

CITY OF HIGHMORE
AUDITED FINANCIAL STATEMENTS
TWO YEARS ENDED DECEMBER 31, 2018

CITY OF HIGHMORE
CITY OFFICIALS
DECEMBER 31, 2018

Mayor:

Vikki Day

Governing Board:

Barry Alger
Lee Straight
Matt Semmler
Mike Cowan
Rich Paynter
Josh Erfman

Finance Officer:

Tara Buchholz

Attorney:

Emily Sovell

CITY OF HIGHMORE

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WITH AN OFFICE IN
MOBRIDGE, SOUTH DAKOTA

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

City Council
City of Highmore
Highmore, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highmore, South Dakota (City), as of December 31, 2018, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 18, 2019, which was adverse because there were no audited modified cash basis of accounting financial statements available for the component unit in 2017 or 2018, qualified for the Water Fund and the business-type activities because of the inability to verify the accuracy of the Water revenue and unmodified for the governmental activities, General Fund, Sewer Fund, Solid Waste Fund and the aggregate remaining fund information.

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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings as items #2018-01, #2018-02, and #2018-03, that we consider to be material weaknesses.

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 are described in the accompanying Schedule of Current Audit Findings as items #2018-04, #2018-05, and #2018-06.

City's Response to Findings

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

Purpose of this Report

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

Kohlman, Bierschbach & Anderson, L L P

September 18, 2019

CITY OF HIGHMORE
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2018

PRIOR AUDIT FINDINGS:

#2016-01

A material weakness was reported for a lack of segregation of duties for cash, revenues, receivables, payroll, accounts payable, equity, inventory, and capital assets, which could result in errors not being found in a timely manner. This condition is restated as current audit finding #2018-01.

#2016-02

The City does not maintain perpetual inventory records for inventory used by the Enterprise Funds. There was not an inventory listing taken for the years ended December 31, 2015 or 2016. They took an inventory count at year-end 2014 for the Sewer Fund and the Water Fund, but none of the listings included either an actual cost or the cost it did have was not up-to-date. This resulted in diminished control over inventory and can result in misleading information being presented to users of the financial statements. This comment has been resolved.

#2016-03

The City does not maintain adequate records to support the cost of general capital assets and enterprise fund capital assets. This resulted in diminished control over capital assets and can result in misleading information being presented to users of the financial statements. This comment has been resolved.

#2016-04

The City does not have an internal control system designed to provide for the preparation of the annual financial statements in accordance with generally accepted accounting principles (GAAP), being audited. As auditors, we were requested to draft the financial statements. This comment is restated as current audit finding #2018-02.

#2016-05

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements. This comment is restated as current audit finding #2018-03.

#2016-06

For the Water Fund billing, the water meter readings were not consistent from month to month. Also, the calculation of the water bills did not always calculate the usage based on the readings taken. This comment is restated as current audit finding #2018-04.

#2016-07

In 2015 in the General Fund, there were budget overdrafts of \$26,872 in the airport account, and \$7,280 in the debt service account. There also was no budget prepared for the Crane Fund, so there was a budget overdraft of \$411 for the auditorium account. In 2016 in the General Fund, there was a budget overdraft of \$36,752 in the airport account, \$573 in the health account, \$50,573 in the auditorium account, and \$1,291 in the debt service account. This comment is restated as current audit finding #2018-05.

CITY OF HIGHMORE
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2018
(Continued)

#2016-08

Management has elected to not record the intangible asset related to water rights in the Water Fund and the debt associated with the water rights. This comment has been resolved.

#2016-09

The City had purchases associated with the auditorium improvements that were required to be bid but were not actually bid. This comment is restated as current audit finding #2018-06.

#2016-10

The City chose not to properly record in the financial statements the net pension asset or liability to be in compliance with GASB Statement No. 68 or the applicable footnotes. This comment has been resolved.

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2018

CURRENT AUDIT FINDINGS:

Internal Control-Related Findings - Material Weaknesses:

Finding #2018-01

Criteria

Internal control can help the City achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting, and it can help ensure that the City complies with laws and regulations.

Condition Found

A material weakness was reported for a lack of segregation of duties for cash, revenues, payroll, and equity which could result in errors not being found in a timely manner. It is not known how long this comment has been made.

Cause

The City only has 1 employee in the finance department, so proper segregation of duties for all areas has not been achieved.

Effect

This comment is the result of the size of the entity which precludes staffing at a level sufficient to provide an ideal environment for internal controls.

Recommendation

We recommend the board take a more active role in their oversight of cash, revenues, payroll, and equity.

Management's Response

Vikki Day is the contact person responsible for the corrective action plan for this comment. This comment is a result of the size of the City of Highmore which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City of Highmore has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for cash, revenues, payroll, and equity. The City of Highmore is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical by having Council Member Straight look over the budget and review the bank statements monthly. Council also reviews the bank statements periodically and the claims monthly, and looks over the finances along with the finance officer. This action is being used now and will continue to be followed. However, this lack of segregation of duties regarding cash, revenues, payroll, and equity continues to exist.

Finding #2018-02

Criteria

An organization's internal control structure should provide for the preparation of financial statements in accordance with the modified cash basis of accounting.

Condition Found

The City does not have an internal control system designed to provide for the preparation of the annual financial

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2018
(Continued)

statements in accordance with the modified cash basis of accounting, being audited. As auditors, we were requested to draft the financial statements.

Cause

The City was not able to prepare the annual financial statements, so they requested assistance to ensure they were properly prepared.

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.

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.

Management's Response

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated, "This situation is impossible to remedy without the hiring of new staff, which the City does not need and cannot afford. Therefore, the lack of controls will be a continual problem. However, the council has implemented the following compensating controls to help offset the risk. Lee Straight is active in going over our bank statements, monthly spending and savings, and the Council signs off on all expenditures."

Finding #2018-03

Criteria

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with the modified cash basis of accounting.

Condition Found

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Cause

The City had some adjustments that needed to be made in order to get their accounting records in accordance with the modified cash basis of accounting.

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.

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2018
(Continued)

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.

Management's Response

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated, "This situation is impossible to remedy without the hiring of new staff, which the City does not need and cannot afford. Therefore, the lack of controls will be a continual problem."

Compliance and Other Matters:

Finding #2018-04

Criteria

According to South Dakota Codified Law 9-14-17 and 9-14-18, the finance officer shall keep regular books of account for all financial transactions.

Condition Found

For the Water Fund billing, the water meter readings were not consistent from month to month. Also, the calculation of the water bills did not always calculate the usage based on the readings taken.

Cause

The water meters were not read from month to month resulting in inconsistent meter readings.

Effect

Due to inconsistent and improper water billings, the water sales were unable to be proven that they were properly stated.

Recommendation

We recommend that water meters be read on a monthly basis to help ensure that water billings are being prepared properly.

Management's Response

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated, "We have talked about this at City Council. We feel at this time because of the expense of radio meters and the shortage of man power to read the meters monthly, perhaps we should encourage residents to read their meters monthly and give the readings to the finance officer. Also looking into the future, the Council is going to look into possible funding or grants for radio meters to be read monthly."

Finding #2018-05

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2018
(Continued)

Criteria

SDCL 9-21-9 limits expenditures to appropriated amounts.

Condition Found

In 2017 in the General Fund, there were budget overdrafts of \$65,574 in the auditorium account, \$12,521 in the parks account, \$5,441 in the recreation account, and \$98 in the police account. In the Sewer General Obligation Bond fund, there was a budget overdraft of \$31,220 in the debt service account. In 2018 in the General Fund, there was a budget overdraft of \$21,872 in the recreation account, \$11,011 in the parks account, and \$465 in the legislative account. In the Sewer General Obligation Bond Fund, there was a budget overdraft of \$36,430 in the debt service account.

Cause

The City went over budget in several accounts both years.

Effect

Budgets are required for all special revenue funds, as well as the other funds already adopted. Per SDCL 9-21-9, expenditures are limited to appropriated amounts.

Recommendation

We recommend the City limit expenditures to the amounts budgeted, and adopt a supplemental appropriation ordinance or make contingency transfers for small line item deficits.

Management's Response

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated, "We will work towards adopting more detailed budgets in an effort to avoid such overdrafts in the future. As some situations simply can't be foreseen, we will attempt to specify contingency transfers to specific funds."

Finding #2018-06

Criteria

SDCL 5-18A requires cities to bid certain items that they purchase, including purchases of \$25,000 or more for materials, building supplies, or equipment, with certain exceptions.

Condition Found

The City had purchases associated with the auditorium improvements that were required to be bid but were not actually bid.

Cause

The City made purchases that were not bid in accordance with SDCL 5-18A.

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2018
(Continued)

Effect

The City was not in accordance with South Dakota Codified Law 5-18A.

Recommendation

We recommend the City properly bid all items that are required to be bid before it is purchased.

Management's Response

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated, "We did get bids whenever possible and sought quotes. Due to time restraints, limited contractors, and urgency of the repairs, the council proceeded ahead if bids could not be obtained."

Closing Conference

The contents of this report were discussed with Lee Straight, Vikki Day and Tara Buchholz on June 26, 2019.

KOHLMAN, BIERSCHBACH & ANDERSON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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WITH AN OFFICE IN
MOBRIDGE, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT

City Council
City of Highmore
Highmore, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highmore, South Dakota (City), as of December 31, 2018, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in note 1.c; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is 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.

Auditors' 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 auditors' 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 City'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 City'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.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Qualified
Aggregate Discretely Presented Component Unit	Adverse
General Fund	Unmodified
Water Fund	Qualified
Sewer Fund	Unmodified
Solid Waste Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Adverse Opinion on Aggregate Discretely Presented Component Unit

The financial statements referred to above include only the primary government of the City of Highmore, South Dakota, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements of the Housing and Redevelopment Commission of Highmore, South Dakota (HRC) have not been audited, and we were not engaged to audit the HRC financial statements as part of our audit of the City's basic financial statements. HRC's financial activities are not included in the City's basic financial statements as a discretely presented component unit.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly, in all material respects, the financial position of the Aggregate Discretely Presented Component Unit of the City of Highmore, South Dakota, as of December 31, 2018 and 2017, and the changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting.

Basis for Qualified Opinion on the Business-Type Activities and the Water Fund

The City does not read water meters monthly and does not prepare bills on a monthly basis off of these readings. Therefore, we are unable to determine if the water bills are being prepared correctly and if water revenue that is reported is correct. This inability to determine if amounts are correct affects both the revenue amounts reported for the Water Fund and the Business-Type Activities.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the Business-Type Activities and the Water Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Business-Type Activities and the Water Fund of the City of Highmore as of December 31, 2018, and the changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund other than the Water Fund, and the aggregate remaining fund information of the City of Highmore as of December 31, 2018, and the respective changes in

financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting.

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City's basic financial statements. The Budgetary Comparison Schedules, the Schedule of Changes in Long-Term Debt, and the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset) and the combining nonmajor fund financial statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 September 18, 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.

Kohlman, Bierschbach & Anderson, LLP

September 18, 2019

CITY OF HIGHMORE
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2018

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$1,729,227	\$(352,609)	\$1,376,618
Investments	1,868,565	--	1,868,565
Restricted Assets:			
Cash and cash equivalents	--	16,621	16,621
TOTAL ASSETS	<u>\$3,597,792</u>	<u>\$(335,988)</u>	<u>\$3,261,804</u>
NET POSITION:			
Restricted for:			
Debt service purposes	\$ 118,962	\$ 16,621	\$ 135,583
24/7 Sobriety Fund	2,254	--	2,254
Liquor, Lodging and Dining Gross Receipts Tax Fund	72,764	--	72,764
Unrestricted (Deficit)	<u>3,403,812</u>	<u>(352,609)</u>	<u>3,051,203</u>
TOTAL NET POSITION	<u>\$3,597,792</u>	<u>\$(335,988)</u>	<u>\$3,261,804</u>

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

CITY OF HIGHMORE
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 and Contributions	Primary Government		
					Governmental Activities	Business- Type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 93,500	\$ 46,923	\$ --	\$ --	\$ (46,577)		\$ (46,577)
Public safety	70,412	--	--	--	(70,412)		(70,412)
Public works	675,207	--	56,754	74,659	(543,794)		(543,794)
Health and welfare	5,063	--	1,200	--	(3,863)		(3,863)
Culture and recreation	251,858	9,301	--	--	(242,557)		(242,557)
*Interest on long-term debt	<u>37,796</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(37,796)</u>		<u>(37,796)</u>
Total Governmental Activities	<u>1,133,836</u>	<u>56,224</u>	<u>57,954</u>	<u>74,659</u>	<u>(944,999)</u>		<u>(944,999)</u>
Business-Type Activities:							
Water	165,505	191,171	--	--		\$ 25,666	25,666
Sewer	51,244	113,446	--	--		62,202	62,202
Solid Waste	<u>193,873</u>	<u>162,738</u>	<u>--</u>	<u>--</u>		<u>(31,135)</u>	<u>(31,135)</u>
Total Business-Type Activities	<u>410,622</u>	<u>467,355</u>	<u>--</u>	<u>--</u>		<u>56,733</u>	<u>56,733</u>
Total Primary Government	<u>\$1,544,458</u>	<u>\$523,579</u>	<u>\$57,954</u>	<u>\$74,659</u>	<u>(944,999)</u>	<u>56,733</u>	<u>(888,266)</u>
* The City does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.							
General Revenues:							
Taxes:							
Property taxes					523,333	--	523,333
Sales taxes					415,767	--	415,767
State shared revenues					8,780	--	8,780
Unrestricted investment earnings					14,241	--	14,241
Miscellaneous revenue					<u>50,972</u>	<u>--</u>	<u>50,972</u>
Total General Revenues					<u>1,013,093</u>	<u>--</u>	<u>1,013,093</u>
Change in Net Position					68,094	56,733	124,827
Net Position - Beginning					<u>3,529,698</u>	<u>(392,721)</u>	<u>3,136,977</u>
Net Position - Ending					<u>\$3,597,792</u>	<u>\$(335,988)</u>	<u>\$3,261,804</u>

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

CITY OF HIGHMORE
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business- Type Activities	
Primary Government:							
Governmental Activities:							
General government	\$ 81,646	\$ 50,286	\$ --	\$ --	\$ (31,360)		\$ (31,360)
Public safety	70,113	--	--	--	(70,113)		(70,113)
Public works	1,002,976	--	54,942	657,370	(290,664)		(290,664)
Health and welfare	3,600	--	1,500	--	(2,100)		(2,100)
Culture and recreation	330,971	13,570	--	--	(317,401)		(317,401)
*Interest on long-term debt	<u>38,997</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(38,997)</u>		<u>(38,997)</u>
Total Governmental Activities	<u>1,528,303</u>	<u>63,856</u>	<u>56,442</u>	<u>657,370</u>	<u>(750,635)</u>		<u>(750,635)</u>
Business-Type Activities:							
Water	387,040	191,016	--	--		\$ (196,024)	(196,024)
Sewer	588,797	109,919	--	--		(478,878)	(478,878)
Solid Waste	<u>210,778</u>	<u>162,289</u>	<u>--</u>	<u>--</u>		<u>(48,489)</u>	<u>(48,489)</u>
Total Business-Type Activities	<u>1,186,615</u>	<u>463,224</u>	<u>--</u>	<u>--</u>		<u>(723,391)</u>	<u>(723,391)</u>
Total Primary Government	<u>\$2,714,918</u>	<u>\$527,080</u>	<u>\$56,442</u>	<u>\$657,370</u>	<u>(750,635)</u>	<u>(723,391)</u>	<u>(1,474,026)</u>
General Revenues:							
Taxes:							
Property taxes					517,503	--	517,503
Sales taxes					362,221	--	362,221
State shared revenues					8,579	--	8,579
Grants and contributions not restricted to specific programs					2,000	--	2,000
Unrestricted investment earnings					8,488	--	8,488
Miscellaneous revenue					<u>44,843</u>	<u>--</u>	<u>44,843</u>
Total General Revenues					<u>943,634</u>	<u>--</u>	<u>943,634</u>
Change in Net Position					<u>192,999</u>	<u>(723,391)</u>	<u>(530,392)</u>
Net Position - Beginning					6,509,268	1,013,498	7,522,766
Adjustments:							
Conversion from accrual basis to cash basis (See Note 8)					<u>(3,172,569)</u>	<u>(682,828)</u>	<u>(3,855,397)</u>
Adjusted Net Position - Beginning					<u>3,336,699</u>	<u>330,670</u>	<u>3,667,369</u>
Net Position - Ending					<u>\$3,529,698</u>	<u>\$(392,721)</u>	<u>\$3,136,977</u>

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

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

CITY OF HIGHMORE
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$1,654,209	\$ 75,018	\$1,729,227
Investments	<u>1,749,603</u>	<u>118,962</u>	<u>1,868,565</u>
TOTAL ASSETS	<u>\$3,403,812</u>	<u>\$193,980</u>	<u>\$3,597,792</u>
FUND BALANCES:			
Restricted	\$ --	\$193,980	\$ 193,980
Assigned	101,000	--	101,000
Unassigned	<u>3,302,812</u>	<u>--</u>	<u>3,302,812</u>
TOTAL FUND BALANCES	<u>\$3,403,812</u>	<u>\$193,980</u>	<u>\$3,597,792</u>

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

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes:			
General property taxes	\$ 451,098	\$ 71,550	\$ 522,648
General sales and use taxes	406,964	8,803	415,767
Amusement taxes	240	--	240
Penalties and interest on delinquent taxes	384	61	445
Licenses and Permits	4,659	--	4,659
Intergovernmental Revenue:			
Federal grants	70,730	--	70,730
State grants	5,129	--	5,129
State shared revenue:			
Bank franchise tax	4,710	--	4,710
Prorate license fees	6,962	--	6,962
Liquor tax reversion (25%)	4,070	--	4,070
Motor vehicle licenses	21,669	--	21,669
Local government highway and bridge fund	28,123	--	28,123
Other intergovernmental revenues	37,500	--	37,500
Charges for Goods and Services:			
Culture and recreation	9,301	--	9,301
Miscellaneous Revenue:			
Investment earnings	14,241	--	14,241
Rentals	42,264	--	42,264
Other	13,122	--	13,122
TOTAL REVENUE	<u>1,121,166</u>	<u>80,414</u>	<u>1,201,580</u>
EXPENDITURES:			
General Government:			
Legislative	24,115	2,000	26,115
Elections	927	--	927
Financial administration	66,458	--	66,458
Public Safety:			
Police	40,412	--	40,412
Fire	30,000	--	30,000
Public Works:			
Highways and streets	606,281	--	606,281
Airport	39,262	--	39,262
Transit	5,000	--	5,000
Health and Welfare:			
Health	1,763	--	1,763
Hospitals, nursing homes and rest homes	3,300	--	3,300
Culture and Recreation:			
Recreation	103,140	--	103,140

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Parks	14,615	--	14,615
Auditorium	134,103	--	134,103
Debt Service	<u>--</u>	<u>62,460</u>	<u>62,460</u>
TOTAL EXPENDITURES	<u>1,069,376</u>	<u>64,460</u>	<u>1,133,836</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>51,790</u>	<u>15,954</u>	<u>67,744</u>
OTHER FINANCING SOURCES:			
Sale of municipal property	<u>350</u>	<u>--</u>	<u>350</u>
TOTAL OTHER FINANCING SOURCES	<u>350</u>	<u>--</u>	<u>350</u>
NET CHANGE IN FUND BALANCES	52,140	15,954	68,094
FUND BALANCE - BEGINNING	<u>3,351,672</u>	<u>178,026</u>	<u>3,529,698</u>
FUND BALANCE - ENDING	<u>\$3,403,812</u>	<u>\$193,980</u>	<u>\$3,597,792</u>

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

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:			
Taxes:			
General property taxes	\$ 445,296	\$ 70,608	\$ 515,904
General sales and use taxes	353,031	9,190	362,221
Amusement taxes	276	--	276
Penalties and interest on delinquent taxes	1,118	205	1,323
Licenses and Permits	5,436	--	5,436
Intergovernmental Revenue:			
Federal grants	622,772	--	622,772
State grants	36,098	--	36,098
State shared revenue:			
Bank franchise tax	3,644	--	3,644
Prorate license fees	7,457	--	7,457
Liquor tax reversion (25%)	4,935	--	4,935
Motor vehicle licenses	20,615	--	20,615
Local government highway and bridge fund	26,870	--	26,870
Other intergovernmental revenues	38,500	--	38,500
Charges for Goods and Services:			
Culture and recreation	13,570	--	13,570
Miscellaneous Revenue:			
Investment earnings	8,488	--	8,488
Rentals	44,850	--	44,850
Contributions and donations from private sources	2,000	--	2,000
Other	<u>5,363</u>	<u>--</u>	<u>5,363</u>
TOTAL REVENUE	<u>1,640,319</u>	<u>80,003</u>	<u>1,720,322</u>
EXPENDITURES:			
General Government:			
Legislative	22,126	--	22,126
Elections	21	--	21
Financial administration	59,499	--	59,499
Public Safety:			
Police	40,113	--	40,113
Fire	30,000	--	30,000
Public Works:			
Highways and streets	242,244	--	242,244
Airport	737,269	--	737,269
Health and Welfare:			
Hospitals, nursing homes and rest homes	3,600	--	3,600

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Culture and Recreation:			
Recreation	70,576	--	70,576
Parks	16,021	--	16,021
Auditorium	244,374	--	244,374
Debt Service	--	<u>62,460</u>	<u>62,460</u>
TOTAL EXPENDITURES	<u>1,465,843</u>	<u>62,460</u>	<u>1,528,303</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>174,476</u>	<u>17,543</u>	<u>192,019</u>
OTHER FINANCING SOURCES:			
Sale of municipal property	<u>980</u>	--	<u>980</u>
TOTAL OTHER FINANCING SOURCES	<u>980</u>	--	<u>980</u>
NET CHANGE IN FUND BALANCES	<u>175,456</u>	<u>17,543</u>	<u>192,999</u>
FUND BALANCE - BEGINNING	3,198,889	161,309	3,360,198
ADJUSTMENTS:			
Conversion from accrual basis to cash basis (See Note 8)	<u>(22,673)</u>	<u>(826)</u>	<u>(23,499)</u>
ADJUSTED FUND BALANCE - BEGINNING	<u>3,176,216</u>	<u>160,483</u>	<u>3,336,699</u>
FUND BALANCE - ENDING	<u>\$3,351,672</u>	<u>\$178,026</u>	<u>\$3,529,698</u>

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

CITY OF HIGHMORE
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2018

	<u>Enterprise Funds</u>			<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$(139,859)	\$(104,594)	\$(108,156)	\$(352,609)
Total Current Assets	(139,859)	(104,594)	(108,156)	(352,609)
Noncurrent Assets:				
Restricted cash and cash equivalents	16,621	--	--	16,621
Total Noncurrent Assets	16,621	--	--	16,621
TOTAL ASSETS	\$(123,238)	\$(104,594)	\$(108,156)	\$(335,988)
NET POSITION:				
Restricted for:				
Revenue bond debt service	\$ 16,621	\$ --	\$ --	\$ 16,621
Unrestricted (Deficit)	(139,859)	(104,594)	(108,156)	(352,609)
TOTAL NET POSITION	\$(123,238)	\$(104,594)	\$(108,156)	\$(335,988)

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

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
OPERATING REVENUE:				
Charges for goods and services	\$ <u>191,171</u>	\$ <u>113,446</u>	\$ <u>162,738</u>	\$ <u>467,355</u>
TOTAL OPERATING REVENUE	<u>191,171</u>	<u>113,446</u>	<u>162,738</u>	<u>467,355</u>
OPERATING EXPENSES:				
Personal services	26,619	25,007	9,743	61,369
Other current expense	16,180	26,237	184,130	226,547
Materials	<u>109,138</u>	--	--	<u>109,138</u>
TOTAL OPERATING EXPENSES	<u>151,937</u>	<u>51,244</u>	<u>193,873</u>	<u>397,054</u>
OPERATING INCOME (LOSS)	<u>39,234</u>	<u>62,202</u>	<u>(31,135)</u>	<u>70,301</u>
NONOPERATING EXPENSE:				
Debt service (principal)	(5,987)	--	--	(5,987)
Interest expense	<u>(7,581)</u>	--	--	<u>(7,581)</u>
TOTAL NONOPERATING EXPENSE	<u>(13,568)</u>	--	--	<u>(13,568)</u>
CHANGE IN NET POSITION	25,666	62,202	(31,135)	56,733
NET POSITION - BEGINNING	<u>(148,904)</u>	<u>(166,796)</u>	<u>(77,021)</u>	<u>(392,721)</u>
NET POSITION - ENDING	<u>\$(123,238)</u>	<u>\$(104,594)</u>	<u>\$(108,156)</u>	<u>\$(335,988)</u>

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

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017

	<u>Enterprise Funds</u>			<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	
OPERATING REVENUE:				
Charges for goods and services	\$ <u>191,016</u>	\$ <u>109,919</u>	\$ <u>162,289</u>	\$ <u>463,224</u>
TOTAL OPERATING REVENUE	<u>191,016</u>	<u>109,919</u>	<u>162,289</u>	<u>463,224</u>
OPERATING EXPENSES:				
Personal services	24,341	27,942	10,116	62,399
Other current expense	14,303	23,080	200,662	238,045
Materials	<u>107,238</u>	--	--	<u>107,238</u>
TOTAL OPERATING EXPENSES	<u>145,882</u>	<u>51,022</u>	<u>210,778</u>	<u>407,682</u>
OPERATING INCOME (LOSS)	<u>45,134</u>	<u>58,897</u>	<u>(48,489)</u>	<u>55,542</u>
NONOPERATING EXPENSE:				
Debt service (principal)	(228,722)	(526,415)	--	(755,137)
Interest expense	<u>(12,436)</u>	<u>(11,360)</u>	--	<u>(23,796)</u>
TOTAL NONOPERATING EXPENSE	<u>(241,158)</u>	<u>(537,775)</u>	--	<u>(778,933)</u>
CHANGE IN NET POSITION	<u>(196,024)</u>	<u>(478,878)</u>	<u>(48,489)</u>	<u>(723,391)</u>
NET POSITION - BEGINNING	308,272	734,334	(29,108)	1,013,498
ADJUSTMENTS:				
Conversion from accrual basis to cash basis (See Note 8)	<u>(261,152)</u>	<u>(422,252)</u>	<u>576</u>	<u>(682,828)</u>
ADJUSTED NET POSITION - BEGINNING	<u>47,120</u>	<u>312,082</u>	<u>(28,532)</u>	<u>330,670</u>
NET POSITION - ENDING	<u>\$ (148,904)</u>	<u>\$ (166,796)</u>	<u>\$ (77,021)</u>	<u>\$ (392,721)</u>

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

CITY OF HIGHMORE
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
DECEMBER 31, 2018

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$ <u>1,897</u>
TOTAL ASSETS	\$ <u>1,897</u>
NET POSITION:	
Net position held in agency capacity	\$ <u>1,897</u>
TOTAL NET POSITION	\$ <u>1,897</u>

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

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 8, the City of Highmore council decided to convert their financial statements from accounting principles generally accepted in the United States of America to the modified cash basis of accounting as of January 1, 2017.

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

a. Financial Reporting Entity:

The reporting entity of the City of Highmore (City) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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.

The Housing and Redevelopment Commission of the City of Highmore, South Dakota (Commission) is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from: Highmore Housing and Redevelopment Commission, PO Box 398, Highmore, SD 57345.

b. Basis of Presentation:

Government-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity, as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria, as

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - (Continued)

described in note 1.a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a., above.

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the 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 ten percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

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

Governmental Funds:

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

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

Liquor, Lodging and Dining Gross Receipts Tax Fund - To account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - (Continued)

civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the City (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is not a major fund.

24/7 Sobriety Fund - To account for charges made to citizens who are tested for sobriety which shall be used for administering the program. This is not a major fund.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Sewer General Obligation Bond Debt Service Fund - To account for property taxes which may be used only for the payment of the debt principal, interest, and related costs. This is not a major fund.

Proprietary Funds:

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

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

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

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

Solid Waste Fund - To account for the collection and disposal of solid waste from the City (SDCL 9-32-11 and 34A-6). This is a major fund.

Fiduciary Funds:

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

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - (Continued)

Agency Funds - Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City maintains an agency fund to account for money in a tree improvement club.

c. Measurement Focus and Basis of Accounting:

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

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

Measurement Focus:

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

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

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

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

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - (Continued)

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

If the City applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Deposits and Investments:

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

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 investments authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

e. Capital Assets:

Under the modified cash basis of accounting, capital assets are recorded when they result from cash transactions, and are depreciated, where appropriate. The accounting treatment for property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Under the modified cash basis of accounting, capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. Under the modified cash basis of accounting, capital assets arising from cash transactions reported in the government-wide financial statements are accounted for as assets in the Statement of Net Position. In the Statement of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary, to match the cost with the program that benefits from the use of the capital assets.

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

f. Long-Term Liabilities:

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - (Continued)

Long-term liabilities include, but are not limited to, revenue bonds and general obligation bonds.

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

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

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the 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.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

i. Equity Classifications:

Government-Wide Financial Statements:

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

1. Restricted net position - Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - (Continued)

2. Unrestricted net position - All other net position that do not meet the definition of restricted net position.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Agency Funds have no fund equity. The Net Position is reported as Net Position Held in Agency Capacity.

j. Application of Net Position:

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

k. Fund Balance Classification Policies and Procedures:

In accordance with Governmental Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

1. Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
2. Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
3. Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
4. Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the City Council.
5. Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

A schedule of fund balances is provided as follows:

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - (Continued)

CITY OF HIGHMORE
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2018

Fund Balances:	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted for:			
Debt Service Requirements	\$ --	\$118,962	\$ 118,962
Other Purposes:			
Liquor, Lodging and Dining Gross Receipts Tax	--	72,764	72,764
24/7 Sobriety	--	2,254	2,254
Assigned to:			
Applied to next year's budget	101,000	--	101,000
Unassigned	<u>3,302,812</u>	<u>--</u>	<u>3,302,812</u>
 Total Fund Balances	 <u>\$3,403,812</u>	 <u>\$193,980</u>	 <u>\$3,597,792</u>

NOTE 2 - VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

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

	Year Ended <u>12/31/2018</u>
General Fund:	
<u>Activity</u>	
General Government - Legislative	\$ 465
Culture and Recreation - Recreation	\$21,872
Culture and Recreation - Parks	\$11,011
Sewer General Obligation Bond (Debt Service) Fund:	
<u>Activity</u>	
Debt Service	\$36,430
	Year Ended <u>12/31/2017</u>
General Fund:	
<u>Activity</u>	
Public Safety - Police	\$ 98
Culture and Recreation - Recreation	\$ 5,441
Culture and Recreation - Parks	\$12,521
Culture and Recreation - Auditorium	\$65,574
Sewer General Obligation Bond (Debt Service) Fund:	
<u>Activity</u>	
Debt Service	\$31,220

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 - (Continued)

The City plans to take the following actions to address these violations: We will work towards adopting more detailed budgets in an effort to avoid such overdrafts in the future. As some situations simply can't be foreseen, we will attempt to specify contingency transfers to specific funds.

NOTE 3 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

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

Investments - In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2018, the City did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

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

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer. All of the City's investments are in a certificate of deposit.

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

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

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 - RESTRICTED CASH AND INVESTMENTS

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

<u>Amount:</u>	<u>Purpose:</u>
\$ 16,621	For debt service in the Water Fund

NOTE 5 - 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 6 - OPERATING LEASES

The City had a two year lease for a loader beginning in November 2016 and ended October 2018, which was paid out of the General Fund. The City began a new lease in October 2018 for a Volvo loader, which was paid out of the General Fund also. The City paid a total of \$27,285 for the year ended December 31, 2018, and \$24,873 for the year ended December 31, 2017, in leases out of the General Fund.

The following are the minimum payments required for the existing operating lease:

<u>Year</u>	<u>General Fund</u>
2019	\$24,993
2020	<u>18,745</u>
Total	<u>\$43,738</u>

NOTE 7 - RESTRICTED NET POSITION

Restricted net position for the year ended December 31, 2018, was as follows:

Major Purposes:	
Debt Service Purposes - Water Fund	\$ 16,621
Other Purposes:	
Liquor, Lodging and Dining Gross Receipts Tax Purposes	72,764
24/7 Sobriety Purposes	2,254
Debt Service Purposes - Sewer General Obligation Bond Fund	<u>118,962</u>
Total Restricted Net Position	<u>\$210,601</u>

These balances are restricted by the terms of bond agreements and statutory requirements.

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8 - PRIOR PERIOD ADJUSTMENTS

The City Council approved to convert the City from accounting principles generally accepted in the United States of America (GAAP) to the modified cash basis of accounting as of January 1, 2017. This conversion resulted in the following funds having the following adjustments in order to remove all of the prior year assets and liabilities from the balance sheet except for cash and investments: Governmental activities - \$(3,172,569); Business-Type activities - \$(682,828); General Fund \$(22,673); Liquor, Lodging and Dining Gross Receipts Tax Fund - \$(826); Water Fund - \$(261,152); Sewer Fund - \$(422,252); and Solid Waste Fund - \$576.

NOTE 9 - 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 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://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 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 retirements 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:

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 9 - (Continued)

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to 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, if the restricted maximum is assumed for the 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, 6.0% 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. The City's share of contributions to the SDRS for the calendar years ended December 31, 2018, 2017, and 2016 were \$10,386, \$10,211, and \$9,511, respectively, equal to the required contributions each year.

Pension Assets and Pension Expense:

At June 30, 2018, SDRS is 100.02% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2018, and reported by the City as of December 31, 2018, are as follows:

Proportionate share of total pension liability	\$ 1,020,766
Less proportionate share of net position restricted for pension benefits	<u>(1,020,961)</u>
Proportionate share of net pension asset	<u>\$ _____ (195)</u>

The net pension asset was measured as of June 30, 2018, and the total pension liability used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the City's proportion was .0083441%, which is an increase of .0002462% from its proportion measured as of June 30, 2017.

Actuarial Assumptions:

The total pension liability 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 percent
Salary Increases	Graded by years of service, from 6.5% at entry to 3.00% after 25 years of service
Discount Rate	6.5 percent net of plan investment expense

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 9 - (Continued)

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2017, 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-2017.

A detailed experience analysis covering the period from June 30, 2011 to June 30, 2016, was conducted and appropriate modifications in the economic and demographic assumptions were made effective with the June 30, 2017 actuarial valuation.

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, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	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 was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions 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.

Sensitivity of Liability (Asset) to Changes in the Discount Rate:

The following presents the City's proportionate share of net pension (asset) calculated using the discount rate of 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 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 9 - (Continued)

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
City's proportionate share of the net pension liability (asset)	\$146,980	\$(195)	\$(119,913)

Pension Plan Fiduciary Net Position:

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

NOTE 10 - SIGNIFICANT CONTINGENCIES - LITIGATION

At December 31, 2018, the City was not involved in any litigation.

NOTE 11 - SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through September 18, 2019, the date on which the financial statements were available to be issued. Management has determined there are none.

NOTE 12 - 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 period ended December 31, 2018, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

The City purchases liability insurance for 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 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 City's responsibility is to initiate and maintain a safety

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 12 - (Continued)

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

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

SUPPLEMENTARY INFORMATION

CITY OF HIGHMORE
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
General property taxes	\$ 450,000	\$ 450,000	\$ 451,098	\$ 1,098
General sales and use taxes	324,000	324,000	406,964	82,964
Amusement taxes	200	200	240	40
Penalties and interest on delinquent taxes	1,200	1,200	384	(816)
Licenses and Permits	3,250	3,250	4,659	1,409
Intergovernmental Revenue:				
Federal grants	--	70,730	70,730	--
State grants	--	3,929	5,129	1,200
State shared revenue:				
Bank franchise tax	3,200	3,200	4,710	1,510
Prorate license fees	3,200	3,200	6,962	3,762
Liquor tax reversion (25%)	4,000	4,000	4,070	70
Motor vehicles licenses	16,000	16,000	21,669	5,669
Local government highway and bridge fund	25,000	25,000	28,123	3,123
Other intergovernmental revenues	37,500	37,500	37,500	--
Charges for Goods and Services:				
Culture and recreation	11,050	11,050	9,301	(1,749)
Miscellaneous Revenue:				
Investment earnings	9,000	9,000	14,241	5,241
Rentals	47,900	47,900	42,264	(5,636)
Other	300	300	13,122	12,822
TOTAL REVENUE	<u>935,800</u>	<u>1,010,459</u>	<u>1,121,166</u>	<u>110,707</u>
EXPENDITURES:				
General Government:				
Legislative	23,650	23,650	24,115	(465)
Contingency	50,000	50,000		
Amount transferred		(27,868)		22,132
Elections	750	927	927	--
Financial administration	72,020	74,722	66,458	8,264
Public Safety:				
Police	40,100	40,412	40,412	--
Fire	45,000	45,000	30,000	15,000
Public Works:				
Highways and streets	468,125	610,520	606,281	4,239

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Airport	20,150	94,809	39,262	55,547
Transit	5,000	5,000	5,000	--
Health and Welfare:				
Health	2,500	2,500	1,763	737
Hospitals, nursing homes and rest homes	3,600	3,600	3,300	300
Culture and Recreation:				
Recreation	61,575	81,268	103,140	(21,872)
Parks	3,300	3,604	14,615	(11,011)
Auditorium	149,745	149,745	134,103	15,642
Debt Service	<u>25,000</u>	<u>27,285</u>	<u>--</u>	<u>27,285</u>
TOTAL EXPENDITURES	<u>970,515</u>	<u>1,185,174</u>	<u>1,069,376</u>	<u>115,798</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(34,715)</u>	<u>(174,715)</u>	<u>51,790</u>	<u>226,505</u>
OTHER FINANCING SOURCES:				
Sale of municipal property	<u>--</u>	<u>--</u>	<u>350</u>	<u>350</u>
TOTAL OTHER FINANCING SOURCES	<u>--</u>	<u>--</u>	<u>350</u>	<u>350</u>
NET CHANGE IN FUND BALANCES	(34,715)	(174,715)	52,140	226,855
FUND BALANCE - BEGINNING	<u>3,351,672</u>	<u>3,351,672</u>	<u>3,351,672</u>	<u>--</u>
FUND BALANCE - ENDING	<u>\$3,316,957</u>	<u>\$3,176,957</u>	<u>\$3,403,812</u>	<u>\$226,855</u>

CITY OF HIGHMORE
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
General property taxes	\$ 447,000	\$ 447,000	\$ 445,296	\$ (1,704)
General sales and use taxes	368,000	368,000	353,031	(14,969)
Amusement taxes	--	--	276	276
Penalties and interest on delinquent taxes	1,500	1,500	1,118	(382)
Licenses and Permits	3,350	3,350	5,436	2,086
Intergovernmental Revenue:				
Federal grants	--	622,772	622,772	--
State grants	--	34,598	36,098	1,500
State shared revenue:				
Bank franchise tax	2,800	2,800	3,644	844
Prorate license fees	2,600	2,600	7,457	4,857
Liquor tax reversion (25%)	4,000	4,000	4,935	935
Motor vehicles licenses	16,000	16,000	20,615	4,615
Local government highway and bridge fund	25,000	25,000	26,870	1,870
County shared revenue:				
County road tax (25%)	400	400	--	(400)
Other intergovernmental revenues	37,500	37,500	38,500	1,000
Charges for Goods and Services:				
Culture and recreation	10,975	10,975	13,570	2,595
Miscellaneous Revenue:				
Investment earnings	9,500	9,500	8,488	(1,012)
Rentals	41,650	41,650	44,850	3,200
Contributions and donations from private sources	--	--	2,000	2,000
Other	<u>300</u>	<u>300</u>	<u>5,363</u>	<u>5,063</u>
TOTAL REVENUE	<u>970,575</u>	<u>1,627,945</u>	<u>1,640,319</u>	<u>12,374</u>
EXPENDITURES:				
General Government:				
Legislative	24,100	24,100	22,126	1,974
Contingency	50,000	50,000		
Amount transferred		(48,186)		1,814
Elections	800	800	21	779
Financial administration	83,755	83,755	59,499	24,256
Public Safety:				
Police	40,000	40,015	40,113	(98)
Fire	45,000	45,000	30,000	15,000
Public Works:				
Highways and streets	486,370	491,921	242,244	249,677

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Airport	21,400	742,590	737,269	5,321
Transit	5,000	5,000	--	5,000
Health and Welfare:				
Health	2,500	2,500	--	2,500
Hospitals, nursing homes and rest homes	3,600	3,600	3,600	--
Culture and Recreation:				
Recreation	64,335	65,135	70,576	(5,441)
Parks	3,500	3,500	16,021	(12,521)
Auditorium	120,800	178,800	244,374	(65,574)
Debt Service	<u>26,880</u>	<u>247,880</u>	<u>--</u>	<u>247,880</u>
TOTAL EXPENDITURES	<u>978,040</u>	<u>1,936,410</u>	<u>1,465,843</u>	<u>470,567</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,465)</u>	<u>(308,465)</u>	<u>174,476</u>	<u>482,941</u>
OTHER FINANCING SOURCES:				
Sale of municipal property	<u>--</u>	<u>--</u>	<u>980</u>	<u>980</u>
TOTAL OTHER FINANCING SOURCES	<u>--</u>	<u>--</u>	<u>980</u>	<u>980</u>
NET CHANGE IN FUND BALANCES	<u>(7,465)</u>	<u>(308,465)</u>	<u>175,456</u>	<u>483,921</u>
FUND BALANCE - BEGINNING	3,198,889	3,198,889	3,198,889	--
ADJUSTMENTS:				
Conversion from accrual basis to cash basis (See Note 8)	<u>(22,673)</u>	<u>(22,673)</u>	<u>(22,673)</u>	<u>--</u>
ADJUSTED FUND BALANCE - BEGINNING	<u>3,176,216</u>	<u>3,176,216</u>	<u>3,176,216</u>	<u>--</u>
FUND BALANCE - ENDING	<u>\$3,168,751</u>	<u>\$2,867,751</u>	<u>\$3,351,672</u>	<u>\$483,921</u>

CITY OF HIGHMORE
NOTES TO THE SUPPLEMENTARY INFORMATION
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND
DECEMBER 31, 2018 AND 2017

NOTE 1 - Budgets and Budgetary Accounting

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

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

The City did not encumber any amounts at either December 31, 2017, or 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.

CITY OF HIGHMORE
SCHEDULE OF CHANGES IN LONG-TERM DEBT
TWO YEARS ENDED DECEMBER 31, 2018

<u>Indebtedness</u>	<u>Long-Term Debt January 1, 2017</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt December 31, 2018</u>
GOVERNMENTAL LONG-TERM DEBT:				
General obligation bonds	\$ 790,625	\$ --	\$ 48,127	\$742,498
ENTERPRISE LONG-TERM DEBT:				
Revenue bonds	<u>1,010,064</u>	<u>--</u>	<u>761,124</u>	<u>248,940</u>
Total	<u>\$1,800,689</u>	<u>\$--</u>	<u>\$809,251</u>	<u>\$991,438</u>

NOTE 1: LONG-TERM DEBT

Debt payable at December 31, 2018, is comprised of the following:

General Obligation Bonds:

Series 1997 Storm Sewer General Obligation Bond, due in monthly installments of \$5,205, including 5.0% interest, maturing August 5, 2037. This debt is serviced by the General Fund and the Sewer General Obligation Bond Fund.

\$ 742,498

Revenue Bonds:

Drinking Water Revenue Borrower Bond Series 2014, due in quarterly installments of \$3,392, including 3.0% interest, maturing August 15, 2045. This debt is serviced by the Water Fund.

\$ 248,940

CITY OF HIGHMORE
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (ASSET)

SOUTH DAKOTA RETIREMENT SYSTEM

Last 2 Fiscal Years*

	2018	2017
City's proportion of the net pension liability (asset)	0.0083441%	0.0080979%
City's proportionate share of net pension liability (asset)	\$ (195)	\$ (735)
City's covered payroll	\$173,462	\$164,528
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	(0.11%)	(0.45%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.02%	100.10%

*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30. Until a full 10-year trend is compiled, the City will present information for those years for which information is available.

CITY OF HIGHMORE
NOTES TO SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(ASSET)

Changes of benefit terms:

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.

The changes in actuarial assumptions increased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 1.89% COLA, reflecting the current and assumed future restricted maximum COLA of 2.03%.

CITY OF HIGHMORE
COMBINING BALANCE SHEET - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	Liquor, Lodging and Dining Gross Receipts Tax Fund	24/7 Sobriety Fund	Sewer General Obligation Bond (Debt Service) Fund	Total Nonmajor Governmental Funds
ASSETS:				
Cash and cash equivalents	\$72,764	\$2,254	\$ --	\$ 75,018
Investments	--	--	<u>118,962</u>	<u>118,962</u>
TOTAL ASSETS	<u>\$72,764</u>	<u>\$2,254</u>	<u>\$118,962</u>	<u>\$193,980</u>
FUND BALANCES:				
Restricted	<u>\$72,764</u>	<u>\$2,254</u>	<u>\$118,962</u>	<u>\$193,980</u>
TOTAL FUND BALANCES	<u>\$72,764</u>	<u>\$2,254</u>	<u>\$118,962</u>	<u>\$193,980</u>

CITY OF HIGHMORE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

	Liquor, Lodging and Dining Gross Receipts Tax Fund	24/7 Sobriety Fund	Sewer General Obligation Bond (Debt Service) Fund	Total Nonmajor Governmental Funds
REVENUES:				
Taxes:				
General property taxes	\$ --	\$ --	\$ 71,550	\$ 71,550
General sales and use taxes	8,803	--	--	8,803
Penalties and interest on delinquent taxes	<u>--</u>	<u>--</u>	<u>61</u>	<u>61</u>
TOTAL REVENUE	<u>8,803</u>	<u>--</u>	<u>71,611</u>	<u>80,414</u>
EXPENDITURES:				
General Government:				
Legislative	2,000	--	--	2,000
Debt Service	<u>--</u>	<u>--</u>	<u>62,460</u>	<u>62,460</u>
TOTAL EXPENDITURES	<u>2,000</u>	<u>--</u>	<u>62,460</u>	<u>64,460</u>
NET CHANGE IN FUND BALANCES	6,803	--	9,151	15,954
FUND BALANCE - BEGINNING	<u>65,961</u>	<u>2,254</u>	<u>109,811</u>	<u>178,026</u>
FUND BALANCE - ENDING	<u>\$72,764</u>	<u>\$2,254</u>	<u>\$118,962</u>	<u>\$193,980</u>

CITY OF HIGHMORE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017

	Liquor, Lodging and Dining Gross Receipts Tax Fund	24/7 Sobriety Fund	Sewer General Obligation Bond (Debt Service) Fund	Total Nonmajor Governmental Funds
REVENUES:				
Taxes:				
General property taxes	\$ --	\$ --	\$ 70,608	\$ 70,608
General sales and use taxes	9,190	--	--	9,190
Penalties and interest on delinquent taxes	--	--	205	205
TOTAL REVENUE	<u>9,190</u>	<u>--</u>	<u>70,813</u>	<u>80,003</u>
EXPENDITURES:				
Debt Service	--	--	62,460	62,460
TOTAL EXPENDITURES	<u>--</u>	<u>--</u>	<u>62,460</u>	<u>62,460</u>
NET CHANGE IN FUND BALANCES	<u>9,190</u>	<u>--</u>	<u>8,353</u>	<u>17,543</u>
FUND BALANCE - BEGINNING	57,597	2,254	101,458	161,309
ADJUSTMENTS:				
Conversion from accrual basis to cash basis (See Note 8)	(826)	--	--	(826)
ADJUSTED FUND BALANCE - BEGINNING	<u>56,771</u>	<u>2,254</u>	<u>101,458</u>	<u>160,483</u>
FUND BALANCE - ENDING	<u>\$65,961</u>	<u>\$2,254</u>	<u>\$109,811</u>	<u>\$178,026</u>