



Financial Statements
December 31, 2018

City of Big Stone City

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Independent Auditor's Report

The City Council
City of Big Stone City
Big Stone City, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of City of Big Stone City (the City), as of December 31, 2018, and for the year then ended, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, business-type activities, and each major fund of City of Big Stone City as of December 31, 2018, the respective changes in modified cash basis financial position and, where applicable, cash flows thereof and for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Aberdeen, South Dakota
December 13, 2019

City of Big Stone City
Statement of Net Position – Modified Cash Basis
December 31, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ -	\$ 596,052	\$ 596,052
Investments	78,328	945,688	1,024,016
Interfund balance	(570,777)	570,777	-
Restricted assets:			
Investments	-	50,000	50,000
Total assets	<u>\$ (492,449)</u>	<u>\$ 2,162,517</u>	<u>\$ 1,670,068</u>
Net Position			
Restricted for:			
Debt service	\$ -	\$ 50,000	\$ 50,000
Unrestricted	<u>(492,449)</u>	<u>2,112,517</u>	<u>1,620,068</u>
Total net position (deficit)	<u>(492,449)</u>	<u>2,162,517</u>	<u>1,670,068</u>
	<u>\$ (492,449)</u>	<u>\$ 2,162,517</u>	<u>\$ 1,670,068</u>

City of Big Stone City
Statement of Activities – Modified Cash Basis
Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Loan Proceeds	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary government							
Governmental activities							
General government	\$ 138,966	\$ 4,077	\$ 2,145	\$ -	\$ (132,744)	\$ -	\$ (132,744)
Public safety	142,624	4	-	17,550	(125,070)	-	(125,070)
Public works	307,415	51,380	45,840	-	(210,195)	-	(210,195)
Health and welfare	4,142	-	-	-	(4,142)	-	(4,142)
Culture and recreation	25,019	2,739	-	3,409	(18,871)	-	(18,871)
Conservation and development	12,104	-	-	-	(12,104)	-	(12,104)
Total governmental activities	<u>630,270</u>	<u>58,200</u>	<u>47,985</u>	<u>20,959</u>	<u>(503,126)</u>	<u>-</u>	<u>(503,126)</u>
Business-type activities							
Liquor	436,305	473,850	-	-	-	37,545	37,545
Water	257,525	333,168	-	-	-	75,643	75,643
Electric	849,437	1,128,975	-	-	-	279,538	279,538
Sewer	121,188	99,512	-	-	-	(21,676)	(21,676)
Total business-type activities	<u>1,664,455</u>	<u>2,035,505</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>371,050</u>	<u>371,050</u>
Total primary government	<u>\$ 2,294,725</u>	<u>\$ 2,093,705</u>	<u>\$ 47,985</u>	<u>\$ 20,959</u>	<u>(503,126)</u>	<u>371,050</u>	<u>(132,076)</u>
General Revenues							
Taxes							
Property taxes					112,334	-	112,334
Sales taxes					285,154	-	285,154
State shared revenues							
Unrestricted investment earnings					4,251	-	4,251
Miscellaneous revenue					2,667	14,235	16,902
					8,585	-	8,585
Total general revenues					<u>412,991</u>	<u>14,235</u>	<u>427,226</u>
Change in Net Position					(90,135)	385,285	295,150
Net Position - Beginning					<u>(402,314)</u>	<u>1,777,232</u>	<u>1,374,918</u>
Net Position - Ending					<u>\$ (492,449)</u>	<u>\$ 2,162,517</u>	<u>\$ 1,670,068</u>

See Notes to Financial Statements

City of Big Stone City
 Balance Sheet – Modified Cash Basis – Governmental Fund
 December 31, 2018

	General Fund
Assets	
Cash and cash equivalents	\$ -
Investments	78,328
Total assets	\$ 78,328
Liabilities	
Due to Water Fund	\$ 363,299
Due to Electric Fund	207,478
Total liabilities	570,777
Fund Balances	
Unassigned	(492,449)
Total fund balance	(492,449)
	\$ 78,328

City of Big Stone City

Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – Governmental
Fund
Year Ended December 31, 2018

	General Fund
Revenues	
310 Taxes	
311 General property taxes	\$ 111,850
313 General sales and use taxes	285,154
315 Amusement taxes	96
319 Penalties and interest on delinquent taxes	388
Total taxes	397,488
320 Licenses and permits	3,408
330 Intergovernmental revenue	
331 Federal grants	17,550
334 State grants	2,145
335 State shared revenue	
335.01 Bank franchise tax	1,314
335.02 Motor vehicle commercial prorata	2,228
335.03 Liquor tax reversion	2,937
335.04 Motor vehicle licenses (5%)	10,419
335.08 Local government highway and bridge fund	32,673
338 County shared revenue	
338.01 County road tax (25%)	520
Total intergovernmental revenue	69,786
340 Charges for goods and services	
341 General government	619
342 Public safety	4
343 Highways and streets	3,410
344 Sanitation	47,970
346 Culture and recreation	2,739
Total charges for goods and services	54,742
360 Miscellaneous revenue	
361 Investment earnings	2,667
362 Rentals	50
367 Contributions and donations from private sources	3,409
369 Other	8,585
Total miscellaneous revenue	14,711
Total revenues	540,135

City of Big Stone City

Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – Governmental Fund

Year Ended December 31, 2018

	General Fund
Expenditures	
410 General government	
411 Legislative	15,294
412 Executive	1,782
414 Financial administration	96,534
419 Other	25,356
Total general government	138,966
420 Public safety	
421 Police	118,288
422 Fire	24,336
Total public safety	142,624
430 Public works	
431 Highways and streets	260,283
432 Sanitation	47,132
Total public works	307,415
440 Health and welfare	
441 Health	4,142
Total health and welfare	4,142
450 Culture and recreation	
451 Recreation	5,723
452 Parks	16,919
455 Libraries	2,377
Total culture and recreation	25,019
460 Conservation and development	
465 Economic development and assistance	12,104
Total conservation and development	12,104
Total expenditures	630,270
Net Change in Fund Balance	(90,135)
Fund Balance - Beginning	(402,314)
Fund Balance - Ending	\$ (492,449)

City of Big Stone City
Balance Sheet – Modified Cash Basis – Proprietary Funds
December 31, 2018

	Enterprise Funds				Totals
	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	
Assets					
Current Assets					
Cash and cash equivalents	\$ 282,846	\$ -	\$ 313,206	\$ -	\$ 596,052
Due from other funds	-	363,299	243,483	-	606,782
Investments	158,358	169,455	526,467	91,408	945,688
Total current assets	441,204	532,754	1,083,156	91,408	2,148,522
Noncurrent Assets					
Restricted investments	-	-	-	50,000	50,000
Total noncurrent assets	-	-	-	50,000	50,000
Total assets	\$ 441,204	\$ 532,754	\$ 1,083,156	\$ 141,408	\$ 2,198,522
Current Liabilities					
Due to other funds	\$ -	\$ -	\$ -	\$ 36,005	\$ 36,005
Total liabilities	-	-	-	36,005	36,005
Net Position					
Restricted net position, restricted for:					
Revenue bond retirement	-	-	-	50,000	50,000
Unrestricted net position	441,204	532,754	1,083,156	55,403	2,112,517
Total net position	441,204	532,754	1,083,156	105,403	2,162,517
	\$ 441,204	\$ 532,754	\$ 1,083,156	\$ 141,408	\$ 2,198,522

City of Big Stone City
Statement of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds
Year Ended December 31, 2018

	Enterprise Funds				Totals
	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	
Operating Revenue					
380 Charges for goods and services	\$ 392,889	\$ 333,153	\$ 1,128,975	\$ 99,199	\$ 1,954,216
380.5 Lottery sales	80,961	-	-	-	80,961
Total operating revenue	<u>473,850</u>	<u>333,153</u>	<u>1,128,975</u>	<u>99,199</u>	<u>2,035,177</u>
Operating Expenses					
410 Personal services	133,192	29,196	80,067	26,435	268,890
420 Other current expense	38,070	27,935	121,072	26,519	213,596
426.2 Materials	265,043	149,180	602,142	-	1,016,365
430 Capital assets	-	51,214	46,156	18,938	116,308
Total operating expenses	<u>436,305</u>	<u>257,525</u>	<u>849,437</u>	<u>71,892</u>	<u>1,615,159</u>
Operating Income (Loss)	<u>37,545</u>	<u>75,628</u>	<u>279,538</u>	<u>27,307</u>	<u>420,018</u>
Nonoperating Revenue (Expense)					
361 Investment earnings	3,046	2,018	8,303	868	14,235
362 Rental revenue	-	15	-	313	328
440 Debt service (principal)	-	-	-	(17,887)	(17,887)
470 Interest expense and fiscal charges	-	-	-	(31,409)	(31,409)
Total nonoperating revenue (expense)	<u>3,046</u>	<u>2,033</u>	<u>8,303</u>	<u>(48,115)</u>	<u>(34,733)</u>
Changes in Net Position	40,591	77,661	287,841	(20,808)	385,285
Net Position - Beginning	<u>400,613</u>	<u>455,093</u>	<u>795,315</u>	<u>126,211</u>	<u>1,777,232</u>
Net Position - Ending	<u>\$ 441,204</u>	<u>\$ 532,754</u>	<u>\$ 1,083,156</u>	<u>\$ 105,403</u>	<u>\$ 2,162,517</u>

City of Big Stone City
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds
Year Ended December 31, 2018

	Enterprise Funds				Totals
	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	
Cash Flows from (used for) Operating Activities					
Receipt from customers	\$ 473,850	\$ 333,153	\$ 1,128,975	\$ 99,199	\$ 2,035,177
Payments to suppliers	(303,113)	(177,115)	(723,214)	(26,519)	(1,229,961)
Payments to employees	(133,192)	(29,196)	(80,067)	(26,435)	(268,890)
Net Cash from Operating Activities	<u>37,545</u>	<u>126,842</u>	<u>325,694</u>	<u>46,245</u>	<u>536,326</u>
Cash Flows from (used for) Noncapital Financing Activities					
Receipts from others	-	15	-	313	328
Advances from (to) other funds	-	(77,298)	(34,115)	21,110	(90,303)
Net Cash from (used for) Noncapital Financing Activities	<u>-</u>	<u>(77,283)</u>	<u>(34,115)</u>	<u>21,423</u>	<u>(89,975)</u>
Cash Flows from (used for) Capital and Related Financing Activities					
Payments on long-term debt	-	-	-	(17,887)	(17,887)
Purchase of capital assets	-	(51,214)	(46,156)	(18,938)	(116,308)
Interest paid	-	-	-	(31,409)	(31,409)
Net Cash used for Capital and Related Financing Activities	<u>-</u>	<u>(51,214)</u>	<u>(46,156)</u>	<u>(68,234)</u>	<u>(165,604)</u>
Cash Flows from (used for) Investing Activities					
Interest earnings	2,708	1,655	7,179	566	12,108
Net Cash from Investing Activities	<u>2,708</u>	<u>1,655</u>	<u>7,179</u>	<u>566</u>	<u>12,108</u>
Net Change in Cash and Cash Equivalents	40,253	-	252,602	-	292,855
Cash and Cash Equivalents - Beginning	242,593	-	60,604	-	303,197
Cash and Cash Equivalents - Ending	<u>\$ 282,846</u>	<u>\$ -</u>	<u>\$ 313,206</u>	<u>\$ -</u>	<u>\$ 596,052</u>
Cash and Cash Equivalents consist of:					
Cash and cash equivalents	<u>\$ 282,846</u>	<u>\$ -</u>	<u>\$ 313,206</u>	<u>\$ -</u>	<u>\$ 596,052</u>
	<u>\$ 282,846</u>	<u>\$ -</u>	<u>\$ 313,206</u>	<u>\$ -</u>	<u>\$ 596,052</u>
Reconciliation of Operating Income to Net Cash from (used for) Operating Activities					
Operating income	\$ 37,545	\$ 75,628	\$ 279,538	\$ 27,307	\$ 420,018
Adjustment to reconcile operating income to net cash from operating activities:					
Purchase of capital assets	<u>-</u>	<u>51,214</u>	<u>46,156</u>	<u>18,938</u>	<u>116,308</u>
Net Cash from Operating Activities	<u>\$ 37,545</u>	<u>\$ 126,842</u>	<u>\$ 325,694</u>	<u>\$ 46,245</u>	<u>\$ 536,326</u>

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

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

B. Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

Governmental Funds

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

Proprietary Funds

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

- **Liquor Fund** – Financed primarily by sales, this fund accounts for the operation of the municipal liquor store. This is a major fund.
- **Water Fund** – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (South Dakota Codified Laws (SDCL) 9-47-1) This is a major fund.
- **Electric Fund** – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal electrical system and related facilities. This is a major fund.
- **Sewer Fund** – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

Basis of Accounting

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involved modifications to the cash basis of accounting to report in the statement of net position or balance sheet cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such report balances include restricted cash and cash equivalents and investments in certificates of deposit (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash accounts at cost and inter-fund advances and borrowing arising from the use of a pooled cash account.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid, and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows of resources that do not arise from a cash transaction or event that would be reported in GAAP basis financial statements (such as donated assets) are not reported in this modified cash basis presentation, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

D. Deposits and Investments

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

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

E. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

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

1. The City does have interfund receivables and payables which required elimination as of December 31, 2018.
2. The City did not have internal service fund activity which required elimination as of December 31, 2018.

F. Capital Assets

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

G. Long-Term Liabilities

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

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

H. Program Revenues

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

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

I. Proprietary Funds Revenue and Expense Classifications

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

J. Cash and Cash Equivalents

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

K. Equity Classifications

Government-Wide Statements

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

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

Fund Financial Statements

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

L. Application of Net Position and Fund Balance

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

M. Fund Balance Classification Policies and Procedures

The following classifications describe the relative strength of the spending constraints:

- **Nonspendable Fund Balance** - Amounts that are not in spendable form or are required to be maintained intact.
- **Restricted Fund Balance** - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed Fund Balance** - Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- **Assigned Fund Balance** - Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- **Unassigned Fund Balance** - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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

N. Rounding

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

Note 2 - Deposits and Investments

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

Deposits

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

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

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2018 and 2017, the City maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

The actual bank balances at December 31, 2018, are as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 381,464
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	1,272,922
	\$ 1,654,386

The City's carrying amount of deposits at December 31, 2018, is as follows:

Cash and cash equivalents	\$ 596,052
Investments	1,074,016
	\$ 1,670,068

Investments

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

Interest Rate Risk – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of December 31, 2018, all of the City’s investments consist of certificates of deposit which have maturities of less than one year.

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

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

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

Note 3 - Property Taxes

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

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

Note 4 - Restricted Net Position

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

<u>Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Debt Service	Contractual	\$ 50,000

Note 5 - Retirement Plan

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, hybrid defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098, or by calling (605) 773-3731.

Benefits Provided

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- 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 than 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 COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by State statute to contribute the following percentages of their salary to the plan; Class A members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Member, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City’s share of contributions made to the SDRS for the years ended December 31, 2018, 2017, and 2016, were \$19,039, \$18,903, and \$18,064, respectively, equal to the required contributions each year.

Pension Liability (Asset)

At June 30, 2018, SDRS is 100.02% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the City of Big Stone City are as follows:

	2018
Proportionate share of net position restricted for pension benefits	\$ 1,873,641
Less proportionate share of total pension liability	1,873,998
Proportionate share of net pension liability (asset)	\$ (357)

At December 31, 2018, the City disclosed a liability (asset) of (\$357) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2018, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the City's proportion was 0.01531580%, which is an increase of 0.0000469% from its proportion measured as of June 30, 2017.

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount rate	6.50% 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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. 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 employee contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of Asset to Changes in the Discount Rate

The following presents the City’s proportionate share of net pension liability (asset) as of June 30, 2018, calculated using the discount rate of 6.50%, as well as what the City’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 269,786	\$ (357)	\$ (220,104)

Pension Plan Fiduciary Net Position

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

Note 6 - Significant Contingencies-Litigation

At December 31, 2018, the City was not involved in any litigation that would be material to the financial statements.

Note 7 - Related Party Transactions

The City does business on a regular basis with a company owned by the City Mayor. Purchases from this company totaled \$7,482 for the year ending December 31, 2018.

Note 8 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2018, the City managed its risks as follows:

Employee Health Insurance

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members.

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

Liability Insurance

The City has liability insurance through Continental Western Group. The City pays an annual premium to Continental Western Group which provides coverage for general liability, official's liability, automobile liability, law enforcement liability, and liquor liability. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a 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 Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits

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

Note 9 - Deficit Fund Balances

As of December 31, 2018, the General Fund had a deficit of \$492,617. The deficit was caused by the General Fund transferring money to the Water Fund to supplement operations for a water project in prior years. The transfers were in excess of assets on hand. Along with that, the General fund borrowed money from the electric fund to cover expenditures for the year based on not having a properly balanced budget. The deficit will be resolved by transfers of assets from other funds that have excess unrestricted funds available.

Subsequent to year end, the City Council approved a plan to transfer funds from the liquor, water and electric funds, which all have positive fund balance, to correct the deficit. The city intends to operate on a balanced budget to ensure revenues are sufficient to cover planned operating expenses in the General Fund.

Note 10 - Interfund Transactions

As of December 31, 2018, the General Fund has borrowed \$363,299 from the Water Fund and \$242,483 from the Electric Fund to cover operations (See Note 9) and the Sewer Fund has borrowed from the Electric Fund to cover operations. The borrowing will be paid back with excess investments along with transfers between funds.



Supplementary Information
December 31, 2018

City of Big Stone City

City of Big Stone City
Schedule of Net Pension Liability (Asset) and Schedule of Pension Contributions
Year Ended December 31, 2018

Pension Plan	Fiscal Year Ending	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2014	0.0155%	\$ (111,691)	\$ 256,362	-43.6%	107.3%
SDRS	6/30/2015	0.0141%	(59,637)	268,531	-22.2%	104.1%
SDRS	6/30/2016	0.0149%	50,479	263,614	19.1%	96.9%
SDRS	6/30/2017	0.0153%	(1,386)	282,020	-0.49%	100.1%
SDRS	6/30/2018	0.0153%	(357)	289,398	-0.12%	100.02%

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2014	\$ 16,106	\$ 16,106	\$ -	\$ 268,433	6.0%
SDRS	12/31/2015	15,507	15,507	-	258,450	6.0%
SDRS	12/31/2016	18,064	18,064	-	283,579	6.4%
SDRS	12/31/2017	18,903	18,903	-	275,770	6.9%
SDRS	12/31/2018	19,039	19,039	-	299,009	6.4%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Big Stone City
 Schedule of Changes in Long-Term Debt
 Year Ended December 31, 2018

<u>Indebtedness</u>	<u>Long-Term Debt 1/1/18</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 12/31/18</u>
Enterprise Long-Term Debt				
231.02 Revenue bonds (wastewater)	\$ 580,542	\$ -	\$ 17,887	\$ 562,655

City of Big Stone City
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 113,700	\$ 113,700	\$ 111,850	\$ (1,850)
313 General sales and use taxes	295,000	295,000	285,154	(9,846)
315 Amusement taxes	125	125	96	(29)
319 Penalties and interest on delinquent taxes	125	125	388	263
Total taxes	<u>408,950</u>	<u>408,950</u>	<u>397,488</u>	<u>(11,462)</u>
320 Licenses and permits	<u>5,425</u>	<u>5,425</u>	<u>3,408</u>	<u>(2,017)</u>
330 Intergovernmental revenue				
331 Federal grants	-	-	17,550	17,550
334 State grants	-	-	2,145	2,145
335 State shared revenue:				
335.01 Bank franchise tax	-	-	1,314	1,314
335.02 Motor vehicle commercial prorated	8,500	8,500	2,228	(6,272)
335.03 Liquor tax reversion	2,700	2,700	2,937	237
335.04 Motor vehicle licenses (5%)	2,500	2,500	10,419	7,919
335.08 Local government highway and bridge fund	32,000	32,000	32,673	673
338 County shared revenue				
338.01 County road tax (25%)	-	-	520	520
Total intergovernmental revenue	<u>45,700</u>	<u>45,700</u>	<u>69,786</u>	<u>24,086</u>
340 Charges for goods and services				
341 General government	25	25	619	594
342 Public safety	-	-	4	4
343 Highways and streets	450	450	3,410	2,960
344 Sanitation	42,500	42,500	47,970	5,470
346 Culture and recreation	1,200	1,200	2,739	1,539
349 Other	650	650	-	(650)
Total charges for goods and services	<u>44,825</u>	<u>44,825</u>	<u>54,742</u>	<u>9,917</u>
350 Fines and forfeits				
351 Court fines and costs	<u>150</u>	<u>150</u>	<u>-</u>	<u>(150)</u>
Total fines and forfeits	<u>150</u>	<u>150</u>	<u>-</u>	<u>(150)</u>
360 Miscellaneous revenue				
361 Investment earnings	1,000	1,000	2,667	1,667
362 Rentals	25	25	50	25
367 Contributions and donations from private sources	1,200	1,200	3,409	2,209
369 Other	10,000	10,000	8,585	(1,415)
Total miscellaneous revenue	<u>12,225</u>	<u>12,225</u>	<u>14,711</u>	<u>2,486</u>
Total revenues	<u>517,275</u>	<u>517,275</u>	<u>540,135</u>	<u>22,860</u>

City of Big Stone City
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	16,860	17,160	15,294	1,866
412 Executive	2,845	2,845	1,782	1,063
413 Elections	775	775	-	775
414 Financial administration	97,185	107,185	96,534	10,651
419 Other	16,831	16,831	25,356	(8,525)
Total general government	<u>134,496</u>	<u>144,796</u>	<u>138,966</u>	<u>5,830</u>
420 Public safety				
421 Police	141,150	141,150	118,288	22,862
422 Fire	26,050	26,050	24,336	1,714
Total public safety	<u>167,200</u>	<u>167,200</u>	<u>142,624</u>	<u>24,576</u>
430 Public works				
431 Highways and streets	276,179	298,679	260,283	38,396
432 Sanitation	46,825	47,575	47,132	443
Total public works	<u>323,004</u>	<u>346,254</u>	<u>307,415</u>	<u>38,839</u>
440 Health and welfare				
441 Health	8,220	8,220	4,142	4,078
446 Ambulance	500	500	-	500
Total health and welfare	<u>8,720</u>	<u>8,720</u>	<u>4,142</u>	<u>4,578</u>
450 Culture and recreation				
451 Recreation	8,720	9,870	5,723	4,147
452 Parks	16,350	25,950	16,919	9,031
455 Libraries	2,300	4,300	2,377	1,923
Total culture and recreation	<u>27,370</u>	<u>40,120</u>	<u>25,019</u>	<u>15,101</u>
460 Conservation and development:				
465 Economic development and assistance (industrial development)	8,190	12,790	12,104	686
Total conservation and development	<u>8,190</u>	<u>12,790</u>	<u>12,104</u>	<u>686</u>
Total expenditures	<u>668,980</u>	<u>719,880</u>	<u>630,270</u>	<u>89,610</u>
Excess of Revenue over (under) Expenditures	(151,705)	(202,605)	(90,135)	112,470
Fund Balance - Beginning	(402,314)	(402,314)	(402,314)	-
Fund Balance - Ending	<u>\$ (554,019)</u>	<u>\$ (604,919)</u>	<u>\$ (492,449)</u>	<u>\$ 112,470</u>

Note 1 - Budgets and Budgetary Accounting

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

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

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, special revenue funds and capital projects funds.

The City did not encumber any amounts at December 31, 2018.

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

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

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

Note 3 - Schedule of Proportionate Share of the Net Pension Liability (Asset) and Pension Contributions

Changes of benefit provision:

No significant changes.

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2017, and exists again this year as of June 30, 2018. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.89% as of June 30, 2017, and is 2.03% as of June 30, 2018.



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

The City Council
City of Big Stone City
Big Stone City, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Big Stone City as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 13, 2019. The financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as 2018-001 and 2018-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as 2018-003 and 2018-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as 2018-004.

City of Big Stone City's Response to Findings

The City of Big Stone City's response to the findings identified in our audit is described in the accompanying schedule of findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Aberdeen, South Dakota
December 13, 2019

2018-001 Preparation of Financial Statements, Footnotes and Propensity for Audit Adjustments

Material Weakness

Condition: City of Big Stone City requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2018. As a part of the financial statement preparation process, we proposed audit adjustments that were not identified as a result of the City's existing internal controls and, therefore, could result in a material misstatement of the City's financial statements if not recorded.

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

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

Effect: This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The need for proposed audit adjustments indicates that the City's interim financial information might not be materially correct, which may affect management decisions made during the course of the year

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

Views of Responsible Officials: Management agrees with the finding.

2018-002 Lack of Segregation of Duties

Material Weakness

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

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

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

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

Recommendation: Although it is recognized that number of office staff may not be large enough to permit adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the City Council exercise adequate oversight of the accounting function. In so doing, they should review financial data monthly including reports of monthly financial statements, budget-to-actual reports, monthly cash balances, monthly gross profit margins at the liquor store, and monthly bank statements or cancelled checks.

Views of Responsible Officials: Management agrees with the finding.

2018-003 Controls over the City owned bar and liquor store

Significant Deficiency

Condition: The controls over the Liquor Fund are not adequate to track inventory along with improper reporting of tips received in W-2 wages.

Criteria: A good system of internal controls requires performance of period reconciliations of physical assets to reported amounts, and also provides review of information being reported on including payroll filings.

Cause: The City has not completed an inventory since the start date of the new bar manager. Also, they have not properly reported tips received in W-2 wages.

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

Recommendation: Inventory of the liquor store should be completed at least annually. The City should consider using the Point of Sale system to track inventory amounts. Payroll filings should be reviewed to ensure adequate filing requirements are taking place.

Views of Responsible Officials: Management agrees with the finding.

Finding 2018-004 – Violations of SDCL

Significant Deficiency and Non Compliance

Criteria: The City's control structure should be such to ensure compliance with South Dakota Codified Law (SDCL) for municipal finances. The following SDCL sections provide the criteria in areas in which we noted absence of controls to ensure compliance with these applicable SDCL's:

- SDCL 9-22-4 provides criteria for the City to retain evidence to support possible subsequent collection of uncollectibles.

- SDCL 43-41B-18 provides the criteria for reporting of outstanding checks.
- SDCL 9-21-9 through 9-21-9.2, 9-21-10 and 9-21-15 provides the criteria requiring the City to refrain from spending in excess of the amount appropriated for any purpose or department each fiscal year.

Condition: In 2018, the City did not retain evidence to support possible subsequent collection of uncollectibles under that law. Also, in 2018, the City did not report outstanding checks required under that law. Lastly, in 2018, the City passed a budget that has excess expenditures over resources expected and on hand. With this, the City is continuing to report a deficit fund balance in the General Fund.

Cause: A lack of oversight in the control processes, limited staff size, and general unfamiliarity with the applicable SDCL's relating to the above findings could result in the City not being materially compliant with those applicable SDCL's.

Effect: These conditions affect the City's ability to be compliant with SDCL's applicable to municipalities. With the City not having a balanced budget along with overspending the revenue received in the general fund, the deficit in the General Fund has continued to grow.

Recommendation: We recommend the City officials review the applicable SDCL's applicable to municipalities to become familiar with the statutory requirements and implement necessary controls and processes to ensure the compliance with those such laws. We also recommend that the City review the budget process to ensure they are in compliance with SDCL's and have a balanced budget.

Views of Responsible Officials: Management agrees with the finding.