

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA,
A COMPONENT UNIT OF THE CITY OF
LEMMON, SOUTH DAKOTA**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
WITH SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2017

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA
A COMPONENT UNIT OF THE CITY OF
LEMMON, SOUTH DAKOTA**

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Wahlenberg Ritzman & Co., LLC

certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
The Housing and Redevelopment Commission
of the City of Lemmon, South Dakota

Report on Financial Statements

We have audited the accompanying financial statements of **The Housing and Redevelopment Commission of the City of Lemmon, South Dakota, a component unit of the City of Lemmon, South Dakota (the Commission)**, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement, whether due to fraud or error.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission, as of September 30, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of Commission's proportionate share of net pension asset, and the schedule of Commission's contributions as listed in the table of contents, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The Commission's Financial Data Schedule (FDS), as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Commission.

The FDS is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 June 27, 2018, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Commission's internal control over financial reporting and compliance.

Yankton, South Dakota
June 27, 2018

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Housing and Redevelopment Commission of the City of Lemmon, South Dakota (the Commission) was organized in 1968 pursuant to the Municipal Housing and Redevelopment Act of South Dakota as a public housing agency formed to provide financial assistance for low income public housing pursuant to the United States Housing Act of 1937, (42 U.S.C. 1401, et seq.). The mayor and City commissioners appoint the five members of the governing board for five year staggered terms. The public housing authority (PHA) board elects its own chairperson and recruits and employs its management personnel and other workers. The local governing board of the City of Lemmon, South Dakota has the ability to veto or otherwise modify a housing commission's decision to construct a specific project and issue debt.

The primary government is the City of Lemmon, South Dakota.

The Governmental Accounting Standards Board (GASB) establishes the criteria for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the primary government appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government. Organizations for which the Commission is not financially accountable are also included when doing so is necessary in order to prevent the Commission's financial statements from being misleading.

The Commission considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include the Commission's financial statements.

Nature of Business

The Commission administers PAS/LOCCS Project No. SD025-1, under Annual Contribution Contract DEN-569, which consists of 44 conventional low rent units.

Additionally, the Commission has constructed two four-plex rental facilities and purchased FIVE single-family rental properties. These projects are not low income housing programs and rental charges are based upon current market rate for similar type housing in the local area.

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation

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

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured, basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the statement of revenues, expenses and changes in fund net position present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, the Commission considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. Certificates of deposit, regardless of maturity, are considered to be cash equivalents.

Accounts Receivable

All tenants accounts receivable are shown net of an allowance for doubtful accounts. The allowances for uncollectible accounts receivable is calculated based on historical trend data.

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized.

Purchased capital assets are recorded at cost. Donated capital assets are valued at their estimated fair value on the date donated. Interest costs incurred during construction of capital assets are capitalized along with other capital asset costs. Depreciation is computed principally by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	15-40
Improvements other than buildings	15
Furniture and equipment	3-5

Inventories

Inventories consist of supplies or fuel, and are valued at cost.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the balance sheet 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 (expenses) until the applicable future period. In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisition of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources (revenue) until the applicable future period.

Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, the pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS.

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Liabilities

Long-term liabilities primarily consist of bonds and notes payable, and compensated absences. All vested vacation is accrued when incurred and is presented as compensated absences in the financial statements. Payments for vacation leave will be made at rates in effect when the benefits are used.

Other Postemployment Benefits

The Commission does not provide any other postemployment benefits to employees.

Equity Classifications

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

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

Application of Net Position

It is the Commission’s policy to first use restricted net position (if any), prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the entity. For the Commission, these revenues are charges for dwelling rents. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the entity. Revenues and expenses not meeting these definitions are reported as nonoperating revenue. The primary nonoperating revenue is HUD PHA grants.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

Budgets

The Commission is not legally required to adopt a budget, therefore, budgetary data is not included in the required supplementary information. Capital Fund budgets are adopted on a “project length” basis and prepared in accordance with HUD requirements.

2. DEPOSITS AND INVESTMENTS

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The Commission’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1. 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.

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

2. DEPOSITS AND INVESTMENTS, continued

Investments – In general, SDCL 4-5-6 permits housing authority funds to be invested 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); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall 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.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial risk. As of September 30, 2017, the Commission's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Investments – As of September 30, 2017, the Commission had no investments.

Interest Rate Risk – The Commission 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.

Credit Risk – State law limits eligible investments for the Commission, as discussed above. The Commission has no investment policy that would further limit its investment choices. As of September 30, 2017, the Commission had no investments.

Concentration of Credit Risk – The Commission places no limit on the amount that may be invested in any one issuer. As of September 30, 2017, the Commission had no investments.

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 78,489	\$ -	\$ -	\$ 78,489
Total capital assets not being depreciated	<u>78,489</u>	<u>-</u>	<u>-</u>	<u>78,489</u>
Capital assets being depreciated:				
Buildings and improvements	2,920,211	342,754	-	3,262,965
Furniture and equipment	<u>94,016</u>	<u>2,856</u>	<u>-</u>	<u>96,872</u>
Total capital assets being depreciated	<u>3,014,227</u>	<u>345,610</u>	<u>-</u>	<u>3,359,837</u>
Less accumulated depreciation for:				
Buildings and improvements	1,678,666	101,860	-	1,780,526
Furniture and equipment	<u>85,491</u>	<u>7,156</u>	<u>-</u>	<u>92,647</u>
Total accumulated depreciation	<u>1,764,157</u>	<u>109,016</u>	<u>-</u>	<u>1,873,173</u>
Total capital assets being depreciated, net	<u>1,250,070</u>	<u>236,594</u>	<u>-</u>	<u>1,486,664</u>
Capital assets, net	<u>\$ 1,328,559</u>	<u>\$ 236,594</u>	<u>\$ -</u>	<u>\$ 1,565,153</u>

4. LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended September 30, 2017, were as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Due Within One year</u>
Revenue bonds	\$ 478,801	\$ -	\$ (28,618)	\$ 450,183	\$ 29,360
Notes payable	<u>215,065</u>	<u>-</u>	<u>(13,409)</u>	<u>201,656</u>	<u>11,884</u>
Total debt payable	693,866	-	(42,027)	651,839	41,244
Compensated absences	<u>5,615</u>	<u>8,208</u>	<u>(8,017)</u>	<u>5,806</u>	<u>3,368</u>
Total long-term liabilities	<u>\$ 699,481</u>	<u>\$ 8,208</u>	<u>\$ (50,044)</u>	<u>\$ 657,645</u>	<u>\$ 44,612</u>

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

4. LONG-TERM LIABILITIES, continued

Revenue bonds payable at September 30, 2017, consist of two issues secured by real estate mortgages on and the assignments of leases and rents on the Commission's two four-plex projects. The City of Lemmon, South Dakota, guarantees payment of the bonds to a limit of 25% of the original principal amount of the bonds, for a total of \$165,500.

Long-term liabilities at September 30, 2017, are comprised of the following:

Revenue Bonds:

\$300,000 Essential Function Housing Development Revenue Bonds, Series 2001; Maturity date June 1, 2031; 1.00% interest rate; secured by mortgage; \$1,476 monthly payments	\$ 156,837
\$390,000 Essential Function Housing Development Revenue Bonds, Series 2006; Maturity date June 1, 2036; 4.50% interest rate; secured by mortgage: \$2,172 monthly payments	293,346

Notes Payable:

\$36,000 mortgage note payable – financial institution 5.00% interest rate; \$285 monthly payments; secured by mortgage	25,087
\$29,600 mortgage note payable – financial institution 5.00% interest rate; \$234 monthly payments; secured by mortgage	22,082
\$97,200 mortgage note payable – financial institution 5.00% interest rate; \$771 monthly payments; secured by mortgage	81,650

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

4. LONG-TERM LIABILITIES, continued

\$78,980 mortgage note payable – SDHDA HOF Funding 0.00% interest rate; \$219 monthly payments; secured by mortgage	72,837
Compensated Absences:	
Vacation payable to employees as of September 30, 2017	<u>5,806</u>
Total Long-Term Liabilities	<u>\$ 657,645</u>

The two bond issues have provisions to adjust interest rates every 5 years. The notes payable with financial institutions have provisions to adjust interest rates every 3 years.

The annual requirements to amortize long-term debt outstanding as of September 30, 2017, except for compensated absences, are as follows:

<u>Year Ending September 30,</u>	<u>Revenue Bonds and Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 41,244	\$ 20,654	\$ 61,898
2019	42,483	19,415	61,898
2020	43,774	18,124	61,898
2021	45,125	16,773	61,898
2022	46,533	15,365	61,898
2023 - 2027	214,680	54,167	268,847
2028 - 2032	166,286	18,646	184,932
2033 - 2037	31,531	333	31,864
2038 - 2042	13,163	-	13,163
2043 - 2047	7,020	-	7,020
Total	<u>\$ 651,839</u>	<u>\$ 163,477</u>	<u>\$ 815,316</u>

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

5. PAYMENTS IN LIEU OF TAXES

Public housing authorities are not required to pay property taxes based on the normal property value assessment and tax levy procedures on real property owned, but rather make payments in lieu of (property) taxes (PILOT). State law requires that the amount due is the lower of 10% of gross rents less utilities or 5% of gross rents. Payments in lieu of taxes at September 30, 2017 were \$9,925.

6. 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's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation.

All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

6. PENSION PLAN, continued

Benefits Provided, continued

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

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLA's, the fair value of assets will be greater or equal to accrued liabilities.

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

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

6. PENSION PLAN, continued

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Commission's share of contributions to the SDRS for the fiscal years ended September 30, 2017, 2016 and 2015 was \$5,554, \$4,619 and \$4,189 respectively, equal to the required contributions each year.

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

At June 30, 2017, SDRS is 100.1% 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 Commission as of the measurement period ending June 30, 2017 and reported by the Commission as of September 30, 2017 are as follows:

Proportionate share of pension liability	\$ 504,690
Less proportionate share of net pension restricted for pension benefits	<u>505,083</u>
Proportionate share of net pension liability/(asset)	<u>\$ (393)</u>

At September 30 2017, the Commission reported a Liability (asset) of \$(393) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Commission's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the Commission's proportion was 0.00433770%.

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

6. PENSION PLAN, continued

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

For the year ended September 30, 2017, the Commission recognized pension expense (reduction of pension expense) of \$(9,851). At September 30, 2017 the Commission 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>
Differences between expected and actual experience	\$ 6,307	\$ -
Changes in assumptions	30,565	-
Net difference between projected and actual earnings on pension plan investments	-	7,568
Changes in proportion and difference between commission's contributions and proportionate share of contributions	-	2,314
Commission contributions subsequent to the measurement date	<u>1,459</u>	<u>-</u>
Total	<u>\$ 38,331</u>	<u>\$ 9,882</u>

\$1,459 reported as deferred outflow of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended <u>September 30</u>	
2018	\$ 6,983
2019	12,583
2020	9,375
2021	<u>(1,951)</u>
Total	<u>\$ 26,990</u>

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

6. PENSION PLAN, continued

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00%
Discount Rate	6.50 percent net of plan investment expense

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

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, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

6. PENSION PLAN, continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	<u>2.0%</u>	0.7%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions 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 Commission's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, as well as what the Commission'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 (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Commission's proportionate share of the net pension liability/(asset)	\$ 72,097	\$ (393)	\$ (59,425)

Pension Plan Fiduciary Net Position

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

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

7. SEGMENT INFORMATION

The Commission issued bonds to finance the construction of multifamily developments. The bond fund activity is accounted for in a single enterprise fund, but investors of those bonds rely on the revenue generated by the activities within the individual bond indenture. Summary financial information for the Business Activities Fund is presented below:

Condensed Statement of Net Position

Assets	
Current assets	\$ 84,604
Capital and other assets	<u>843,193</u>
Total assets	<u>927,797</u>
Deferred Outflows of Resources	
Pension related	<u>7,283</u>
Liabilities	
Current liabilities	59,680
Noncurrent liabilities	<u>611,025</u>
Total liabilities	<u>670,705</u>
Deferred Inflows of Resources	
Pension related	<u>1,878</u>
Net Position	
Net investment in capital assets	191,279
Restricted	5,480
Unrestricted	<u>65,738</u>
Total net position	<u>\$ 262,497</u>

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

7. SEGMENT INFORMATION, continued

Condensed Statement of Revenues, Expenses, and
Changes in Fund Net Position

Operating revenues	\$ 121,062
Operating expenses	(66,991)
Depreciation expense	<u>(31,488)</u>
Operating income (loss)	22,583
Non operating revenue (expense)	<u>20,951</u>
Change in net position	43,534
Beginning net position	<u>218,963</u>
Ending net position	<u>\$ 262,497</u>

8. INSURANCE SETTLEMENT

In August of 2016, a hail and windstorm caused significant damage to the roofs and siding of the Commission's properties. The Commission's property insurance carrier has processed the claim and provided a total settlement of \$437,240, received during the years ended September 30, 2016 and 2017.

9. RISK MANAGEMENT

The Commission 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 September 30, 2017 the Commission managed its risks as follows:

Employee Health Insurance

The Commission 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.

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

NOTES TO FINANCIAL STATEMENTS – continued
SEPTEMBER 30, 2017

9. RISK MANAGEMENT

Liability Insurance

The Commission purchases liability insurance risks related to torts, theft, or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

The Commission purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits

The Commission provides coverage for unemployment benefits by paying into the unemployment compensation fund established by state law and managed by the State of South Dakota.

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION

*Wohlenberg
Ritzman & Co., LLC*
certified public accountants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
The Housing and Redevelopment Commission
of the City of Lemmon, 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 Housing and Redevelopment Commission of the City of Lemmon, South Dakota, a component unit of the City of Lemmon, South Dakota (the Commission)** as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated June 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Yankton, South Dakota
June 27, 2018

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

**SCHEDULE OF PRIOR AUDIT FINDINGS
SEPTEMBER 30, 2017**

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

There were no financial statement audit findings reported.

**THE HOUSING AND REDEVELOPMENT COMMISSION
OF THE CITY OF LEMMON, SOUTH DAKOTA**

**SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2017**

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

There are no financial statement audit findings reported.