

CITY OF WALL, SOUTH DAKOTA

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

DECEMBER 31, 2018

CITY OF WALL

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

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Wall, South Dakota

Report on Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Wall, South Dakota (the City)**, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that 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.

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Auditor's Responsibility

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

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

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

Opinions

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

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that 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 schedule, the schedule of the City's proportionate share of net pension liability/(asset), the schedule of City's contributions, the schedule of changes in long-term debt, and the combining schedules of the nonmajor funds financial statements, as 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 November 1, 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.

Wohlschlag Ritzman + Co., LLC

Yankton, South Dakota
November 1, 2019

CITY OF WALL

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

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,991,061	\$ 1,023,985	\$ 4,015,046
Certificates of deposit	482,594	-	482,594
Restricted cash:			
Savings	8,114	-	8,114
		.	
Total assets	\$ 3,481,769	\$ 1,023,985	\$ 4,505,754
NET POSITION			
Restricted for:			
Economic development	122,103	-	122,103
Shearer addition	8,114	-	8,114
Archery range	9,629	-	9,629
Customer deposits	-	6,115	6,115
Unrestricted	3,341,923	1,017,870	4,359,793
Total net position	\$ 3,481,769	\$ 1,023,985	\$ 4,505,754

The accompanying notes are an
integral part of these financial statements

CITY OF WALL

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Program Receipts				Net (Disbursements) Receipts and Changes in Net Position		
	Disbursements	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	\$ 760,852	\$ 14,603	\$ -	\$ -	\$ (746,249)		\$ (746,249)
Public safety	340,042	23,987	-	-	(316,055)		(316,055)
Public works	489,048	-	42,121	89,774	(357,153)		(357,153)
Health and welfare	50,000	-	-	-	(50,000)		(50,000)
Culture and recreation	289,958	2,160	-	-	(287,798)		(287,798)
Conservation and development	162,431	22,991	-	-	(139,440)		(139,440)
Interest on long-term debt	10,091	-	-	-	(10,091)		(10,091)
Total governmental activities	<u>2,102,422</u>	<u>63,741</u>	<u>42,121</u>	<u>89,774</u>	<u>(1,906,786)</u>		<u>(1,906,786)</u>
Business-type activities:							
Water	351,031	249,450	-	-	-	\$ (101,581)	(101,581)
Solid waste	236,213	155,297	-	-	-	(80,916)	(80,916)
Waste water	156,582	129,414	-	-	-	(27,168)	(27,168)
Total business-type activities	<u>743,826</u>	<u>534,161</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(209,665)</u>	<u>(209,665)</u>
Total primary government	<u>\$ 2,846,248</u>	<u>\$ 597,902</u>	<u>\$ 42,121</u>	<u>\$ 89,774</u>	<u>(1,906,786)</u>	<u>(209,665)</u>	<u>(2,116,451)</u>
General receipts:							
Taxes:							
Property taxes					331,374	-	331,374
Sales taxes					1,271,566	-	1,271,566
State and county shared receipts					8,408	-	8,408
Unrestricted investment earnings					20,976	3,566	24,542
Debt issued					62,000	-	62,000
Miscellaneous					107,224	4,360	111,584
Transfers					(236,968)	236,968	-
Total general receipts and transfers					<u>1,564,580</u>	<u>244,894</u>	<u>1,809,474</u>
Change in net position					(342,206)	35,229	(306,977)
Net position - beginning					<u>3,823,975</u>	<u>988,756</u>	<u>4,812,731</u>
Net position - ending					<u>\$ 3,481,769</u>	<u>\$ 1,023,985</u>	<u>\$ 4,505,754</u>

The accompanying notes are an integral part of these financial statements

CITY OF WALL

**BALANCE SHEET - MODIFIED CASH BASIS -
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	<u>Major</u>	<u>Non-Major</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 2,710,071	\$ 280,990	\$ 2,991,061
Certificates of deposit	380,709	101,885	482,594
Restricted cash:			
Savings	<u>8,114</u>	<u>-</u>	<u>8,114</u>
 Total assets	 <u>\$ 3,098,894</u>	 <u>\$ 382,875</u>	 <u>\$ 3,481,769</u>
FUND BALANCES			
Restricted:			
Economic development	-	122,103	122,103
Shearer Addition	8,114	-	8,114
Archery range	9,629	-	9,629
Assigned:			
Airport	86,799	-	86,799
Fire department	-	64,583	64,583
Library	-	92,648	92,648
Cemetery	-	103,541	103,541
Wall Economic Development Committee	58,000	-	58,000
Unassigned	<u>2,936,352</u>	<u>-</u>	<u>2,936,352</u>
 Total fund balances	 <u>\$ 3,098,894</u>	 <u>\$ 382,875</u>	 <u>\$ 3,481,769</u>

The accompanying notes are an
integral part of these financial statements

CITY OF WALL

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Major General Fund	Non-Major Governmental Funds	Total Governmental Funds
RECEIPTS			
Taxes	\$ 1,465,687	\$ 137,253	\$ 1,602,940
Licenses and permits	14,603	-	14,603
Intergovernmental revenue	142,075	-	142,075
Charges for goods and services	25,250	-	25,250
Fines and fees	-	23,888	23,888
Miscellaneous	61,068	64,275	125,343
Total receipts	1,708,683	225,416	1,934,099
DISBURSEMENTS			
General government	346,878	-	346,878
Public safety	129,232	78,174	207,406
Public works	162,143	5,039	167,182
Health and welfare	50,000	-	50,000
Culture and recreation	193,834	31,421	225,255
Conservation and development	60,589	74,982	135,571
Debt service:			
Principal	110,943	26,860	137,803
Interest	1,906	8,185	10,091
Capital outlay	808,543	13,693	822,236
Total disbursements	1,864,068	238,354	2,102,422
Excess (deficiency) of receipts over disbursements	(155,385)	(12,938)	(168,323)
OTHER FINANCING SOURCES (USES)			
Transfers in	51,350	49,460	100,810
Transfers out	(286,428)	(51,350)	(337,778)
Proceeds from issuance of long-term debt	62,000	-	62,000
Compensation for loss or damage	1,085	-	1,085
Total other financing sources (uses)	(171,993)	(1,890)	(173,883)
Net change in fund balances	(327,378)	(14,828)	(342,206)
Fund balances - beginning	3,426,272	397,703	3,823,975
Fund balances - ending	\$ 3,098,894	\$ 382,875	\$ 3,481,769

The accompanying notes are an
integral part of these financial statements

CITY OF WALL

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

	Enterprise Funds			
	Major			Total
	Water	Waste Water	Solid Waste	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 492,364	\$ 245,545	\$ 286,076	\$ 1,023,985
Total assets	<u>\$ 492,364</u>	<u>\$ 245,545</u>	<u>\$ 286,076</u>	<u>1,023,985</u>
NET POSITION				
Restricted	6,115	-	-	6,115
Unrestricted	<u>486,249</u>	<u>245,545</u>	<u>286,076</u>	<u>1,017,870</u>
Total net position	<u>\$ 492,364</u>	<u>\$ 245,545</u>	<u>\$ 286,076</u>	<u>\$ 1,023,985</u>

The accompanying notes are an
 integral part of these financial statements

CITY OF WALL

STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	Enterprise Funds			
	Major			Total
	Water	Waste Water	Solid Waste	
OPERATING RECEIPTS				
Charges for goods and services	\$ 245,630	\$ 155,297	\$ 129,414	\$ 530,341
Other operating receipts	3,820	-	-	3,820
Total operating receipts	<u>249,450</u>	<u>155,297</u>	<u>129,414</u>	<u>534,161</u>
OPERATING DISBURSEMENTS				
Personal services	30,053	32,018	27,144	89,215
Cost and materials	130,622	-	85,058	215,680
Other current expenses	154,356	38,017	14,380	206,753
Capital outlay	-	166,178	30,000	196,178
Total operating disbursements	<u>315,031</u>	<u>236,213</u>	<u>156,582</u>	<u>707,826</u>
Operating (loss)	<u>(65,581)</u>	<u>(80,916)</u>	<u>(27,168)</u>	<u>(173,665)</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)				
Interest income	1,070	1,070	1,426	3,566
Sale of municipal property	4,360	-	-	4,360
Debt service - principal	(36,000)	-	-	(36,000)
Total nonoperating receipts (disbursements)	<u>(30,570)</u>	<u>1,070</u>	<u>1,426</u>	<u>(28,074)</u>
(Loss) before transfers	(96,151)	(79,846)	(25,742)	(201,739)
Transfer in	236,968	-	-	236,968
Total transfers	<u>236,968</u>	<u>-</u>	<u>-</u>	<u>236,968</u>
Change in net position	140,817	(79,846)	(25,742)	35,229
Net position - beginning	<u>351,547</u>	<u>325,391</u>	<u>311,818</u>	<u>988,756</u>
Net position - ending	<u>\$ 492,364</u>	<u>\$ 245,545</u>	<u>\$ 286,076</u>	<u>\$ 1,023,985</u>

The accompanying notes are an
integral part of these financial statements

CITY OF WALL

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
 PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2018

	Enterprise Funds			
	Major			Total
	Water	Waste Water	Solid Waste	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 249,450	\$ 155,297	\$ 129,414	\$ 534,161
Payments to suppliers	(284,978)	(38,017)	(99,438)	(422,433)
Payments to employees	(30,053)	(32,018)	(27,144)	(89,215)
Payments for capital improvements	-	(166,178)	(30,000)	(196,178)
Net cash (used in) operating activities	<u>(65,581)</u>	<u>(80,916)</u>	<u>(27,168)</u>	<u>(173,665)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	236,968	-	-	236,968
Net cash provided by noncapital financing activities	<u>236,968</u>	<u>-</u>	<u>-</u>	<u>236,968</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from the sale of municipal property	4,360	-	-	4,360
Principal payments on notes payable	(36,000)	-	-	(36,000)
Net cash (used in) capital and related financing activities	<u>(31,640)</u>	<u>-</u>	<u>-</u>	<u>(31,640)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	1,070	1,070	1,426	3,566
Net cash provided by investing activities	<u>1,070</u>	<u>1,070</u>	<u>1,426</u>	<u>3,566</u>
Net increase (decrease) in cash and cash equivalents	140,817	(79,846)	(25,742)	35,229
Balances - beginning of the year	351,547	325,391	311,818	988,756
Balances - end of the year	<u>\$ 492,364</u>	<u>\$ 245,545</u>	<u>\$ 286,076</u>	<u>\$ 1,023,985</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating (loss)	\$ (65,881)	\$ (80,916)	\$ (27,168)	\$ (173,965)
Net cash provided by (used in) operating activities	<u>\$ (65,881)</u>	<u>\$ (80,916)</u>	<u>\$ (27,168)</u>	<u>\$ (173,965)</u>

The accompanying notes are an integral part of these financial statements

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further below, these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (US GAAP) as described within this note. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Reporting Entity

The reporting entity of the City of Wall (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.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the City. These statements include the financial activities of the overall government, except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct disbursements and program receipts for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct disbursements are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program receipts 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. Receipts that are not classified as program receipts, including all taxes, are presented as general receipts.

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

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, receipts, and disbursements. The funds of the City are organized into two major categories: governmental and proprietary.

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, receipts, or disbursements of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, receipts, or disbursements of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the City are described below:

Governmental Funds:

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

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific receipt sources (other than expendable trusts or major capital projects) that are restricted or committed to disbursements for specified purposes other than debt service or capital projects. The City has the following special revenue funds:

CITY OF WALL

**NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Fund Financial Statements, continued:

Governmental Funds, continued:

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 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.

Fire Department Fund - To account for all financial resources of the fire department. Activities are financed through services provided by the department, donations, and other sources. This is not a major fund.

Cemetery Fund - To account for all financial resources of the cemetery. Activities are financed through cemetery services, donations, and other sources. This is not a major fund.

Library Fund - To account for all financial resources of the library. Activities are financed through library fees, donations, and other sources. This is not a major fund.

Proprietary Funds:

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

Water Fund - Financed primarily by user charges. This fund accounts for the construction and operation of the municipal waterworks system and related facilities. This is a major fund.

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Fund Financial Statements, continued:

Proprietary Funds, continued:

Waste Water Fund - Financed primarily by user charges. This fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. This is a major fund.

Solid Waste Fund - Financed primarily by user charges. This fund accounts for the construction and operation of the city solid waste system and related facilities. This is a major fund.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds and are used to account for resources held by the City in a purely custodial capacity (assets equal liabilities). The City has no fiduciary funds.

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” receipts and disbursements 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 US GAAP. Under US GAAP, 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.

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

Measurement Focus, continued:

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 as defined below.

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 the 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 balance sheet/statement of net position reports only cash and cash equivalents and certificates of deposit, and investments. 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.

Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements include the recording of certificates of deposit arising from cash transactions. The City also presents negative cash balances rather than interfund loans.

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 accounting principles generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

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

Capital Assets

Under the modified cash basis of accounting, capital assets are recorded when they result from cash transactions.

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 at the amount paid in cash. 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.

Fund Financial Statements

In the fund financial statements, capital assets acquired for use in fund operations are accounted for as expenditures of the fund when paid for in cash.

Long-Term Liabilities

Long-term liabilities include, but are not limited to, notes payable.

As discussed 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 reports the principal and interest payments on long-term debt as Debt Service disbursements on the Statement of Cash Receipts, Disbursements, and Changes in Fund Balance - Modified Cash Basis. On the Statement of Activities, the principal portion of the 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 Long-Term Debt.

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenue Received in Advance

Under the modified cash basis of accounting, cash may have been received in advance of the City's providing a good or service to a customer. These amounts are reported in the financial statements at the time of receipt, as applicable.

Program Receipts

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

1. Charges for Services - These arise from charges to customers, applicants or other 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.

Proprietary Funds Receipts and Disbursements Classifications

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

Equity Classifications

Government-wide Statements:

Equity is classified as net position and is displayed in two components under the modified cash basis:

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 WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Equity Classifications, continued

Government-wide Statements, continued:

Unrestricted net position - All other net position that does not meet the definition of "restricted."

The City uses restricted amounts first when both restricted and unrestricted net position is available unless there are legal documents or contracts that prohibit doing so, such as a grant agreement requiring dollar-for-dollar spending.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, which is distinguished between the following classifications:

Nonspendable - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted - Constraints are placed on the use of resources by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by ordinances of the City Council.

Assigned - Amounts that are constrained by the City Council's intent to be used for specific purposes but are neither restricted nor committed. The City Council assigns amounts through approved Council actions that occur during City Council meetings.

Unassigned - Represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned.

The City uses restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal documents or contracts that prohibit doing so, such as a grant agreement requiring dollar-for-dollar spending. Additionally, the City 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. Proprietary fund equity is classified the same as in the government-wide financial statements.

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Property Taxes

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

2. DEPOSITS AND INVESTMENTS

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. All governmental and proprietary funds essentially have access to the entire amount of their cash resources on demand. 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 public 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 Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (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); or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires 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.

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

2. DEPOSITS AND INVESTMENTS, continued

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City has adopted a formal investment policy. It requires all depositories to provide full insurance or collateralization of all deposits and provide a report evidencing collateralization to the City. As of December 31, 2018, the City's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Investments – As of December 31, 2018, the City had no investments.

Authorized Investments by the City – The City has adopted a formal investment policy. It does not further limit investments beyond those imposed by statutes.

Credit Risk – State law limits eligible investments for the City, as discussed above. The City has adopted a formal investment policy. It does not further limit its investment choices.

Concentration of Credit Risk – The City has adopted a formal investment policy. It places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The City has adopted a formal investment policy. It does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. It does require at least an amount equal to a historical average of two months worth of City expenditures be accessible for use by the City in one day's notice.

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 WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018

3. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2018 were as follows:

	Transfers To	Transfers From
<i>Governmental activities:</i>		
General Fund:		
Liquor & Dining Tax Fund	\$ -	\$ 51,350
Fire Department Fund	28,000	-
Library Fund	16,160	-
Cemetery Fund	5,300	-
Water Fund	236,968	-
	286,428	51,350
Liquor & Dining Tax Fund:		
General Fund	51,350	-
Fire Department Fund:		
General Fund	-	28,000
Library Fund:		
General Fund	-	16,160
Cemetery Fund:		
General Fund	-	5,300
<i>Total governmental activities</i>	<i>337,778</i>	<i>100,810</i>
<i>Business-type activities:</i>		
Water Fund:		
General Fund	-	236,968
<i>Total business-type activities</i>	<i>-</i>	<i>236,968</i>
<i>Total primary government</i>	<i>\$ 337,778</i>	<i>\$ 337,778</i>

Activity includes transfers from the General Fund Water Fund for capital project funding. The other transfers were budgeted to conduct the indispensable functions of the City.

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

4. 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's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.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 retirement benefits that do not meet the above criteria may be payable at a reduced level.

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

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

4. PENSION PLAN, continued

Benefits Provided, continued

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

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% 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 fiscal years ended December 31, 2018, 2017 and 2016 was \$16,771, \$11,451, and \$13,903, respectively, equal to the required contributions each year.

Pension (Asset)/Liability:

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

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018

4. PENSION PLAN, continued

Pension (Asset)/Liability, continued:

Proportionate share of pension liability	\$1,578,523
Less proportionate share of net pension restricted for pension benefits	<u>1,578,824</u>
Proportionate share of net pension liability (asset)	<u>\$ (301)</u>

At December 31, 2018, the City reported an (asset)/liability of (\$301) for its proportionate share of the net pension (asset)/liability. The net pension (asset)/liability was measured as of June 30, 2018 and the total pension (asset)/liability used to calculate the net pension (asset)/liability was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the City's proportion was 0.0129034% which was an increase of .0012356% from its proportion measured as of June 30, 2017.

Actuarial Assumptions

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

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50 % net of pension plan investment expense

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.

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

4. PENSION PLAN, continued

Actuarial Assumptions, continued

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 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 (asset)/liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching 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 (asset)/liability.

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018

4. PENSION PLAN, continued

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

The following presents the City's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, 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:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 227,292	\$ (301)	\$ (184,435)

Pension Plan Fiduciary Net Position

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

5. RESTRICTED NET POSITION

The following table shows restricted net position and the purpose for such restriction as presented in the statement of net position – modified cash basis:

Purpose	Restricted By	Amount
Major Purposes:		
City promotion	State Law	\$ 122,103
Restricted use	Agreement	17,743
Customer deposits held	State Law	6,115
		\$ 145,961

6. CONTRACTS

The City is party to a contract agreement for solid waste collection. The contract requires the City to make payments to the contractor on a monthly basis based on the unit prices agreed upon by each party. Total payments on this contract during the year ended December 31, 2018 were \$85,058. This contract will remain in effect until June 30, 2019.

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

6. CONTRACTS, continued

The City is party to a contract agreement with Regional Health Physicians, Inc., a South Dakota nonprofit corporation, to lease the Wall Clinic and associated property. The lease does not require a payment as long as Regional Health Physicians, Inc. operates as a non-profit organization. The agreement expires on February 28, 2019. The City holds title to the property, building and some equipment.

The City entered into a construction contract in October of 2018 for the Well House Project for the Water Fund. Total contract sum is \$274,000 with a balance to complete at December 31, 2018 of \$224,073. Funding will be provided through existing reserves.

7. 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.

Property Insurance

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes a \$2,000,000 lifetime maximum payment per person.

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

CITY OF WALL

**NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018**

7. RISK MANAGEMENT, continued

Liability Insurance

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for torts, theft of or damage to property, and errors and omissions of public officials

Effective January 1, 2018, the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA a member may withdraw. Within 120 days following withdrawal, or as soon thereafter as the next Annual Budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool's total contributions, along with the member's total contributions, current losses, unpaid losses, and loss expenses, the member's loss ratio, and number of membership years.

A member who withdraws from the SDPAA shall receive a calculated portion of their contributions refunded for unpaid casualty losses, based on the following schedule:

<u>Years</u>	<u>Percentage</u>
1	55%
2	50%
3	40%
4	35%
5	30%
6+	20%

All refunds shall be paid to the withdrawing Member over a five-year term.

As of December 31, 2018, the City's balance available to be refunded per the SDPAA was \$53,924.

CITY OF WALL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2018

7. RISK MANAGEMENT, continued

The City has no deductible for the general liability coverage and a \$500 deductible for the errors and omissions of public officials' coverage.

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

Worker's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The 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 has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The City has not reserved equity for the payment of future unemployment benefits due to prior claims experience. During the year ended December 31, 2018, no claims for unemployment benefits were paid. At December 31, 2018, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

SUPPLEMENTARY INFORMATION

CITY OF WALL

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND - PAGE 1 OF 2
 YEAR ENDED DECEMBER 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget Positive (Negative)</u>
RECEIPTS				
Taxes:				
General property taxes	\$ 325,614	\$ 325,614	\$ 329,263	\$ 3,649
General sales and use taxes	1,000,000	1,000,000	1,134,313	134,313
Amusement taxes	500	500	528	28
Penalties and interest on delinquent taxes	500	500	1,583	1,083
Licenses and permits	14,040	14,040	14,603	563
Intergovernmental revenue:				
Federal grants	-	-	66,274	66,274
State grants	25,000	25,000	23,500	(1,500)
State shared revenues	22,500	22,500	26,656	4,156
County shared revenues	20,000	20,000	23,873	3,873
Other governmental revenues	1,000	1,000	1,772	772
Charges for goods and services:				
Public safety	-	-	99	99
Culture and recreation	1,500	1,500	2,160	660
Conservation and development	-	-	22,991	22,991
Miscellaneous revenue:				
Interest earned	5,000	5,000	19,141	14,141
Rentals	11,500	11,500	27,033	15,533
Contributions and donations from private sources	-	-	10,229	10,229
Other	2,000	2,000	4,665	2,665
Total receipts	<u>1,429,154</u>	<u>1,429,154</u>	<u>1,708,683</u>	<u>279,529</u>
DISBURSEMENTS				
General government:				
Legislative	18,000	18,000	14,961	3,039
Contingency	60,000	60,000	-	3,000
(Amount transferred)		(57,000)		
Elections	600	600	450	150
Financial administration	64,250	102,950	94,572	8,378
Other	132,400	680,900	650,869	30,031
Public safety:				
Police	126,354	128,454	129,226	(772)
Fire	31,100	122,100	120,855	1,245
Public works:				
Highways and streets	1,132,399	1,207,399	417,285	790,114
Airport	22,000	87,000	66,724	20,276
Health and welfare:				
Ambulance	50,000	50,000	50,000	-
Culture and recreation:				
General	48,000	49,000	49,000	-
Recreation	35,500	35,500	27,989	7,511
Parks	52,300	119,932	101,353	18,579
Libraries	-	-	4	(4)
Auditorium	86,380	91,380	80,191	11,189

See Independent Auditor's Report

CITY OF WALL

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND - PAGE 2 OF 2
 YEAR ENDED DECEMBER 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget Positive (Negative)</u>
Conservation and development:				
Economic development and assistance	<u>76,800</u>	<u>76,800</u>	<u>60,589</u>	<u>16,211</u>
Total disbursements	<u>1,936,083</u>	<u>2,773,015</u>	<u>1,864,068</u>	<u>908,947</u>
Excess (deficiency) of receipts over disbursements	<u>(506,929)</u>	<u>(1,343,861)</u>	<u>(155,385)</u>	<u>1,188,476</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	32,000	32,000	51,350	19,350
Transfers out	(338,360)	(338,360)	(286,428)	51,932
Proceeds from issuance of long-term debt	-	-	62,000	62,000
Compensation for loss or damage	-	-	1,085	1,085
Total other financing sources (uses)	<u>(306,360)</u>	<u>(306,360)</u>	<u>(171,993)</u>	<u>134,367</u>
Net change in fund balances	(813,289)	(1,650,221)	(327,378)	1,322,843
Fund balances - beginning	<u>3,426,272</u>	<u>3,426,272</u>	<u>3,426,272</u>	<u>-</u>
Fund balances - ending	<u>\$ 2,612,983</u>	<u>\$ 1,776,051</u>	<u>\$ 3,098,894</u>	<u>\$ 1,322,843</u>

See Independent Auditor's Report

CITY OF WALL

NOTES TO SUPPLEMENTARY INFORMATION - BUDGETS DECEMBER 31, 2018

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

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

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue fund.
7. Other Comprehensive Basis of Accounting Modified Cash Basis/Budgetary Accounting Basis Differences:

The financial statements prepared within the context of the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate.

CITY OF WALL

SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

Last 10 Years *

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
City's proportion of the net pension liability/(asset)	0.0095141%	0.0113494%	0.0116678%	0.0129034%
City's proportionate share of net pension liability (asset)	\$ (40,352)	\$ 38,337	\$ (1,059)	\$ (301)
City's covered-employee payroll	\$ 173,700	\$ 215,817	\$ 237,067	\$ 268,250
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-23.23%	17.76%	-0.45%	-0.11%
Plan fiduciary net position as a percentage of the total pension liability	104.1%	96.9%	100.1%	100.0%

Note: The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is June 30.

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10-year trend is compiled, governments should present information for those years which information is available.

See Independent Auditor's Report

CITY OF WALL

SCHEDULE OF CONTRIBUTIONS

South Dakota Retirement System

Last 10 Years *

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 14,770	\$ 13,903	\$ 11,451	\$ 16,771
Contributions in relation to the contractually required contribution	<u>\$ 14,770</u>	<u>\$ 13,903</u>	<u>\$ 11,451</u>	<u>\$ 16,771</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 246,167	\$ 231,717	\$ 190,850	\$ 279,511
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10-year trend is compiled, governments should present information for those years which information is available.

CITY OF WALL

NOTES TO SUPPLEMENTARY INFORMATION - PENSION DECEMBER 31, 2018

Changes of Benefit Terms

There were 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 WALL

SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN LONG-TERM DEBT
YEAR ENDED DECEMBER 31, 2018

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Notes payable	\$ 679,294	\$ 62,000	\$ (137,803)	\$ 603,491
Total governmental activities	<u>679,294</u>	<u>62,000</u>	<u>(137,803)</u>	<u>603,491</u>
Business-type activities activities:				
Notes payable	51,825	-	(36,000)	15,825
Total business-type activities activities	<u>51,825</u>	<u>-</u>	<u>(36,000)</u>	<u>15,825</u>
Total Primary Government	\$ 731,119	\$ 62,000	\$ (173,803)	\$ 619,316

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

Notes Payable:

WREA - Main Street Project, 0% interest, \$7,500 monthly payments, final maturity June 2024 Retired by the General Fund (73%) and Water Fund (27%).	\$ 315,000
Local Financial Instituion - Community Center/City Hall Remodel - 3.17% interest, \$35, 045 annual payment, final maturity September 2021 Retired by the Liquor and Lodging Tax Fund	242,316
Local Financial Instituion - Fire Truck - 4.37% interest, \$14,073 annual payment, final maturity September 2023 Retired by the General Fund	<u>62,000</u>
	<u>\$ 619,316</u>

Annual Requirement to Amortize Long Term Liabilities
Governmental Activities

Year Ending December 31,	Revenue Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 112,903	\$ 10,390	\$ 123,293
2020	130,085	9,033	139,118
2021	289,100	7,614	296,714
2023	57,919	1,154	59,073
2024	<u>13,484</u>	<u>589</u>	<u>14,073</u>
Total	<u>\$ 603,491</u>	<u>\$ 28,780</u>	<u>\$ 632,271</u>

Annual Requirement to Amortize Long Term Liabilities
Business-Type Activities

Year Ending December 31,	Revenue Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 15,825	\$ -	\$ 15,825
Total	<u>\$ 15,825</u>	<u>\$ -</u>	<u>\$ 15,825</u>

CITY OF WALL

SUPPLEMENTARY INFORMATION
BALANCE SHEET - MODIFIED CASH BASIS -
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	Special Revenue Funds				Total Nonmajor Funds
	Lodging and Dining Tax	Fire Department	Library	Cemetery	
ASSETS					
Cash and cash equivalents	\$ 122,103	\$ 64,583	\$ 65,104	\$ 29,200	\$ 280,990
Certificates of deposit	-	-	27,544	74,341	101,885
Total assets	<u>\$ 122,103</u>	<u>\$ 64,583</u>	<u>\$ 92,648</u>	<u>\$ 103,541</u>	<u>\$ 382,875</u>
FUND BALANCES					
Restricted:					
Economic development	122,103	-	-	-	122,103
Assigned:					
Fire department	-	64,583	-	-	64,583
Library	-	-	92,648	-	92,648
Cemetery	-	-	-	103,541	103,541
Total fund balances	<u>\$ 122,103</u>	<u>\$ 64,583</u>	<u>\$ 92,648</u>	<u>\$ 103,541</u>	<u>\$ 382,875</u>

See Independent Auditor's Report

CITY OF WALL

SUPPLEMENTARY INFORMATION
 SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES -
 MODIFIED CASH BASIS - NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2018

	Special Revenue Funds				Total Nonmajor Funds
	Lodging and Dining Tax	Fire Department	Library	Cemetery	
RECEIPTS					
Taxes	\$ 137,253	\$ -	\$ -	\$ -	\$ 137,253
Fines and fees	-	23,888	-	-	23,888
Miscellaneous	1,197	40,869	18,605	3,604	64,275
Total receipts	<u>138,450</u>	<u>64,757</u>	<u>18,605</u>	<u>3,604</u>	<u>225,416</u>
DISBURSEMENTS					
Public safety	-	78,174	-	-	78,174
Public works	-	-	-	5,039	5,039
Culture and recreation	-	-	31,421	-	31,421
Conservation and development	74,982	-	-	-	74,982
Debt service:					
Principal	26,860	-	-	-	26,860
Interest	8,185	-	-	-	8,185
Capital outlay	-	13,693	-	-	13,693
Total disbursements	<u>110,027</u>	<u>91,867</u>	<u>31,421</u>	<u>5,039</u>	<u>238,354</u>
Excess (deficiency) of receipts over disbursements	<u>28,423</u>	<u>(27,110)</u>	<u>(12,816)</u>	<u>(1,435)</u>	<u>(12,938)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	28,000	16,160	5,300	49,460
Transfers out	(51,350)	-	-	-	(51,350)
Total other financing sources (uses)	<u>(51,350)</u>	<u>28,000</u>	<u>16,160</u>	<u>5,300</u>	<u>(1,890)</u>
Net change in fund balances	(22,927)	890	3,344	3,865	(14,828)
Fund balances - beginning	<u>145,030</u>	<u>63,693</u>	<u>89,304</u>	<u>99,676</u>	<u>397,703</u>
Fund balances - ending	<u>\$ 122,103</u>	<u>\$ 64,583</u>	<u>\$ 92,648</u>	<u>\$ 103,541</u>	<u>\$ 382,875</u>

See Independent Auditor's Report

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

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

To the Honorable Mayor and
Members of the City Council
City of Wall, South Dakota

We have audited, in accordance with the 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 Wall, South Dakota (hereinafter referred to as the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 1, 2019.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify deficiencies in internal control, described in the accompanying schedule of findings and responses as Findings 2018-001 and 2018-002 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the modified cash basis financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
November 1, 2019

CITY OF WALL

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2018**

FINDINGS – FINANCIAL STATEMENTS AUDIT

**Finding 2017-001 Lack of Segregation of Duties
Material Weakness**

Condition:

The small size of the City limits the ability to separate incompatible accounting functions or processes such as maintenance of assets and recording of assets. This finding has been reported in previous audits.

Recommendation:

The Council should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control perspective. Under these conditions, the most effective controls lie in the Council's knowledge of matters relating to the operations of the City. We specifically recommend all reconciliations and journal entries be reviewed by someone other than the person primarily responsible for performing the reconciliations or maintaining the subsidiary ledger to ensure accuracy and agreement with the general ledger. Per SDCL 9-22-4, governing board approval is required to remove uncollectible accounts from the records. We would recommend the City implement a formal approval process by the Council for utility bill adjustments and write offs. We also recommend that another person or the Council review utility adjustment reports on a monthly basis and compare it to the utility adjustments already approved to ensure that the utility adjustments were complete at the time of the review and no other adjustments were performed after the review. Reviews should be documented by initialing the reconciliations and/or other supporting documentation. If the City does not have adequate staff resources, or an individual internally that possesses the proper accounting knowledge, we recommend that the City engage a third party to perform annual surprise audits related to the cycles described above.

Current Status:

The Finding is repeated as Finding 2018-001.

**Finding 2017-002 Financial Statement Preparation
Material Weakness**

Condition:

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This finding has been reported in previous audits.

CITY OF WALL

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2018**

FINDINGS – FINANCIAL STATEMENTS AUDIT, continued

Finding 2017-002 Financial Statement Preparation, continued

Recommendation:

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. If management is unwilling to accept risks associated with this condition, we recommend that management develop a system of internal controls to ensure proper reporting of the financial statements and notes to the financial statements. Management could also engage a separate accounting firm to assist in the preparation of the annual financial statements.

Current Status:

The Finding is repeated as Finding 2018-002.

**Finding 2017-003 Statutory Noncompliance
Significant Deficiency and Noncompliance**

Condition:

During our review of statutory compliance, we noted that the City did not obtain an audit or financial statements from the Wall Chamber of Commerce.

Recommendation:

The City should request and review annual statements from the Wall Chamber of Commerce in addition to the financials of any other non-profits that receive funding from the City of Wall for the promotion of the City.

Current Status:

The Finding has been corrected.

CITY OF WALL

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES
DECEMBER 31, 2018**

FINDINGS – FINANCIAL STATEMENT AUDIT

**2018-001 Lack of Segregation of Duties
Repeat of Finding 2017-001
Material Weakness**

Condition:

A limited number of office staff process all cash receipts and disbursement transactions, including receiving money, issuing receipts, recording and posting receipts in the accounting records, preparing bank deposits, reconciling bank statements, and preparing financial statements.

Criteria:

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

Cause:

Because of the nature and size of the entity, resources are limited to provide adequate levels of control.

Effect:

There is an inadequate segregation of duties for these accounting functions. The staff has not divided the various tasks so that one staff member is unable to control a transaction from beginning to end.

Recommendation:

Management and the City Council should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. All reconciliations and journal entries should be reviewed by someone other than the staff member primarily responsible for performing the reconciliations or maintaining the subsidiary ledger to ensure accuracy and agreement with the general ledger. The Council themselves can be involved in the review process. The most effective controls lie in the Management's knowledge of the matters relating to the City's operations, establishing a procedure of rotation of duties and strict enforcement of a vacation policy requiring all personnel to be absent from the City for specified times.

Management's Response:

Management agrees with the finding and related recommendations. The City feels with the addition of the Assistant Finance Officer position procedures can be updated to address the lack of segregation of duties.

CITY OF WALL

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES
DECEMBER 31, 2018**

FINDINGS – FINANCIAL STATEMENT AUDIT, continued

**Finding 2018-002 Preparation of Financial Statements
Repeat of Finding 2017-002
Material Weakness**

Condition:

The auditors were requested to assist in drafting the financial statements and accompanying notes to the financial statements and did not designate an individual with the appropriate skill, knowledge, and expertise to oversee this nonattest service.

Criteria:

Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Cause:

Management and the Council do not have the resources necessary to provide for the preparation of full disclosure financial statements.

Effect:

The disclosures in the financial statements could be incomplete.

Recommendation:

It is the responsibility of Management and the Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Engagement of a separate accounting firm to assist in the preparation of the annual financial statements could be considered.

Management's Response:

Management agrees with the finding and related recommendations. Management does accept the risk associated with the City's auditors drafting the financial statements.