



Financial Statements
December 31, 2018
City of Webster

Mayor Mike Grosek

Governing Board Dale Miller, President
Jim Grimes, Vice-President
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Independent Auditor's Report

The City Council
City of Webster
Webster, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Webster (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.

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.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Unit	Adverse
General Fund	Unmodified
Liquor, Lodging, and Dining Gross Receipts Tax Fund	Unmodified
Pool Debt Service	Unmodified
Nonmajor Governmental Funds	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Liquor Fund	Unmodified

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit

Management has not included the financial data for a legally separate component unit in the City's financial statements. Accounting principles applicable to the City's modified cash basis of accounting require the financial data for the component unit to be reported with the financial data for the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The amount by which this departure would affect the assets, net position, revenues and expenditures of the aggregate discretely presented component unit has not been determined.

Adverse Opinion on the Aggregate Discretely Presented Component Unit

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit" paragraph, the modified cash basis financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the aggregate discretely presented component unit of the City as of December 31, 2018, or the changes in financial position thereof for the year then ended in accordance with modified cash basis of accounting.

Unmodified Opinions

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

Basis of Accounting

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The schedule of employer's share of net pension liability (asset) and employer's contributions, budgetary comparison schedules, combining nonmajor fund financial statements, and schedule of changes in notes and bonds payable are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements.

The schedule of employer's share of net pension liability (asset) and employer's contributions, budgetary comparison schedules, schedule of changes in notes and bonds payable, the combining nonmajor fund financial statements, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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. Because of the significance of the matter described in the Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit paragraph, it is inappropriate to and we do not express an opinion on such supplementary information.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Aberdeen, South Dakota
August 6, 2019

City of Webster
Statement of Net Position—Modified Cash Basis
December 31, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 544,109	\$ 1,957,055	\$ 2,501,164
Restricted assets:			
Cash and cash equivalents	-	488,234	488,234
	<u>\$ 544,109</u>	<u>\$ 2,445,289</u>	<u>\$ 2,989,398</u>
Net Position			
Restricted for:			
Debt service purposes	\$ 44,012	\$ 409,034	\$ 453,046
Cemetery reserve	43,071	-	43,071
Equipment repair or replacement	-	79,200	79,200
Promoting the City	199,096	-	199,096
Other purposes:			
Community Development Fund	150,997	-	150,997
Active Living Trail Fund	50,780	-	50,780
Library Fines Fund	14,593	-	14,593
Golf Course Caddie Fund	8,172	-	8,172
Diamond Trust Fund	15,466	-	15,466
Fire federal grants	9,793	-	9,793
Unrestricted	8,129	1,957,055	1,965,184
	<u>\$ 544,109</u>	<u>\$ 2,445,289</u>	<u>\$ 2,989,398</u>

City of Webster
Statement of Activities—Modified Cash Basis
Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions, and Loan Proceeds	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 277,894	\$ 25,316	\$ -	\$ -	\$ (252,578)	\$ -	\$ (252,578)
Public safety	1,539,745	8,258	-	-	(1,531,487)	-	(1,531,487)
Public works	1,133,899	17,575	129,326	817,877	(169,121)	-	(169,121)
Culture and recreation	498,119	117,003	-	193,870	(187,246)	-	(187,246)
Conservation and development	31,000	-	-	-	(31,000)	-	(31,000)
Debt service	180,632	-	-	-	(180,632)	-	(180,632)
Total governmental activities	<u>3,661,289</u>	<u>168,152</u>	<u>129,326</u>	<u>1,011,747</u>	<u>(2,352,064)</u>	<u>-</u>	<u>(2,352,064)</u>
Business-type activities:							
Water	489,652	446,569	-	-	-	(43,083)	(43,083)
Sewer	381,198	473,973	6,735	-	-	99,510	99,510
Liquor	1,324,767	1,372,432	-	-	-	47,665	47,665
Total business-type activities	<u>2,195,617</u>	<u>2,292,974</u>	<u>6,735</u>	<u>-</u>	<u>-</u>	<u>104,092</u>	<u>104,092</u>
Total primary government	<u>\$ 5,856,906</u>	<u>\$ 2,461,126</u>	<u>\$ 136,061</u>	<u>\$ 1,011,747</u>	<u>(2,352,064)</u>	<u>104,092</u>	<u>(2,247,972)</u>
General Revenues							
Taxes:							
Property taxes					599,006	-	599,006
Sales taxes					1,128,851	-	1,128,851
State shared revenues					17,101	-	17,101
Unrestricted investment earnings					2,473	8,480	10,953
Debt issued					484,766	-	484,766
Miscellaneous revenue					7,299	-	7,299
Compensation for loss or damage to capital assets					13,189	-	13,189
Transfers					50,000	(50,000)	-
Total general revenues and transfers					<u>2,302,685</u>	<u>(41,520)</u>	<u>2,261,165</u>
Change in Net Position					(49,379)	62,572	13,193
Net Position - Beginning					<u>593,488</u>	<u>2,382,717</u>	<u>2,976,205</u>
Net Position - Ending					<u>\$ 544,109</u>	<u>\$ 2,445,289</u>	<u>\$ 2,989,398</u>

See Notes to Financial Statements

City of Webster
Balance Sheet—Modified Cash Basis—Governmental Funds
December 31, 2018

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Pool Debt Service Fund	Fire Hall Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 51,200	\$ 199,096	\$ 43,512	\$ 500	\$ 249,801	\$ 544,109
	<u>\$ 51,200</u>	<u>\$ 199,096</u>	<u>\$ 43,512</u>	<u>\$ 500</u>	<u>\$ 249,801</u>	<u>\$ 544,109</u>
Fund Balances						
264 Restricted						
Debt service purposes	\$ -	\$ -	\$ 43,512	\$ 500	\$ -	\$ 44,012
Cemetery reserve	43,071	-	-	-	-	43,071
Promoting the City	-	199,096	-	-	-	199,096
Other purposes:						
Community Development Fund	-	-	-	-	150,997	150,997
Active Living Trail Fund	-	-	-	-	50,780	50,780
Library Fines Fund	-	-	-	-	14,593	14,593
Golf Course Caddie Fund	-	-	-	-	8,172	8,172
Diamond Trust Fund	-	-	-	-	15,466	15,466
Fire federal grants	-	-	-	-	9,793	9,793
267 Unassigned	8,129	-	-	-	-	8,129
	<u>\$ 51,200</u>	<u>\$ 199,096</u>	<u>\$ 43,512</u>	<u>\$ 500</u>	<u>\$ 249,801</u>	<u>\$ 544,109</u>

City of Webster

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

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Pool Debt Service Fund	Fire Hall Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
310 Taxes						
311 General property taxes	\$ 484,396	\$ -	\$ 93,335	\$ -	\$ -	\$ 577,731
313 General sales and use taxes	1,051,526	77,325	-	-	-	1,128,851
314 Gross receipts business taxes	18,923	-	-	-	-	18,923
315 Amusement taxes	192	-	-	-	-	192
319 Penalties and interest on delinquent taxes	1,814	-	346	-	-	2,160
Total taxes	1,556,851	77,325	93,681	-	-	1,727,857
320 Licenses and permits	8,166	-	-	-	-	8,166
330 Intergovernmental revenue						
331 Federal grants	478,319	-	-	309,000	-	787,319
333 Federal payments in lieu of taxes	1,796	-	-	-	-	1,796
334 State grants	28,367	-	-	-	-	28,367
335 State shared revenue						
335.01 Bank franchise tax	4,084	-	807	-	-	4,891
335.02 Motor vehicle commercial prorata	5,047	-	-	-	-	5,047
335.03 Liquor tax reversion	11,862	-	-	-	-	11,862
335.04 Motor vehicle licenses (5%)	27,013	-	-	-	-	27,013
335.08 Local government highway and bridge fund	65,285	-	-	-	-	65,285
338 County shared revenue						
338.01 County road tax (25%)	24,190	-	-	-	-	24,190
338.03 County wheel tax	7,791	-	-	-	-	7,791
339 Other intergovernmental revenues	-	-	348	-	-	348
Total intergovernmental revenue	653,754	-	1,155	309,000	-	963,909
340 Charges for goods and services						
341 General government	7,577	-	-	-	-	7,577
342 Public safety	7,857	-	-	-	-	7,857
346 Culture and recreation	115,470	-	-	-	1,533	117,003
348 Cemetery	17,575	-	-	-	-	17,575
Total charges for good and services	148,479	-	-	-	1,533	150,012
350 Fines and forfeits						
351 Court fines and costs	63	-	-	-	-	63
353 Parking meter fines	338	-	-	-	-	338
Total fines and forfeits	401	-	-	-	-	401
360 Miscellaneous revenue						
361 Investment earnings	281	395	-	-	1,797	2,473
362 Rentals	9,573	-	-	-	-	9,573
363 Special assessments	395	-	-	-	-	395
367 Contributions and donations from private sources	24,505	-	50,000	-	119,365	193,870
369 Other	7,299	-	-	-	-	7,299
Total miscellaneous revenue	42,053	395	50,000	-	121,162	213,610
Total revenues	2,409,704	77,720	144,836	309,000	122,695	3,063,955

City of Webster

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

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Pool Debt Service Fund	Fire Hall Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Expenditures						
410 General government						
411 Legislative	13,708	-	-	-	-	13,708
413 Elections	658	-	-	-	-	658
414 Financial administration	181,027	-	-	-	-	181,027
419 Other	82,501	-	-	-	-	82,501
Total general government	277,894	-	-	-	-	277,894
420 Public safety						
421 Police	383,769	-	-	-	-	383,769
422 Fire	83,110	-	-	2,283	30,385	115,778
Total public safety	466,879	-	-	2,283	30,385	499,547
430 Public works						
431 Highways and streets	388,654	-	-	-	-	388,654
435 Airport	40,439	-	-	-	-	40,439
437 Cemeteries	44,391	-	-	-	-	44,391
439 Transit	-	3,000	-	-	-	3,000
Total public works	473,484	3,000	-	-	-	476,484
450 Culture and recreation						
451 Recreation	227,651	-	2,824	-	36,435	266,910
452 Parks	73,349	1,596	-	-	481	75,426
455 Libraries	70,640	-	-	-	2,048	72,688
456 Auditorium	-	25,000	-	-	-	25,000
Total culture and recreation	371,640	26,596	2,824	-	38,964	440,024
460 Conservation and development						
463 Urban development and housing	-	1,000	-	-	-	1,000
466 Economic opportunity	-	30,000	-	-	-	30,000
Total conservation and development	-	31,000	-	-	-	31,000
470 Debt service	29,053	-	146,320	5,259	-	180,632
485 Capital outlay	740,786	-	-	1,007,341	7,581	1,755,708
Total expenditures	2,359,736	60,596	149,144	1,014,883	76,930	3,661,289
Other Financing Sources						
391.01 Transfers in	50,000	-	10,000	221,617	13,000	294,617
391.04 Compensation for loss or damage to capital assets	13,189	-	-	-	-	13,189
391.20 Long-term debt issued	-	-	-	484,766	-	484,766
511 Transfers out	(244,617)	-	-	-	-	(244,617)
Total other financing sources	(181,428)	-	10,000	706,383	13,000	547,955
Net Change in Fund Balance	(131,460)	17,124	5,692	500	58,765	(49,379)
Fund Balance - Beginning	182,660	181,972	37,820	-	191,036	593,488
Fund Balance - Ending	\$ 51,200	\$ 199,096	\$ 43,512	\$ 500	\$ 249,801	\$ 544,109

City of Webster
Statement of Net Position—Modified Cash Basis—Proprietary Funds
December 31, 2018

	Enterprise Funds			
	Water Fund	Sewer Fund	Liquor Fund	Totals
Assets				
Current Assets				
Cash and cash equivalents	\$ 320,075	\$ 1,225,844	\$ 411,136	\$ 1,957,055
Total current assets	<u>320,075</u>	<u>1,225,844</u>	<u>411,136</u>	<u>1,957,055</u>
Noncurrent Assets				
107.1 Restricted cash and cash equivalents	<u>131,067</u>	<u>357,167</u>	<u>-</u>	<u>488,234</u>
Total noncurrent assets	<u>131,067</u>	<u>357,167</u>	<u>-</u>	<u>488,234</u>
	<u>\$ 451,142</u>	<u>\$ 1,583,011</u>	<u>\$ 411,136</u>	<u>\$ 2,445,289</u>
Net Position				
253.20 Restricted net position for:				
253.21 Revenue bond debt service	\$ 51,867	\$ 270,997	\$ -	\$ 322,864
253.22 Revenue bond retirement	-	86,170	-	86,170
253.26 Equipment repair and/or replacement	79,200	-	-	79,200
253.90 Unrestricted	<u>320,075</u>	<u>1,225,844</u>	<u>411,136</u>	<u>1,957,055</u>
Total net position	<u>451,142</u>	<u>1,583,011</u>	<u>411,136</u>	<u>2,445,289</u>
	<u>\$ 451,142</u>	<u>\$ 1,583,011</u>	<u>\$ 411,136</u>	<u>\$ 2,445,289</u>

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

	Enterprise Funds			
	Water Fund	Sewer Fund	Liquor Fund	Totals
Operating Revenue				
380 Charges for goods and services	\$ 446,569	\$ 351,138	\$ 1,372,432	\$ 2,170,139
380 Debt service surcharge	-	122,835	-	122,835
Total operating revenue	<u>446,569</u>	<u>473,973</u>	<u>1,372,432</u>	<u>2,292,974</u>
Operating Expenses				
410 Personal services	92,740	130,696	130,797	354,233
420 Other current expense	341,645	55,544	71,304	468,493
426.2 Materials	-	-	1,122,406	1,122,406
430 Capital assets	-	52,768	260	53,028
Total operating expenses	<u>434,385</u>	<u>239,008</u>	<u>1,324,767</u>	<u>1,998,160</u>
Operating Income	<u>12,184</u>	<u>234,965</u>	<u>47,665</u>	<u>294,814</u>
Nonoperating Revenue (Expense)				
330 Operating grants	-	6,735	-	6,735
361 Investment earnings	1,424	5,164	1,892	8,480
440 Debt service principal	(47,879)	(87,614)	-	(135,493)
442 Interest expense	(7,388)	(54,576)	-	(61,964)
Total nonoperating revenue (expense)	<u>(53,843)</u>	<u>(130,291)</u>	<u>1,892</u>	<u>(182,242)</u>
Income (Loss) Before Transfers	(41,659)	104,674	49,557	112,572
511 Transfers out	-	(50,000)	-	(50,000)
Net Change in Fund Balance	(41,659)	54,674	49,557	62,572
Net Position - Beginning	<u>492,801</u>	<u>1,528,337</u>	<u>361,579</u>	<u>2,382,717</u>
Net Position - Ending	<u>\$ 451,142</u>	<u>\$ 1,583,011</u>	<u>\$ 411,136</u>	<u>\$ 2,445,289</u>

City of Webster
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2018

	Enterprise Funds			
	Water Fund	Sewer Fund	Liquor Fund	Totals
Cash Flows from (used for) Operating Activities				
Receipts from customers	\$ 446,569	\$ 473,973	\$ 1,372,432	\$ 2,292,974
Payments to suppliers	(341,645)	(55,544)	(1,193,710)	(1,590,899)
Payments to employees	(92,740)	(130,696)	(130,797)	(354,233)
Net Cash from Operating Activities	<u>12,184</u>	<u>287,733</u>	<u>47,925</u>	<u>347,842</u>
Cash Flows used for Noncapital and Related Financing Activities				
Transfers out	-	(50,000)	-	(50,000)
Net Cash used for Noncapital and Related Financing Activities	<u>-</u>	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
Cash Flows from (used for) Capital and Related Financing Activities				
Operating grants	-	6,735	-	6,735
Purchase of capital assets	-	(52,768)	(260)	(53,028)
Principal paid on capital debt	(47,879)	(87,614)	-	(135,493)
Interest paid on capital debt	(7,388)	(54,576)	-	(61,964)
Net Cash used for Capital and Related Financing Activities	<u>(55,267)</u>	<u>(188,223)</u>	<u>(260)</u>	<u>(243,750)</u>
Cash Flows from Investing Activities				
Interest earnings	1,424	5,164	1,892	8,480
Net Cash from Investing Activities	<u>1,424</u>	<u>5,164</u>	<u>1,892</u>	<u>8,480</u>
Net Change in Cash and Cash Equivalents	(41,659)	54,674	49,557	62,572
Cash and Cash Equivalents - Beginning	492,801	1,528,337	361,579	2,382,717
Cash and Cash Equivalents - Ending	<u>\$ 451,142</u>	<u>\$ 1,583,011</u>	<u>\$ 411,136</u>	<u>\$ 2,445,289</u>
Cash and Cash Equivalents Consist of:				
Cash and cash equivalents	\$ 320,075	\$ 1,225,844	\$ 411,136	\$ 1,957,055
Restricted cash and cash equivalents	131,067	357,167	-	488,234
	<u>\$ 451,142</u>	<u>\$ 1,583,011</u>	<u>\$ 411,136</u>	<u>\$ 2,445,289</u>
Reconciliation of Operating Income to Net Cash from Operating activities				
Operating income	\$ 12,184	\$ 234,965	\$ 47,665	\$ 294,814
Adjustments to reconcile operating income to net cash from operating activities:				
Purchase of capital assets included in capital and related financing activities	-	52,768	260	53,028
Net Cash from Operating Activities	<u>\$ 12,184</u>	<u>\$ 287,733</u>	<u>\$ 47,925</u>	<u>\$ 347,842</u>

Note 1 - Summary of Significant Accounting Policies

As discussed further in Note 1.C, the 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 (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 Webster (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the City's financial statements to be misleading or incomplete.

The reporting entity is comprised of the primary government, City of Webster, and one component unit, The Housing and Redevelopment Commission.

The Housing and Redevelopment Commission of the City of Webster (Commission) is a component unit of the City of Webster. The five members of the Commission are appointed by the Mayor with the approval of the governing body 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 a housing unit, or to issue debt, which gives the governing board the ability to impose its will on the Commission. Due to the financial statements of this entity being excluded from the City's financial statements, the opinion of the auditor's report has been modified.

The City's activities are presented using a modified cash basis of accounting while the component unit uses generally accepted accounting principles (GAAP). Based on the variance in the basis of accounting, the City has elected to present only the primary government activities. The component unit's financial statements are available upon request from The Housing and Redevelopment Commission of the City of Webster.

B. Basis of Presentation

Government-Wide Financial Statements

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

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

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

The funds of the City of Webster 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 an additional one percent sales tax on the gross receipts of lodging, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, constructions costs, payments for civic center, auditorium or athletic facilities buildings including the promotion of advertising of the city (SDCL 10-52A-2). This is a major fund.
- The remaining Special Revenue Funds are reported in the aggregate in the nonmajor governmental funds column on the fund financial statements: Community Development Fund, Active Living Trail Fund, Library Fines Fund, Fire Department Fund, Golf Course Caddie Fund, and Diamond Trust Fund. These are not major funds.

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.

- Pool 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 a major fund.

Capital Projects Funds – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

- Fire Hall Construction Fund – A fund established to account for transactions of the fire hall construction project. This is a major fund.

Proprietary Funds

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

The City reports the following enterprise funds:

- Water Fund - Financed primarily by user charges, this fund accounts for the construction and operation of the municipal 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 municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.
- Liquor Fund – Financed by consumer charges, this fund accounts for the operation of the municipal liquor store and related equipment. This is a major fund.

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

In the government-wide statement of net position and 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.

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

Basis of Accounting

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involved modifications to the cash basis of accounting to report in the statement of net position or balance sheet cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such report balances include restricted cash and cash equivalents and interfund advances and borrowings arising from the use of a pooled cash account.

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

D. Deposits

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

E. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

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

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

F. Capital Assets

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

G. Long-Term Liabilities

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

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

H. Program Revenues

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

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

I. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's statement of revenues, expenses and changes in fund 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.

J. Cash and Cash Equivalents

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

K. Equity Classifications

Government-Wide Statements

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

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

Fund Financial Statements

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

L. Application of Net Position and Fund Balance

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

M. Fund Balance Classification Policies and Procedures

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

- Nonspendable Fund Balance - Amounts that are in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance - Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint. The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance.
- Assigned Fund Balance - Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Liquor, Lodging, and Dining Gross Receipts Tax Fund	Sales taxes

N. Rounding

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

Note 2 - Deposits and Investments

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

Deposits

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

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

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

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

	Bank Balance
Insured (FDIC/NCUA)	\$ 614,653
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	2,499,121
	\$ 3,113,774

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

Cash and cash equivalents	\$ 2,989,398
	\$ 2,989,398

Investments

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

Interest Rate Risk – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of December 31, 2018, the City does not have any investments.

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

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment, as permitted by SDCL 9-32-18.

Note 3 - Property Taxes

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

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

Note 4 - Retirement Plan

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer hybrid defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 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 retirement benefits that do not meet the above criteria may be payable at a reduced level.

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

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

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Members, 8% of salary. The City’s share of contributions to the SDRS for the years ended December 31, 2018, 2017 and 2016 were \$48,489, \$45,913, and \$43,496, respectively, equal to the required contributions each year.

Pension Liability (Asset)

At June 30, 2018, SDRS is 100.02% funded and, accordingly, has a net pension asset. The proportionate share 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 of Webster as of December 31, 2018 are as follows:

Proportionate share of pension liability	\$ 4,595,435
Less proportionate share of net position restricted for pension benefits	<u>4,596,311</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (876)</u></u>

At December 31, 2018, the City’s proportionate share is a liability (asset) of \$(876) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2018, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the City’s proportion was 0.03756%, which is an increase of 0.00099% from its proportion measured as of June 30, 2017. The City’s proportionate share net pension liability is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

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

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

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by 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:

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

Discount Rate

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

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%, 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)	\$ 661,698	\$ (876)	\$ (539,844)

Pension Plan Fiduciary Net Position

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

Note 5 - Significant Contingencies - Litigation

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

Note 6 - Restricted Net Position

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

Fund	Restricted By	Amount
Cemetery	State Law	\$ 43,071
Liquor, Lodging, and Dining Gross Receipts Sales Tax Fund	State Law	199,096
Pool Debt Service Fund	State Law	43,512
Fire Hall Construction Fund	Contractual	1,896
Community Development Fund	State Law	150,997
Active Living Trail Fund	State Law	50,780
Library Fines Fund	State Law	14,593
Fire Department Fund	State Law	8,397
Golf Course Caddie Fund	State Law	8,172
Diamond Trust Fund	State Law	15,466
Water Fund	Contractual	131,067
Sewer Fund	Contractual	357,167

Note 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 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 Municipality 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.

Liability Insurance

The Municipality 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 Municipality’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 Municipality. The Municipality 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 Municipality pays an annual premium to the pool to provide coverage for general liability, official’s liability, automobile liability, law enforcement liability, and physical damage, property and, boiler and machinery. The City purchases airport bodily injury and property damage liability insurance and surety bond coverage from a commercial insurance carrier.

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:

Year 1	55%
Year 2	50%
Year 3	40%
Year 4	35%
Year 5	30%
Year 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 \$91,946, which was an increase of \$47,828 from the previous year.

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, 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 an additional \$2,000,000 per individual 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 during the past three years.

Unemployment Benefits

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

Note 8 - Commitments

During 2018, the City approved a fire hall renovation project. The total estimated cost of the project is \$1,584,000. Expenditures to date on this project as of December 31, 2018 are \$1,077,668. During 2018, the City entered into a contract for the building of a new liquor store to be built in 2019 for \$411,390 and accepted a bid for approximately \$170,000 for a new walking path to be constructed in 2019.

Note 9 - Interfund Transactions

During 2018, the City made the following transfers:

- The General Fund transferred \$10,000 to the Pool Debt Service Fund to cover required debt payments.
- The General Fund transferred \$221,617 to the Fire Hall Construction Fund to cover operations.
- The General Fund transferred \$13,000 to the Active Living Trail Fund to cover operations.
- The Sewer Fund transferred \$50,000 to the General Fund to cover operations.

Note 10 - Related Party Transactions

During 2018, the City purchased \$6,702 of supplies from a local store which is owned by the Mayor.

Note 11 - Violation of Finance Related Legal and Contractual Provisions

The City is prohibited by statute from spending in excess of appropriated amounts at the fund level. The City overspent the Liquor, Lodging, and Dining Gross Receipts Tax Fund budget by \$8,500 for the conservation and development department – economic opportunity function for the year ended December 31, 2018. The City has excess fund balance to cover the excess spending.



Supplementary Information
December 31, 2018
City of Webster

City of Webster

Schedule of Employer's Share of Net Pension Liability (Asset) and Employer's Contribution
Year Ended December 31, 2018

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>City's Percentage of the Net Pension Liability (Asset)</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) (a)</u>	<u>City's Covered Payroll (b)</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)</u>
SDRS	6/30/2018	0.0376%	\$ (876)	\$ 704,823	0.1%	100.02%
SDRS	6/30/2017	0.0366%	(3,319)	674,029	0.5%	100.1%
SDRS	6/30/2016	0.0373%	125,956	635,955	19.8%	96.89%
SDRS	6/30/2015	0.0362%	(153,734)	601,454	25.6%	104.1%

<u>Pension Plan</u>	<u>Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered Payroll (d)</u>	<u>Contributions as a Percentage of Covered Payroll (b/d)</u>
SDRS	12/31/2018	\$ 48,489	\$ 48,489	\$ -	\$ 730,358	6.6%
SDRS	12/31/2017	45,913	45,913	-	691,754	6.6%
SDRS	12/31/2016	43,496	43,496	-	655,750	6.6%
SDRS	12/31/2015	41,629	41,629	-	624,769	6.7%

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

City of Webster
Schedule of Changes in Notes and Bonds Payable
Year Ended December 31, 2018

<u>Governmental activities</u>	<u>Notes and Bonds Payable 1/1/18</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Notes and Bonds Payable 12/31/18</u>
Governmental Long-Term Debt				
Note Payable	\$ 60,704	\$ -	\$ (26,845)	\$ 33,859
Swimming Pool Note	1,800,000	-	(100,000)	1,700,000
Fire Hall Construction Note	-	482,266	-	482,266
Enterprise Notes and Bonds Payable				
State Revolving Fund Loan				
Drinking Water	115,341	-	(18,436)	96,905
Clean Water	292,109	-	(46,690)	245,419
Water Meters	85,432	-	(17,237)	68,195
USDA RD Loan - Lagoon	1,461,931	-	(49,730)	1,412,201
	<u>\$ 3,815,517</u>	<u>\$ 482,266</u>	<u>\$ (258,938)</u>	<u>\$ 4,038,845</u>

City of Webster
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 492,000	\$ 492,000	\$ 484,396	\$ (7,604)
313 General sales and use taxes	900,000	900,000	1,051,526	151,526
314 Gross receipts business taxes	24,000	24,000	18,923	(5,077)
315 Amusement	700	700	192	(508)
319 Penalties and interest on delinquent taxes	1,500	1,500	1,814	314
Total taxes	<u>1,418,200</u>	<u>1,418,200</u>	<u>1,556,851</u>	<u>138,651</u>
320 Licenses and permits	<u>8,000</u>	<u>8,000</u>	<u>8,166</u>	<u>166</u>
330 Intergovernmental revenue				
331 Federal grants	-	710,548	478,319	(232,229)
333 Federal payments in lieu of taxes	-	-	1,796	1,796
334 State grants	-	-	28,367	28,367
335 State shared revenue				
335.01 Bank franchise tax	8,000	8,000	4,084	(3,916)
335.02 Motor vehicle commercial prorated	5,000	5,000	5,047	47
335.03 Liquor tax reversion	12,000	12,000	11,862	(138)
335.04 Motor vehicle licenses (5%)	20,000	20,000	27,013	7,013
335.08 Local government highway and bridge fund	66,000	66,000	65,285	(715)
338 County shared revenue				
338.01 County road tax (25%)	6,000	6,000	24,190	18,190
338.02 County road and bridge tax (25%)	5,000	5,000	-	(5,000)
338.03 County wheel tax	7,000	7,000	7,791	791
339 Other intergovernmental revenues	2,000	2,000	-	(2,000)
Total intergovernmental revenue	<u>131,000</u>	<u>841,548</u>	<u>653,754</u>	<u>(187,794)</u>
340 Charges for good and services				
341 General government	4,000	4,000	7,577	3,577
342 Public safety	7,000	7,000	7,857	857
346 Culture and recreation	124,000	124,000	115,470	(8,530)
348 Cemetery	12,000	12,000	17,575	5,575
Total charges for goods and services	<u>147,000</u>	<u>147,000</u>	<u>148,479</u>	<u>1,479</u>
350 Fines and forfeits				
351 Court fines and costs	1,500	1,500	63	(1,437)
353 Parking meter fines	-	-	338	338
Total fines and forfeits	<u>1,500</u>	<u>1,500</u>	<u>401</u>	<u>(1,099)</u>
360 Miscellaneous revenue				
361 Investment earnings	2,000	2,000	281	(1,719)
362 Rentals	14,000	14,000	9,573	(4,427)
363 Special assessments	500	500	395	(105)
367 Contributions and donations from private sources	-	-	24,505	24,505
369 Other	-	2,040	7,299	5,259
Total miscellaneous revenue	<u>16,500</u>	<u>18,540</u>	<u>42,053</u>	<u>23,513</u>
Total revenues	<u>1,722,200</u>	<u>2,434,788</u>	<u>2,409,704</u>	<u>(25,084)</u>

City of Webster
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	14,000	14,000	13,708	292
411.5 Contingency	132,000	90,000		
Amount transferred	-	(84,500)	-	5,500
413 Elections	1,000	1,000	658	342
414 Financial administration	158,000	184,000	181,150	2,850
419 Other	71,000	84,000	82,501	1,499
Total general government	<u>376,000</u>	<u>288,500</u>	<u>278,017</u>	<u>10,483</u>
420 Public safety				
421 Police	395,000	409,000	406,651	2,349
422 Fire	35,000	627,030	92,962	534,068
Total public safety	<u>430,000</u>	<u>1,036,030</u>	<u>499,613</u>	<u>536,417</u>
430 Public works				
431 Highways and streets	605,500	609,000	534,885	74,115
435 Airport	28,000	562,738	549,073	13,665
437 Cemetery	43,000	48,000	46,941	1,059
Total public works	<u>676,500</u>	<u>1,219,738</u>	<u>1,130,899</u>	<u>88,839</u>
450 Culture and recreation				
451 Recreation	268,200	270,240	263,745	6,495
452 Parks	88,000	93,779	73,349	20,430
455 Library	65,000	86,000	85,060	940
Total culture and recreation	<u>421,200</u>	<u>450,019</u>	<u>422,154</u>	<u>27,865</u>
470 Debt service	29,500	29,500	29,053	447
Total expenditures	<u>1,933,200</u>	<u>3,023,787</u>	<u>2,359,736</u>	<u>664,051</u>
Other Financing Sources				
391.01 Transfers in	105,100	105,100	50,000	(55,100)
391.04 Compensation for loss/damage to capital assets	-	-	13,189	13,189
511 Transfer out	(14,100)	(14,100)	(244,617)	(230,517)
Total other financing sources	<u>91,000</u>	<u>91,000</u>	<u>(181,428)</u>	<u>(272,428)</u>
Net Change in Fund Balance	(120,000)	(497,999)	(131,460)	366,539
Fund Balance - Beginning	182,660	182,660	182,660	-
Fund Balance - Ending	<u>\$ 62,660</u>	<u>\$ (315,339)</u>	<u>\$ 51,200</u>	<u>\$ 366,539</u>

City of Webster
 Budgetary Comparison Schedule—Liquor, Lodging and Dining Gross Receipts Tax Fund
 Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 58,000	\$ 58,000	\$ 77,325	\$ 19,325
Total taxes	58,000	58,000	77,325	19,325
350 Fines and forfeits				
351 Court fines and costs	2,000	2,000	-	2,000
Total fines and forfeits	2,000	2,000	-	2,000
360 Miscellaneous revenue				
361 Investment earnings	-	-	395	395
Total miscellaneous revenue	-	-	395	395
Total revenues	60,000	60,000	77,720	19,720
Expenditures				
410 General government				
419 Other	7,000	7,000	-	7,000
430 Public works				
439 Transit	3,000	3,000	3,000	-
450 Culture and recreation				
452 Parks	3,500	3,500	1,596	1,904
456 Auditorium	25,000	25,000	25,000	-
460 Conservation and development:				
463 Urban redevelopment and housing	-	1,000	1,000	-
466 Economic opportunity	21,500	21,500	30,000	(8,500)
Total expenditures	60,000	61,000	60,596	404
Net Change in Fund Balance	-	(1,000)	17,124	20,124
Fund Balance - Beginning	181,972	181,972	181,972	-
Fund Balance - Ending	\$ 181,972	\$ 180,972	\$ 199,096	\$ 20,124

City of Webster
Combining Balance Sheet—Modified Cash Basis—Nonmajor Governmental Funds
December 31, 2018

	Community Development Fund	Active Living Trail Fund	Library Fines Fund	Fire Department Fund	Golf Course Caddie Fund	Diamond Trust Fund	Total Nonmajor Governmental Funds
Assets							
Cash and cash equivalents	\$ 150,997	\$ 50,780	\$ 14,593	\$ 9,793	\$ 8,172	\$ 15,466	\$ 249,801
	<u>\$ 150,997</u>	<u>\$ 50,780</u>	<u>\$ 14,593</u>	<u>\$ 9,793</u>	<u>\$ 8,172</u>	<u>\$ 15,466</u>	<u>\$ 249,801</u>
Fund Balances							
264 Restricted	\$ 150,997	\$ 50,780	\$ 14,593	\$ 9,793	\$ 8,172	\$ 15,466	\$ 249,801
	<u>\$ 150,997</u>	<u>\$ 50,780</u>	<u>\$ 14,593</u>	<u>\$ 9,793</u>	<u>\$ 8,172</u>	<u>\$ 15,466</u>	<u>\$ 249,801</u>

City of Webster

Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Nonmajor Governmental Funds
Year Ended December 31, 2018

	Community Development Fund	Active Living Trail Fund	Library Fines Fund	Fire Department Fund	Golf Course Caddie Fund	Diamond Trust Fund	Total Nonmajor Governmental Funds
Revenues							
340 Charges for goods and services							
346 Culture and recreation	\$ -	\$ -	\$ 1,533	\$ -	\$ -	\$ -	\$ 1,533
Total charges for good and services	-	-	1,533	-	-	-	1,533
360 Miscellaneous revenue							
361 Investment earnings	1,796	1	-	-	-	-	1,797
367 Contributions and donations from private sources	6,323	33,178	-	31,277	1,645	46,942	119,365
Total miscellaneous revenue	8,119	33,179	-	31,277	1,645	46,942	121,162
Total revenues	8,119	33,179	1,533	31,277	1,645	46,942	122,695
Expenditures							
420 Public safety							
422 Fire	-	-	-	30,385	-	-	30,385
Total public safety	-	-	-	30,385	-	-	30,385
450 Culture and recreation							
451 Recreation	-	-	-	-	257	36,178	36,435
452 Parks	-	481	-	-	-	-	481
455 Libraries	-	-	2,048	-	-	-	2,048
Total culture and recreation	-	481	2,048	-	257	36,178	38,964
485 Capital outlay	-	-	-	-	-	7,581	7,581
Total expenditures	-	481	2,048	30,385	257	43,759	76,930
Other Financing Sources							
391.01 Transfers in	-	13,000	-	-	-	-	13,000
Net Change in Fund Balance	8,119	45,698	(515)	892	1,388	3,183	58,765
Fund Balance - Beginning	142,878	5,082	15,108	8,901	6,784	12,283	191,036
Fund Balance - Ending	\$ 150,997	\$ 50,780	\$ 14,593	\$ 9,793	\$ 8,172	\$ 15,466	\$ 249,801

Note 1 - Budgets and Budgetary Accounting

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

1. At the first regular Board meeting in September of each year or within ten days thereafter, the City Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City Commission, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in Number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total municipal budget and may be transferred by resolution of the City Commission 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 Commission.

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

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

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

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

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

Note 3 - Schedule of the Employer's Share of Net Pension Liability (Asset) and Employer's Contributions

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.



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*

The City Council
City of Webster
Webster, South Dakota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Webster (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 August 6, 2019. In our report, we issued an adverse opinion on the aggregate discretely presented component unit because the statements did not include the City’s legally separate component unit. The statements were prepared on the modified cash basis of accounting, a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as 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 of Webster's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 result 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. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Aberdeen, South Dakota
August 6, 2019



Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

To the City Council
City of Webster
Webster, South Dakota

Report on Compliance for the Major Federal Program

We have audited the City of Webster's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2018. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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.



Aberdeen, South Dakota
August 6, 2019

Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor Program Title	Pass-Through Identification Number	CFDA Number	Expenditures
US Department of Transportation Direct Federal Funding Airport Improvement Program (3-46-0059-09-2017)	N/A	20.106	<u>\$ 330,261</u>
US Department of Homeland Security Passed through SD Department of Public Safety - Office of Emergency Management Homeland Security Grant Program	2017-SS-00029-S01	97.067	<u>35,730</u>
US Department of Agriculture: Direct Federal Funding Community Facilities Loans and Grants Cluster Community Facilities Loans and Grants	N/A	10.766	<u>770,602</u>
Department of Housing and Urban Development Indirect Federal Funding: SD Governor's Office of Economic Development, Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	1616-115	14.228	<u>309,000</u>
Total Federal Financial Assistance			<u><u>\$ 1,445,593</u></u>

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2018. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position and fund balance, or cash flows of the City.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 – Indirect Cost Rate

The City does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

Note 4 – Loan Programs

Expenditures reported in this schedule consist of the beginning of the year outstanding loan balance plus expenditures made on the loan during the year. The outstanding balance at December 31, 2018 was \$482,266.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified*
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Community Facilities Loans and Grants	10.766
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

* Unmodified except Adverse for aggregate discretely presented component units

Section II – Findings Related to the Financial Statements

2018-001 Lack of Segregation of Duties

Material Weakness

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. It also allows for adequate review of manual adjusting journal entries posted by individual separate from who originated the entry.

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

Cause: The City has an insufficient number of staff to adequately separate duties and has determined it would not be cost effective to hire additional staff.

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

Recommendation: Although it is recognized that number of office staff may not be large enough to permit adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the City Council exercise adequate oversight of the accounting function.

Views of Responsible Officials: Management agrees with the finding.

2018-002 - Preparation of Financial Statements, Footnotes, Schedule of Expenditures of Federal Awards, and Propensity for Audit Adjustments

Material Weakness

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

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

Cause: The City does not have adequate staff trained to prepare financial statements, the related footnotes, and schedule of expenditures of federal awards and causes the need for auditors to at times propose material journal entries.

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

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

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

None reported.

City of Webster

Heart of the South Dakota Lake Region

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City of Webster

Corrective Action Plan

December 31, 2018

The City of Webster respectfully submits the following corrective action plan for the year ended December 31, 2018.

Summary Schedule of Prior Audit Findings

Finding 2017-A

Finding Summary: This comment is due to the size of the City of Webster, which precludes staffing at a level sufficient to provide an ideal environment for internal controls.

Status: Ongoing. It is not cost effective due to the size of the City and the volume of transactions to have an internal control system designed with additional staff to facilitate the adequate separation of duties in the revenue, expenditures, payroll function, and review of manual journal entries. Management and the City Council are aware of the condition and accept the relevant risks that are presented by this finding. We are aware of this problem and are attempting to provide compensating controls.

Finding 2017-B

Finding Summary: Eide Bailly LLP prepared our draft financial statement and accompanying notes to the financial statements. They also proposed material audit adjustments that would not have been identified as a result of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

Status: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We requested that our auditors, Eide Bailly LLP, prepare the financial statements and the accompanying notes to the financial statements as part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the material adjustments proposed during the audit.

Finding 2017-C

Finding Summary: This comment is due to the budgeted contingency amounts exceeding 5 percent of the municipality's total governmental funds budget and the staff needing additional time to complete the annual report due to the City changing their basis of accounting during 2017.

Status: Corrected.

Corrective Action Plan

Finding 2018-001

Finding Summary: This comment is due to the size of the City of Webster, which precludes staffing at a level sufficient to provide an ideal environment for internal controls.

Responsible Individuals: Mike Grosek, Mayor

Corrective Action Plan: It is not cost effective due to the size of the City and the volume of transactions to have an internal control system designed with additional staff to facilitate the adequate separation of duties in the revenue, expenditures, payroll function, and review of manual journal entries. Management and the City Council are aware of the condition and accept the relevant risks that are presented by this finding. We are aware of this problem and are attempting to provide compensating controls.

Anticipated Completion Date: Ongoing

Finding 2018-002

Finding Summary: Eide Bailly LLP prepared our draft financial statement and accompanying notes to the financial statements. They also proposed material audit adjustments that would not have been identified as a result of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

Responsible Individuals: Mike Grosek, Mayor

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We requested that our auditors, Eide Bailly LLP, prepare the financial statements and the accompanying notes to the financial statements as part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the material adjustments proposed during the audit.

Anticipated Completion Date: Ongoing