finding No. 2014-004.

SCHEDULE OF CURRENT AUDIT FINDINGS

Current Federal Audit Findings:

Internal Control-Related Findings - Material Weaknesses:

Cash Internal Control Deficiencies

Finding No. 2014-001:

The County's internal controls over cash assets were inadequate resulting in diminished assurance that the County's financial transactions were properly recorded and its assets were adequately safeguarded. This is the fourth consecutive audit in which a similar finding was noted.

Analysis:

United States General Accounting Office, Government Auditing Standards, 2011 revisions, state:

Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; noncompliance with provisions of laws, regulations, contracts or grant agreements; or abuse.

We noted the following internal control deficiencies over cash:

- a. The fund cash balances recorded in the general ledger agreed in total, but did not agree with the computed December 31, 2014 cash balances for the General Fund, Road and Bridge Fund, Domestic Abuse Fund, Courthouse Building Fund and Agency Funds.
- b. Several agency funds had negative cash balances recorded in the general ledger. The negative cash balances existed because several distributions such as wheel tax, 25% county road tax, tax deed collections, state fine collections, 14% motor vehicle collections, 5% motor vehicle collections and other applicable collections were not deposited into the proper agency fund. As a result, the County disbursed more cash than deposited into the respective agency funds.
- c. Variances were noted in the cash, revenue, expenditure and fund balance control accounts due to errors in the preparation and posting of general journal entries.

During this audit, the cash balances by fund were reconciled and reconstructed as of December 31, 2014.

As a result, the County was exposed to an increased risk of accounting errors or irregularities not being detected in a timely manner.

RECOMMENDATION:

1. We recommend the County improve internal controls over cash to insure that cash assets are adequately safeguarded.

Management's Response:

Management chose not to respond to this finding.

Financial Reporting Errors

Finding No. 2014-002:

Internal accounting controls over financial reporting for the years 2014 and 2013 were inadequate resulting in inaccurate information being presented to users of the annual financial reports. This is the fifth consecutive audit in which a similar finding was noted.

Analysis:

We noted the following significant errors in the County's annual financial report for the years ended December 31, 2014 and December 31, 2013:

- a. The 2014 Fiduciary Funds Statement of Net Position, Cash and Cash Equivalent was overstated by \$630,906.24 and in the 2014 Fund Financial Statements, the December 31, 2014 Cash and Fund Balance were understated by \$200,189.93 in the General Fund, \$415,520.82 in the Road and Bridge Fund, \$3,000.00 in the Domestic Abuse Fund, and \$12,195.49 in the Courthouse Building Fund.
- b. In the 2014 Fund Financial Statements, Motor Vehicle License revenue was understated by \$27,093.16 and Wheel Tax expenditures to municipalities and townships of \$29,094.72 were not reported in the Road and Bridge Fund. In addition, 2014 contingency transfers of \$5,000 to various departments were reported as General Fund - Board of County Commission expenditures and reductions of various department expenditures rather than as changes to department budgets.

- c. In the 2013 Fund Financial Statements, Motor Vehicle License revenue was understated by \$213,768.11 and Wheel Tax expenditures to municipalities and townships of \$28,957.84 were not reported in the Road and Bridge Fund. In addition, 2013 contingency transfers of \$20,525 to various departments were reported as General Fund - Board of County Commission expenditures and reductions of various department expenditures rather than as changes to department budgets.
- d. The financial statements contain unexplained adjustments in the governmental funds totaling \$1,489.01 in 2014 and \$10,252.80 in 2013.

Other less significant errors were also noted in the County's annual financial report.

We were able to correct the material reporting errors and therefore have issued an unmodified auditor's opinion on the financial statements contained in this audit report. However, users of the annual financial reports received information of diminished reliability.

RECOMMENDATION:

2. We recommend the County strengthen internal accounting controls over financial reporting.

Management's Response:

Management chose not to respond to this finding.

Inadequate Accounting Records

Finding No. 2014-003:

Deficiencies were noted in the accounting records which diminished the reliability of the accounting data generated by the County. This is the third consecutive audit in which a similar finding was noted.

Analysis:

We noted the following significant deficiencies in the County's accounting records for the years ended December 31, 2013 and 2014:

- a. Errors and deficiencies were noted in the preparation of general journal entries:
 1. Several general journal entries were made to the revenue and expenditure general ledger control accounts instead of to specific revenue and expenditure accounts. As a result, the revenue budget record and expenditure budget records which are used to prepare the financial statements did not include these adjustments.
 2. There was no indication that an independent review was made of general journal entries by another employee. For internal control purposes over adjustments, we would suggest that another employee review and sign off to each journal entry.
- b. The general ledgers by fund for revenues and expenditures did not agree with the revenue recorded in the revenue budget record and with the expenditures recorded in the expenditure budget record. The general ledger balances for revenue and expenditures should be balanced monthly to the revenue and expenditure budget records.
- c. Several of the general ledger balances of the agency funds at December 31, 2014 did not agree with the disbursements made in January, 2015 to clear the balances of these funds. The balances of these accounts were adjusted for the audit statements to agree with the January, 2015 remittances.

RECOMMENDATION:

3. We recommend the county strengthen internal accounting controls over accounting records.

Management's Response:

Management chose not to respond to this finding.

Compliance and Other Matters:

Surplus Unassigned Fund Balance

Finding No. 2014-004:

The unassigned fund balance of the General Fund exceeded the maximum allowed by South Dakota Codified Law (SDCL) 7-21-18.1 by approximately \$1,535,000 as of December 31, 2014. This is the fourth consecutive audit in which a similar finding was noted.

Analysis:

SDCL 7-21-18.1 states: "The total unreserved, undesignated fund balance of the general fund may not exceed forty percent of the total amount of all general fund appropriations contained in the budget for the next fiscal year...."

Governmental Accounting Standards Board (GASB) Statement 54, paragraph 17 states: "Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted committed, or assigned to specific purposes within the general fund."

GASB 54 changed the manner in which fund balance is to be reported by changing unreserved, undesignated fund balance to unassigned fund balance. So while SDCL 7-21-18.1 refers to unreserved, undesignated fund balance and GASB 54 refers to unassigned fund balance these terms are synonymous.

Our analysis of the County General Fund indicated an excessive unassigned fund balance existed at December 31, 2014 as follows:

Total Unassigned Fund Balance at December 31, 2014		\$ 3,020,131.39
Less:		
2015 General Fund Appropriations	3,712,372.00	
Percentage of Allowable Retainage	<u>40%</u>	
Allowable Fund Balance Retainage		<u>(1,484,948.80)</u>
Unassigned Surplus Fund Balance at December 31, 2014 in Excess of the Amount Allowed by SDCL 7-21-18.1		<u>\$ 1,535,182.59</u>

RECOMMENDATION:

4. We recommend the unassigned fund balance of the General Fund be limited to 40 percent of the next year's General Fund appropriations as required by SDCL 7-21-18.1.

Management's Response:

Management chose not to respond to this finding.

Budgetary Noncompliance

Finding No. 2014-005:

The County incurred expenditures in excess of appropriations contrary to SDCL 7-21-25.

Analysis:

Appropriations included in the annual budget constitute maximum authorizations to spend during the fiscal year (SDCL 7-21-25), and cannot be exceeded except by subsequent amendment of the budget by the County Commission pursuant to SDCL.

SDCL 7-21-25 states:

Unless specially and expressly authorized by law, it shall be unlawful for the board of county commissioners for any member thereof, or for any officer of any county or any employee thereof in charge of any institution or agency of a county, to contract any indebtedness or incur any liabilities for or in behalf of the county, in any manner whatsoever, either for a purpose, object, or item for which no appropriation is provided in the budget of such county for the fiscal year in which such indebtedness is attempted to be contracted or liability attempted to be created, or in excess of the amount of any specific appropriation for any purpose, object, or item set forth in the budgets of such county, for the fiscal year in which such indebtedness is attempted to be contracted or liability attempted to be created.

We noted the following instances of noncompliance with SDCL 7-21-25:

- a. In 2013 the County incurred expenditures in excess of appropriations for the following line item appropriations:

	<u>Year Ended</u> <u>12/31/2013</u>
<u>General Fund:</u>	
<u>Activity</u>	
Judicial System	\$ 4,526.51
County Nurse	\$ 1,791.69
Mentally Ill	\$ 7,534.59
Mental Illness Board	\$ 1,562.04
Planning and Zoning	\$ 1,601.08
<u>Road and Bridge Fund:</u>	
<u>Activity</u>	
Highways, Roads and Bridges	\$ 48,323.30

- b. In 2014 the County incurred expenditures in excess of appropriations for the following line item appropriations:

	<u>Year Ended</u> <u>12/31/2014</u>
<u>General Fund:</u>	
<u>Activity</u>	
Board of County Commissioners	\$ 28,143.44
Juvenile Detention	\$ 334.60
County Nurse	\$ 451.00
<u>Road and Bridge Fund:</u>	
<u>Activity</u>	
Intergovernmental Expenditures	\$ 29,094.72
<u>Emergency Management Fund:</u>	
<u>Activity</u>	
Emergency and Disaster Services	\$ 14,078.82
<u>Domestic Abuse Fund:</u>	
<u>Activity</u>	
Domestic Abuse	\$ 1,000.00
<u>Courthouse Building Fund:</u>	
<u>Activity</u>	
General Government Building	\$ 16,162.20
<u>RECOMMENDATION:</u>	

5. We recommend that the County refrain from incurring any expenditure in excess of the amount appropriated as required by SDCL 7-21-25.

Management's Response:

Management chose not to respond to this finding.



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

County Commission
Hutchinson County
Olivet, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hutchinson County, South Dakota (County), as of December 31, 2014, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The County's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for 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 County'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 County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, each major fund, and the aggregate remaining fund information of Hutchinson County as of December 31, 2014, and the respective changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the County's basic financial statements. The Schedule of Changes in Long-Term Debt listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2016, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 County's internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

April 5, 2016

HUTCHINSON COUNTY
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2014

	Primary Government Governmental Activities
ASSETS:	
Cash and Cash Equivalents	\$ 6,074,982.04
TOTAL ASSETS	\$ 6,074,982.04
NET POSITION:	
Restricted For: (See Note 6)	
Road and Bridge Purposes	\$ 273,914.84
911 Service Purposes	345,292.58
Other Purposes	20,249.87
Unrestricted	5,435,524.75
TOTAL NET POSITION	\$ 6,074,982.04

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

HUTCHINSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Primary Government:				
Governmental Activities:				
General Government	\$ 903,359.92	\$ 124,240.32	\$ 2,639.03	\$ (776,480.57)
Public Safety	372,844.44	26,618.56	119,974.38	(226,251.50)
Public Works	2,730,651.55	122,981.38	1,225,248.35	(1,382,421.82)
Health and Welfare	151,773.16	37,437.57		(114,335.59)
Culture and Recreation	7,800.00	990.00		(6,810.00)
Conservation of Natural Resources	149,529.82	8,160.00		(141,369.82)
Urban and Economic Development	30,523.60	14,500.00		(16,023.60)
Intergovernmental	29,094.72			(29,094.72)
Total Primary Government	\$ 4,375,577.21	\$ 334,927.83	\$ 1,347,861.76	(2,692,787.62)
General Revenues:				
Taxes:				
Property Taxes				2,665,005.56
Wheel Tax				145,438.59
State Shared Revenues				79,882.58
Grants and Contributions not Restricted to Specific Programs				1,226.66
Unrestricted Investment Earnings				17,639.97
Miscellaneous Revenue				86,089.41
Total General Revenues				2,995,282.77
Change in Net Position				302,495.15
Net Position - Beginning				5,772,486.89
NET POSITION - ENDING				\$ 6,074,982.04

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

HUTCHINSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Primary Government:				
Governmental Activities:				
General Government	\$ 855,445.74	\$ 177,531.45	\$ 4,642.19	\$ (673,272.10)
Public Safety	325,143.42	29,038.18	103,504.70	(192,600.54)
Public Works	2,255,733.60	52,214.16	1,281,131.76	(922,387.68)
Health and Welfare	172,076.43	24,157.27		(147,919.16)
Culture and Recreation	5,800.00	1,440.00		(4,360.00)
Conservation of Natural Resources	139,066.68	6,300.00		(132,766.68)
Urban and Economic Development	35,786.08			(35,786.08)
Intergovernmental	28,957.84			(28,957.84)
Total Primary Government	\$ 3,818,009.79	\$ 290,681.06	\$ 1,389,278.65	(2,138,050.08)
General Revenues:				
Taxes:				
Property Taxes				2,595,047.56
Wheel Tax				144,789.16
State Shared Revenues				84,075.66
Unrestricted Investment Earnings				17,051.30
Miscellaneous Revenue				120,119.49
Total General Revenues				2,961,083.17
Change in Net Position				823,033.09
Net Position - Beginning				4,949,453.80
NET POSITION - ENDING				\$ 5,772,486.89

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

**HUTCHINSON COUNTY
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2014**

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Cash and Cash Equivalents	\$ 4,726,646.55	\$ 937,092.94	\$ 411,242.55	\$ 6,074,982.04
TOTAL ASSETS	<u>\$ 4,726,646.55</u>	<u>\$ 937,092.94</u>	<u>\$ 411,242.55</u>	<u>\$ 6,074,982.04</u>
FUND BALANCES: (See Note 1.j.)				
Restricted	\$ 7,310.16	\$ 273,914.84	\$ 358,232.29	\$ 639,457.29
Assigned	1,699,205.00	663,178.10	53,010.26	2,415,393.36
Unassigned	3,020,131.39			3,020,131.39
TOTAL FUND BALANCES	<u>\$ 4,726,646.55</u>	<u>\$ 937,092.94</u>	<u>\$ 411,242.55</u>	<u>\$ 6,074,982.04</u>

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

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HUTCHINSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes:				
General Property Taxes--Current	\$ 2,638,490.35	\$	\$	\$ 2,638,490.35
General Property Taxes--Delinquent	16,612.81			16,612.81
Penalties and Interest	8,663.07			8,663.07
Wheel Tax		145,438.59		145,438.59
Tax Deed Revenue	1,239.33			1,239.33
Licenses and Permits	21,603.00		840.00	22,443.00
Intergovernmental Revenue:				
Federal Grants	6,435.16		28,794.35	35,229.51
Federal Payments in Lieu of Taxes	1,226.66			1,226.66
State Shared Revenue:				
Bank Franchise	40,075.13			40,075.13
Motor Vehicle Licenses		1,159,966.85		1,159,966.85
Prorate License Fees		58,944.95		58,944.95
Telecommunications Gross Receipts Tax	39,807.45			39,807.45
Motor Vehicle 1/4%	2,639.03			2,639.03
Motor Fuel Tax		6,336.55		6,336.55
911 Remittances			84,744.87	84,744.87
Other Intergovernmental Revenue	95.00			95.00
Charges for Goods and Services:				
General Government:				
Treasurer's Fees	4,977.00			4,977.00
Register of Deeds' Fees	82,512.97		9,065.86	91,578.83
Legal Services	3,476.64			3,476.64

Clerk of Courts Fees	7,713.40		525.00	8,238.40
Other Fees	11,564.45			11,564.45
Public Safety:				
Law Enforcement	9,210.45			9,210.45
Prisoner Care	778.58			778.58
Public Works:				
Road Maintenance Contract Charges		122,981.38		122,981.38
Health and Welfare:				
Economic Assistance:				
Poor Lien Recoveries	36,597.57			36,597.57
Culture and Recreation	990.00			990.00
Conservation of Natural Resources	5,900.00			5,900.00
Fines and Forfeits:				
Costs	2,417.80			2,417.80
Other	13,773.73			13,773.73
Miscellaneous Revenue:				
Investment Earnings	13,100.87	3,093.69	1,445.41	17,639.97
Refund of Prior Year's Expenditures	21,925.00	397.92		22,322.92
Other	5,718.89			5,718.89
Total Revenues	<u>2,997,544.34</u>	<u>1,497,159.93</u>	<u>125,415.49</u>	<u>4,620,119.76</u>

Expenditures:

General Government:

Legislative:

Board of County Commissioners	126,468.04			126,468.04
Elections	31,934.26			31,934.26
Judicial System	43,141.75			43,141.75

Financial Administration:

Auditor	108,715.37			108,715.37
Treasurer	140,248.23			140,248.23
Other	73.08			73.08

Legal Services:

State's Attorney	101,230.06			101,230.06
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Other Administration:

General Government Building	75,255.17		36,162.20	111,417.37
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HUTCHINSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014
(Continued)

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Director of Equalization	135,425.77			135,425.77
Register of Deeds	74,576.32		8,920.42	83,496.74
Veterans Service Officer	16,395.50			16,395.50
Predatory Animal	4,813.75			4,813.75
Public Safety:				
Law Enforcement:				
Sheriff	226,588.66			226,588.66
County Jail	25,558.53			25,558.53
Coroner	6,299.37			6,299.37
Juvenile Detention	14,334.60			14,334.60
Protective and Emergency Services:				
Emergency and Disaster Services			40,253.82	40,253.82
Communication Center			62,267.44	62,267.44
Public Works:				
Highways and Bridges:				
Highways, Roads and Bridges		2,736,628.83		2,736,628.83
Health and Welfare:				
Economic Assistance:				
Support of Poor	60,723.07			60,723.07
Public Welfare	1,788.03			1,788.03
Health Assistance:				
County Nurse	33,201.00			33,201.00
Social Services:				
Domestic Abuse			2,200.00	2,200.00

Mental Health Services:				
Mentally Ill	47,073.76			47,073.76
Mental Health Centers	5,356.00			5,356.00
Mental Illness Board	1,431.30			1,431.30
Culture and Recreation:				
Recreation:				
County Fair	7,800.00			7,800.00
Conservation of Natural Resources:				
Soil Conservation:				
County Extension	54,992.38			54,992.38
Soil Conservation Districts	20,600.00			20,600.00
Weed and Pest Control	73,937.44			73,937.44
Urban and Economic Development:				
Urban Development:				
Planning and Zoning	30,523.60			30,523.60
Intergovernmental Expenditures		29,094.72		29,094.72
Total Expenditures	<u>1,468,485.04</u>	<u>2,765,723.55</u>	<u>149,803.88</u>	<u>4,384,012.47</u>
Excess of Revenues Over (Under) Expenditures	<u>1,529,059.30</u>	<u>(1,268,563.62)</u>	<u>(24,388.39)</u>	<u>236,107.29</u>
Other Financing Sources (Uses):				
Transfers In		1,000,000.00	5,695.49	1,005,695.49
Transfers Out	(1,005,695.49)			(1,005,695.49)
Insurance Proceeds	3,199.28	5,235.98		8,435.26
Sale of County Property		57,952.60		57,952.60
Total Other Financing Sources (Uses)	<u>(1,002,496.21)</u>	<u>1,063,188.58</u>	<u>5,695.49</u>	<u>66,387.86</u>
Net Change in Fund Balance	526,563.09	(205,375.04)	(18,692.90)	302,495.15
Fund Balance - Beginning	<u>4,200,083.46</u>	<u>1,142,467.98</u>	<u>429,935.45</u>	<u>5,772,486.89</u>
FUND BALANCE - ENDING	<u>\$ 4,726,646.55</u>	<u>\$ 937,092.94</u>	<u>\$ 411,242.55</u>	<u>\$ 6,074,982.04</u>

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

HUTCHINSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

20

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes:				
General Property Taxes--Current	\$ 2,580,564.00	\$	\$	\$ 2,580,564.00
General Property Taxes--Delinquent	6,390.93			6,390.93
Penalties and Interest	6,655.53			6,655.53
Wheel Tax		144,789.16		144,789.16
Tax Deed Revenue	1,437.10			1,437.10
Licenses and Permits	24,209.84		630.00	24,839.84
Intergovernmental Revenue:				
Federal Grants	2,267.00		18,080.74	20,347.74
State Grants		194,120.70		194,120.70
State Shared Revenue:				
Bank Franchise	38,281.15			38,281.15
Motor Vehicle Licenses		1,024,822.43		1,024,822.43
Prorate License Fees		55,675.37		55,675.37
Telecommunications Gross Receipts Tax	45,794.51			45,794.51
Motor Vehicle 1/4%	2,375.19			2,375.19
Motor Fuel Tax		6,513.26		6,513.26
911 Remittances			85,423.96	85,423.96
Other Intergovernmental Revenue	60.00			60.00
Charges for Goods and Services:				
General Government:				
Treasurer's Fees	5,323.03			5,323.03
Register of Deeds' Fees	92,174.00		10,527.42	102,701.42
Legal Services	18,853.54			18,853.54

Clerk of Courts Fees	6,283.20		375.00	6,658.20
Other Fees	19,695.42	90.00		19,785.42
Public Safety:				
Law Enforcement	8,736.07			8,736.07
Prisoner Care	1,560.00			1,560.00
Public Works:				
Road Maintenance Contract Charges		52,214.16		52,214.16
Health and Welfare:				
Economic Assistance:				
Poor Lien Recoveries	23,527.27			23,527.27
Culture and Recreation	1,440.00			1,440.00
Conservation of Natural Resources	6,300.00			6,300.00
Fines and Forfeits:				
Fines	26.00			26.00
Costs	2,318.00			2,318.00
Other	16,398.11			16,398.11
Miscellaneous Revenue:				
Investment Earnings	12,219.63	3,441.14	1,390.53	17,051.30
Refund of Prior Year's Expenditures	3,503.60	23,866.33		27,369.93
Other	1,287.91	20,854.65		22,142.56
Total Revenues	<u>2,927,681.03</u>	<u>1,526,387.20</u>	<u>116,427.65</u>	<u>4,570,495.88</u>

Expenditures:

General Government:

Legislative:

Board of County Commissioners	93,727.95			93,727.95
Elections	6,114.19			6,114.19
Judicial System	77,373.37			77,373.37

Financial Administration:

Auditor	119,423.59			119,423.59
Treasurer	148,656.51			148,656.51

Legal Services:

State's Attorney	93,548.77			93,548.77
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Other Administration:

General Government Building	72,179.39		8,419.71	80,599.10
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HUTCHINSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013
(Continued)

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Director of Equalization	136,786.83			136,786.83
Register of Deeds	74,992.56		3,990.71	78,983.27
Veterans Service Officer	15,418.41			15,418.41
Predatory Animal	4,813.75			4,813.75
Public Safety:				
Law Enforcement:				
Sheriff	209,975.26			209,975.26
County Jail	20,204.40			20,204.40
Coroner	1,899.69			1,899.69
Juvenile Detention	6,504.60			6,504.60
Protective and Emergency Services:				
Emergency and Disaster Services			30,029.80	30,029.80
Communication Center			62,143.90	62,143.90
Public Works:				
Highways and Bridges:				
Highways, Roads and Bridges		2,273,923.54		2,273,923.54
Health and Welfare:				
Economic Assistance:				
Support of Poor	56,520.32			56,520.32
Public Welfare	2,211.79			2,211.79
Health Assistance:				
County Nurse	33,391.69			33,391.69
Social Services:				
Domestic Abuse			1,200.00	1,200.00

Mental Health Services:				
Mentally Ill	70,334.59			70,334.59
Mental Health Centers	5,356.00			5,356.00
Mental Illness Board	3,062.04			3,062.04
Culture and Recreation:				
Recreation:				
County Fair	5,800.00			5,800.00
Conservation of Natural Resources:				
Soil Conservation:				
County Extension	51,396.06			51,396.06
Soil Conservation Districts	20,600.00			20,600.00
Weed and Pest Control	67,070.62			67,070.62
Urban and Economic Development:				
Urban Development:				
Planning and Zoning	35,786.08			35,786.08
Intergovernmental Expenditures		28,957.84		28,957.84
Total Expenditures	<u>1,433,148.46</u>	<u>2,302,881.38</u>	<u>105,784.12</u>	<u>3,841,813.96</u>
Excess of Revenues Over (Under) Expenditures	<u>1,494,532.57</u>	<u>(776,494.18)</u>	<u>10,643.53</u>	<u>728,681.92</u>
Other Financing Sources (Uses):				
Transfers In		1,150,000.00		1,150,000.00
Transfers Out	(1,150,000.00)			(1,150,000.00)
Insurance Proceeds	5,614.23	18,189.94		23,804.17
Sale of County Property		70,547.00		70,547.00
Total Other Financing Sources (Uses)	<u>(1,144,385.77)</u>	<u>1,238,736.94</u>	<u>0.00</u>	<u>94,351.17</u>
Net Change in Fund Balance	350,146.80	462,242.76	10,643.53	823,033.09
Fund Balance - Beginning	<u>3,849,936.66</u>	<u>680,225.22</u>	<u>419,291.92</u>	<u>4,949,453.80</u>
FUND BALANCE - ENDING	<u>\$ 4,200,083.46</u>	<u>\$ 1,142,467.98</u>	<u>\$ 429,935.45</u>	<u>\$ 5,772,486.89</u>

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

HUTCHINSON COUNTY
STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
December 31, 2014

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	\$ 188,217.48
TOTAL ASSETS	<u>\$ 188,217.48</u>
NET POSITION:	
Net Position Held in Agency Capacity	\$ 188,217.48
TOTAL NET POSITION	<u>\$ 188,217.48</u>

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

HUTCHINSON COUNTY
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

The reporting entity of Hutchinson County (County), 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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the County'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 two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the County 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 County financial reporting entity are described below:

Governmental Funds:

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

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

Road and Bridge Fund – to account for funds credited to the road and bridge fund pursuant to SDCL 32-11-4.2 to be used by the board of county commissioners for grading, constructing, planing, dragging, and maintaining county highways and also for dragging, maintaining, and grading secondary roads. Proper equipment for dragging, grading, and maintaining highways, such as graders, tractors, drags, maintainers, and planers may be purchased from the road and bridge fund. (SDCL 32-11-2 and 32-11-4.2) This is a major fund.

The remaining special revenue funds are not considered major funds: 911 Service, Emergency Management, Domestic Abuse, Courthouse Building, and Modernization and Preservation Relief. These funds are reported on the fund financial statements as "Other Governmental Funds."

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and are never considered to be major funds:

Agency Funds – Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are used to account for the accumulation and distribution of property tax revenues and various pass-through funds.

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.

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

Measurement Focus:

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

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

Basis of Accounting:

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The acceptable modification to the cash basis of accounting implemented by the County in these financial statements is:

Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

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

If the County applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Deposits and Investments:

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

e. 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.

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using a modified cash basis of accounting. The County has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating those assets where appropriate so any capital assets owned by the County and the related depreciation are not reported on the financial statements of the County.

f. Long-Term Liabilities:

Long-term liabilities include, but are not limited to, General Obligation Bonds, Revenue Bonds, Certificates of Participation, Financing (Capital Acquisition) Leases, and Compensated Absences.

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using a modified cash basis of accounting. The County has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the County. The County does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

The County has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

g. Program Revenues:

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

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

h. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in two components:

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Agency Funds have no fund equity. The Net Position is reported as Net Position Held in Agency Capacity.

i. Application of Net Position:

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

j. 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 County 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 County Commissioners.
- 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 County 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 Government would first use *committed, then assigned, and lastly unassigned amounts* of unrestricted fund balance when expenditures are made.

The Government *does not* have a formal minimum fund balance policy.

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

Major Special Revenue Fund
Road and Bridge Fund

Revenue Source
Motor Vehicle Licenses

A schedule of fund balances is provided as follows:

**HUTCHINSON COUNTY
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:				
Restricted For:				
Snow Removal Purposes	\$	\$ 273,914.84	\$	\$ 273,914.84
911 Service Purposes			345,292.58	345,292.58
Domestic Abuse Purposes			4,097.56	4,097.56
Modernization and Preservation Relief Purposes			8,842.15	8,842.15
Motor Vehicle 1/4% Purposes	7,310.16			7,310.16
Assigned To:				
Applied to Next Year's Budget	949,205.00			949,205.00
Capital Outlay Accumulations	750,000.00			750,000.00
Road and Bridge Purposes		663,178.10		663,178.10
Emergency Management Purposes			46,510.26	46,510.26
Courthouse Building Purposes			6,500.00	6,500.00
Unassigned	<u>3,020,131.39</u>			<u>3,020,131.39</u>
Total Fund Balances	<u>\$ 4,726,646.55</u>	<u>\$ 937,092.94</u>	<u>\$ 411,242.55</u>	<u>\$ 6,074,982.04</u>

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

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

	<u>Year Ended</u> <u>12/31/2013</u>	<u>Year Ended</u> <u>12/31/2014</u>
<u>General Fund:</u>		
<u>Activity</u>		
Board of County Commissioners		\$ 28,143.44
Judicial System	\$ 4,526.51	
Juvenile Detention		\$ 334.60
County Nurse	\$ 1,791.69	\$ 451.00
Mentally Ill	\$ 7,534.59	
Mental Illness Board	\$ 1,562.04	
Planning and Zoning	\$ 1,601.08	
<u>Road and Bridge Fund:</u>		
<u>Activity</u>		
Highways, Roads and Bridges	\$ 48,323.30	
Intergovernmental Expenditures		\$ 29,094.72
<u>Emergency Management Fund:</u>		
<u>Activity</u>		
Emergency and Disaster Services		\$ 14,078.82
<u>Domestic Abuse Fund:</u>		
<u>Activity</u>		
Domestic Abuse		\$ 1,000.00
<u>Courthouse Building Fund:</u>		
<u>Activity</u>		
General Government Building		\$ 16,162.20

The County did not exceed the total General Fund Budget in CY 2013 or CY 2014 or the Road and Bridge Fund budget in CY 2014. The County did exceed the total Road and Bridge Fund Budget in CY 2013. In addition, the County did exceed the total budgets for the Emergency Management Fund, Domestic Abuse Fund, and Courthouse Building Fund (Other Governmental Funds) in CY 2014.

3. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The County 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 County's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 7-20-1, 7-20-1.1, and 7-20-1.2, 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 County 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.

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

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

Interest Rate Risk – The County 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 County's policy is to credit all income from investments to the fund making the investment.

4. PROPERTY TAXES

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of 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 County is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the County.

5. OPERATING LEASES

The County entered into a lease agreement on April 1, 1995 with Minnehaha County to gain access to Minnehaha County's Juvenile Detention Facilities. This contract is to remain in effect for twenty years (until March 31, 2015). The payments are the same throughout the term of the lease agreement and are due each June 1 and December 1.

The County's annual rental payment is \$5,604.60 and is paid out of the General Fund. There is an additional daily charge to the County for expenses related to housing juveniles in the detention facilities at Minnehaha County.

6. RESTRICTED NET POSITION

Restricted Net Position for the year ended December 31, 2014 was as follows:

Major Purposes:

Road and Bridge Purposes	\$ 273,914.84
911 Services Purposes	<u>345,292.58</u>

Other Purposes:

Motor Vehicle 1/4% Purposes (General Fund)	7,310.16
Domestic Abuse Purposes	4,097.56
Modernization and Preservation Relief Purposes	<u>8,842.15</u>

Total Other Purposes	<u>20,249.87</u>
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Total Restricted Net Position **\$ 639,457.29**

These balances are restricted due to statutory requirements.

7. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2014 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u>		<u>Total</u>
	Road and Bridge Fund	Other Governmental Funds	
Major Funds:			
General Fund	\$ 1,000,000.00	\$ 5,695.49	\$ 1,005,695.49

Interfund transfers for the year ended December 31, 2013 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u>
	Road and Bridge Fund
Major Funds:	
General Fund	\$ 1,150,000.00

The County typically budgets transfers to the Road and Bridge Fund and the Emergency Management Fund (Other Governmental Funds) to conduct the indispensable functions of the County.

8. RETIREMENT PLAN

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions.

The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The County's share of contributions to the SDRS for the fiscal years ended December 31, 2014, 2013, and 2012 were \$73,051.73, \$67,845.46, and \$74,973.99, respectively, equal to the required contributions each year.

9. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2014, the County was involved in one lawsuit. No determination can be made at this time regarding the potential outcome of this lawsuit. However, as discussed in the Risk Management note, the County has liability coverage for itself and its employees. Therefore, no material effects are anticipated to the County as a result of the potential outcome of this lawsuit.

10. RISK MANAGEMENT

The County 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, 2014, the County managed its risks as follows:

Employee Health Insurance:

The County 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 County joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The County'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 County. The County pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The County pays an annual premium to the pool to provide coverage for:

- a. General Liability,
- b. Automobile Liability,
- c. Law Enforcement Operations,
- d. Wrongful Acts,

- e. Good Samaritan Liability,
- f. Pollution Liability,
- g. Broad Legal Defense Liability, and
- h. Property Coverage

The agreement with the SDPAA provides that the above coverages will be provided to a \$5,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The County 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 County's First Full Year	50%
End of County's Second Full Year	60%
End of County's Third Full Year	70%
End of County's Fourth Full Year	80%
End of County's Fifth Full Year	90%
End of County's Sixth Full Year and Thereafter	100%

As of December 31, 2014, the County has vested balance in the cumulative reserve fund of \$62,998.50.

The County 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 County 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 County'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 County pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

**SUPPLEMENTARY INFORMATION
HUTCHINSON COUNTY
SCHEDULE OF CHANGES IN LONG-TERM DEBT
For the Two Years Ended December 31, 2014**

Indebtedness	Long-Term Debt January 1, 2013	Add New Debt	Less Debt Retired	Long-Term Debt December 31, 2014
Governmental Long-Term Debt:				
Other Long-Term Debt Payable:				
Financing (Capital Acquisition) Leases	\$	\$ 270,497.91	\$ 23,145.99	\$ 247,351.92

Note 1 - Long-Term Debt:

Debt payable at December 31, 2014 is comprised of the following:

Financing (Capital Acquisition) Leases:

Caterpillar 320E Hydraulic Excavator; Issued 6/16/14; Final Maturity Date of July 2018; Interest Rate 2.817%; Paid from the Road and Bridge Fund	\$	160,902.91
Caterpillar CB44B Roller; Issued 7/8/14; Final Maturity Date of July 2019; Interest Rate 2.8%; Paid from the Road and Bridge Fund	\$	86,449.00