

***MUNICIPALITY OF WOONSOCKET
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016***

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

**To the Board of Trustees
Municipality of Woonsocket, South Dakota**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities and each major fund of the Municipality of Woonsocket, South Dakota, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated October 15, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of current audit findings that we consider to be significant deficiencies; We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items 2017-01 to 2017-02 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of 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*.

Municipality's Response to Finding

The Municipality's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Finding. The Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

Purpose of this Report

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

Handwritten signature in cursive script, appearing to read "ELO of LRC".

Mitchell, South Dakota
October 15, 2018

MUNICIPALITY OF WOONSOCKET
SCHEDULE OF CURRENT AND PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

SCHEDULE OF CURRENT AUDIT FINDINGS

Finding No. 2017-01 – Lack of segregation of duties (internal control)

Condition: The small size of the Municipality indicates a significant deficiency in internal controls for lack of segregation of duties for revenue and expenditure procedures.

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

Cause: The finance officer processes all revenue transactions from beginning to end as well as receives money, issues receipts, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements.

Potential Effect: There is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation: Municipality officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever and wherever possible and practical.

Client Response: The Municipality agrees with this finding and is willing to accept the risk. Due to the small size of the Municipality it is not cost beneficial to employ additional personnel to adequately segregate the duties above. The Municipality will continue to regularly provide compensating controls.

Finding No. 2017-02 – Internal control over financial reporting

Condition: The small size of the Municipality limits the ability of the city office to prepare the financial statements and notes to the financial statements.

Criteria: Establishing internal controls over the preparation of the financial statements and drafting the financial statements is the responsibility of management. The Municipality should have an internal control system designed for the drafting of the financial statements being audited.

Cause: This condition exists due to small staff size within the city office. These issues are common in a Municipality of this size.

Potential Effect: The Municipality engages the auditor to draft the financial statements and the notes to the financial statements. The possibility of error occurring and not being detected or corrected is present.

Recommendation: Municipality officials need to be cognizant of accepting the risk with the auditor drafting the financials. If the Municipality chooses not to accept the risk, training should be provided to those employees responsible for drafting the financial statements.

Client Response: The Municipality agrees with this finding and is willing to accept the risk. Due to the small size of the Municipality it is not cost beneficial to employ additional personnel to adequately segregate the duties above. The Municipality will continue to regularly provide compensating controls.

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding No. 2014-01 – Noncompliance with South Dakota bid laws

The Municipality did not properly advertise for bids per South Dakota bid laws. This comment has been corrected since the Municipality is now following the SDCL 5-18A guidance to award contracts involving amounts at or in excess of the bid requirements.



INDEPENDENT AUDITOR'S REPORT

**To the Board of Trustees
Municipality of Woonsocket, South Dakota**

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Woonsocket, South Dakota, as of December 31, 2017 and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Municipality'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 Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, the business-type activities, and each major fund of the Municipality of Woonsocket as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years ended December 31, 2017 and 2016 in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

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

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's financial statements. The budgetary comparison schedule, schedule of changes in long-term debt, and municipal officials, listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

Such information, is the responsibility of management and except for the schedule of changes in long-term debt and the municipal officials, was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The schedule of changes in long-term debt and municipal officials has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality'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 Municipality's internal control over financial reporting and compliance.



Mitchell, South Dakota
October 15, 2018

MUNICIPALITY OF WOONSOCKET, SD
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
FOR THE YEAR DECEMBER 31, 2017 AND DECEMBER 31, 2016

	<i>DECEMBER 31,</i>		
	<i>2017</i>		
	<i>Primary Government</i>		
	<u><i>Governmental</i></u>	<u><i>Business-Type</i></u>	<u><i>Total</i></u>
	<u><i>Activities</i></u>	<u><i>Activities</i></u>	
ASSETS			
Cash and cash equivalents	\$ 173,189	\$ 151,536	\$ 324,725
<i>Total Assets</i>	<u>\$ 173,189</u>	<u>\$ 151,536</u>	<u>\$ 324,725</u>
NET POSITION			
Unrestricted	\$ 173,189	\$ 151,536	\$ 324,725
<i>Total Net Position</i>	<u>\$ 173,189</u>	<u>\$ 151,536</u>	<u>\$ 324,725</u>

	<i>DECEMBER 31,</i>		
	<i>2016</i>		
	<i>Primary Government</i>		
	<u><i>Governmental</i></u>	<u><i>Business-Type</i></u>	<u><i>Total</i></u>
	<u><i>Activities</i></u>	<u><i>Activities</i></u>	
ASSETS			
Cash and cash equivalents	\$ 288,066	\$ 84,512	\$ 372,578
<i>Total Assets</i>	<u>\$ 288,066</u>	<u>\$ 84,512</u>	<u>\$ 372,578</u>
NET POSITION			
Unrestricted	\$ 288,066	\$ 84,512	\$ 372,578
<i>Total Net Position</i>	<u>\$ 288,066</u>	<u>\$ 84,512</u>	<u>\$ 372,578</u>

*The accompanying Notes to Financial Statements are
an integral part of this statement.*

MUNICIPALITY OF WOONSOCKET, SD
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
DECEMBER 31, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Governmental Activities</u>	<u>Primary Government Business-Type Activities</u>	<u>Total</u>
<i>Primary Government:</i>					
<i>Governmental Activities:</i>					
General government	\$ 116,236	\$ 52,673	\$ (63,563)	\$ --	\$ (63,563)
Public safety	20,000	--	(20,000)	--	(20,000)
Public works	226,811	46,142	(180,669)	--	(180,669)
Health and welfare	2,423	--	(2,423)	--	(2,423)
Culture and recreation	146,039	--	(146,039)	--	(146,039)
Conservation and development	6,382	--	(6,382)	--	(6,382)
Miscellaneous Expenditures	40,595	--	(40,595)	--	(40,595)
<i>Total Governmental Activities</i>	<u>558,486</u>	<u>98,815</u>	<u>(459,671)</u>	<u>--</u>	<u>(459,671)</u>
<i>Business-type Activities:</i>					
Water	85,940	77,858	--	(8,082)	(8,082)
Sewer	50,566	53,600	--	3,034	3,034
<i>Total Business-Type Activities</i>	<u>136,506</u>	<u>131,458</u>	<u>--</u>	<u>(5,048)</u>	<u>(5,048)</u>
<i>Total Primary Government</i>	<u>\$ 694,992</u>	<u>\$ 230,273</u>	<u>(459,671)</u>	<u>(5,048)</u>	<u>(464,719)</u>
<i>General Revenues:</i>					
<i>Taxes:</i>					
Property tax			196,910	--	196,910
Sales tax			171,705	--	171,705
State shared revenues			4,617	--	4,617
Unrestricted investment earnings			2,895	--	2,895
Miscellaneous revenue			40,739	--	40,739
Transfers			(72,073)	72,073	--
<i>Total General Revenues and Transfers</i>			<u>344,793</u>	<u>72,073</u>	<u>416,866</u>
<i>Change in Net Position</i>			(114,878)	67,025	(47,853)
<i>Net Position-Beginning of Year</i>			<u>288,067</u>	<u>84,511</u>	<u>372,578</u>
<i>Net Position-End of Year</i>			<u>\$ 173,189</u>	<u>\$ 151,536</u>	<u>\$ 324,725</u>

*The accompanying Notes to Financial Statements are
an integral part of this statement.*

MUNICIPALITY OF WOONSOCKET, SD
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
DECEMBER 31, 2016

<i>Functions/Programs</i>	<i>Program Revenues</i>		<i>Net (Expense) Revenue and Changes in Net Position</i>		
	<i>Expenses</i>	<i>Charges for Services</i>	<i>Primary Government</i>		
			<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>
Primary Government:					
<i>Governmental Activities:</i>					
General government	\$ 103,395	\$ 47,467	\$ (55,928)	\$ --	\$ (55,928)
Public safety	20,000	--	(20,000)	--	(20,000)
Public works	228,480	37,809	(190,671)	--	(190,671)
Health and welfare	10,501	--	(10,501)	--	(10,501)
Culture and recreation	150,520	--	(150,520)	--	(150,520)
Conservation and development	9,132	--	(9,132)	--	(9,132)
Miscellaneous Expenditures	--	--	--	--	--
<i>Total Governmental Activities</i>	<u>522,028</u>	<u>85,276</u>	<u>(436,752)</u>	<u>--</u>	<u>(436,752)</u>
<i>Business-type Activities:</i>					
Water	107,923	77,296	--	(30,627)	(30,627)
Sewer	116,313	56,269	--	(60,044)	(60,044)
Debt Service	--	--	--	--	--
Interest	--	--	--	--	--
<i>Total Business-Type Activities</i>	<u>224,236</u>	<u>133,565</u>	<u>--</u>	<u>(90,671)</u>	<u>(90,671)</u>
Total Primary Government	<u>\$ 746,264</u>	<u>\$ 218,841</u>	<u>(436,752)</u>	<u>(90,671)</u>	<u>(527,423)</u>
<i>General Revenues:</i>					
<i>Taxes:</i>					
Property tax			181,534	--	181,534
Sales tax			185,155	--	185,155
State shared revenues			4,609	--	4,609
Unrestricted investment earnings			7,621	--	7,621
Miscellaneous revenue			36,723	--	36,723
<i>Total General Revenues and Transfers</i>			<u>415,642</u>	<u>--</u>	<u>415,642</u>
<i>Change in Net Position</i>			(21,111)	(90,671)	(111,782)
<i>Net Position-Beginning of Year</i>			<u>291,507</u>	<u>175,182</u>	<u>466,689</u>
<i>Adjustments</i>					
Prior year adjustment			17,671	--	17,671
<i>Adjusted Net Position-Beginning</i>			<u>309,178</u>	<u>175,182</u>	<u>484,360</u>
<i>Net Position-End of Year</i>			<u>\$ 288,067</u>	<u>\$ 84,511</u>	<u>\$ 372,578</u>

*The accompanying Notes to Financial Statements are
an integral part of this statement.*

MUNICIPALITY OF WOONSOCKET, SD
BALANCE SHEET – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	DECEMBER 31, 2017		
	General Fund	2nd Cent Sales Tax Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 170,462	\$ 2,727	\$ 173,189
Total Assets	\$ 170,462	\$ 2,727	\$ 173,189
FUND BALANCES			
Committed	\$ --	\$ 2,727	\$ 2,727
Unassigned	170,462	--	170,462
Total Fund Balances	\$ 170,462	\$ 2,727	\$ 173,189

*The accompanying Notes to Financial Statements are
an integral part of this statement.*

MUNICIPALITY OF WOONSOCKET, SD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	<i>General Fund</i>	<i>2nd Cent Sales Tax Fund</i>	<i>Total Governmental Funds</i>
<i>Revenues:</i>			
<i>Taxes:</i>			
General property taxes	\$ 196,910	\$ --	\$ 196,910
General sales and use taxes	85,047	86,659	171,706
Licenses and permits	6,200	--	6,200
Federal Grants	2,500	--	2,500
<i>Intergovernmental:</i>			
Bank franchise tax	551	--	551
Motor vehicle commercial prorated	3,142	--	3,142
Liquor tax reversion	4,066	--	4,066
Motor vehicle licenses	12,762	--	12,762
Local government highway and bridge fund	23,883	--	23,883
County road tax	6,355	--	6,355
Charges for goods and services	43,972	--	43,972
Investment income	2,895	--	2,895
Miscellaneous	40,739	--	40,739
<i>Total Revenue</i>	<u>429,022</u>	<u>86,659</u>	<u>515,681</u>
<i>Expenditures:</i>			
<i>Current:</i>			
General government	116,236	--	116,236
<i>Public safety:</i>			
Police	20,000	--	20,000
<i>Public works:</i>			
Highways and streets	114,714	28,730	143,444
Sanitation	74,907	--	74,907
Cemeteries	8,460	--	8,460
<i>Health and welfare:</i>			
Culture and recreation:	74,952	71,087	146,039
<i>Conservation and development:</i>			
Economic development and assistance (Industrial development)	6,382	--	6,382
Miscellaneous	5,595	35,000	40,595
<i>Total Expenditures</i>	<u>423,669</u>	<u>134,817</u>	<u>558,486</u>
<i>Other Financing Sources (Uses):</i>			
Transfers in	--	10,000	10,000
Transfers out	(82,073)	--	(82,073)
Total Other Financing Sources (Uses)	<u>(82,073)</u>	<u>10,000</u>	<u>(72,073)</u>
<i>Net Change in Fund Balance</i>	(76,720)	(38,158)	(114,878)
<i>Fund balances - Beginning of Year</i>	<u>247,182</u>	<u>40,885</u>	<u>288,067</u>
<i>Fund balances - End of Year</i>	<u>\$ 170,462</u>	<u>\$ 2,727</u>	<u>\$ 173,189</u>

*The accompanying Notes to Financial Statements are
an integral part of this statement.*

MUNICIPALITY OF WOONSOCKET, SD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	<u>General Fund</u>	<u>2nd Cent Sales Tax Fund</u>	<u>Total Governmental Funds</u>
<i>Revenues:</i>			
<i>Taxes:</i>			
General property taxes	\$ 181,534	\$ --	\$ 181,534
General sales and use taxes	92,577	92,578	185,155
Licenses and permits	3,800	--	3,800
Federal Grants	2,500	--	2,500
<i>Intergovernmental:</i>			
Bank franchise tax	335	--	335
Motor vehicle commercial prorate	3,326	--	3,326
Liquor tax reversion	4,273	--	4,273
Motor vehicle licenses	12,341	--	12,341
Local government highway and bridge fund	15,787	--	15,787
County road tax	6,355	--	6,355
Charges for goods and services	41,167	--	41,167
Investment income	7,621	--	7,621
Miscellaneous	36,723	--	36,723
<i>Total Revenue</i>	<u>408,339</u>	<u>92,578</u>	<u>500,917</u>
<i>Expenditures:</i>			
<i>Current:</i>			
General government	103,395	--	103,395
Public safety:			
Police	20,000	--	20,000
Public works:			
Highways and streets	131,913	10,000	141,913
Sanitation	77,479	--	77,479
Cemeteries	9,089	--	9,089
Health and welfare:	10,501	--	10,501
Culture and recreation:	76,315	74,205	150,520
Conservation and development:			
Economic development and assistance (Industrial development)	4,132	5,000	9,132
Miscellaneous	--	--	--
<i>Total Expenditures</i>	<u>432,824</u>	<u>89,205</u>	<u>522,028</u>
<i>Net Change in Fund Balance</i>	(24,484)	3,373	(21,111)
<i>Fund balances - Beginning of Year As Restated</i>	<u>271,666</u>	<u>37,512</u>	<u>309,178</u>
<i>Fund balances - End of Year</i>	<u>\$ 247,182</u>	<u>\$ 40,885</u>	<u>\$ 288,067</u>

*The accompanying Notes to Financial Statements are
an integral part of this statement.*

MUNICIPALITY OF WOONSOCKET, SD
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2017

	<i>Water Fund</i>	<i>Sewer Fund</i>	<i>Totals</i>
ASSETS			
Cash and cash equivalents	\$ 16,760	\$ 134,776	\$ 151,536
<i>Total Assets</i>	\$ 16,760	\$ 134,776	\$ 151,536
 NET POSITION			
Unrestricted	\$ 16,760	\$ 134,776	\$ 151,536
<i>Total Net Position</i>	\$ 16,760	\$ 134,776	\$ 151,536

*The accompanying Notes to Financial Statements are
an integral part of this statement.*

MUNICIPALITY OF WOONSOCKET, SD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2017

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<i>Operating Revenues:</i>			
Charges for goods and services	\$ 77,858	\$ 53,600	\$ 131,458
<i>Total Operating Revenues</i>	<u>77,858</u>	<u>53,600</u>	<u>131,458</u>
<i>Operating Expenses:</i>			
Personal services	23,458	17,703	41,161
Other current expense	--	318	318
Supplies and materials	47,099	32,545	79,644
<i>Total Operating Expenses</i>	<u>70,557</u>	<u>50,566</u>	<u>121,123</u>
<i>Operating Income</i>	<u>7,301</u>	<u>3,034</u>	<u>10,335</u>
<i>Nonoperating Expense:</i>			
Debt Service	15,383	--	15,383
<i>Total Nonoperating Expense</i>	<u>15,383</u>	<u>--</u>	<u>15,383</u>
Net Income (Loss) Before Transfers	(8,082)	3,034	(5,048)
Transfers in	<u>23,055</u>	<u>49,018</u>	<u>72,073</u>
<i>Change in net position</i>	14,973	52,052	67,025
<i>Net Position - Beginning of Year</i>	<u>1,786</u>	<u>82,725</u>	<u>84,511</u>
<i>Net Position - End of Year</i>	<u>\$ 16,759</u>	<u>\$ 134,777</u>	<u>\$ 151,536</u>

*The accompanying Notes to Financial Statements are
an integral part of this statement.*

MUNICIPALITY OF WOONSOCKET, SD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<i>Operating Revenues:</i>			
Charges for goods and services	\$ 77,296	\$ 56,269	\$ 133,565
<i>Total Operating Revenues</i>	<u>77,296</u>	<u>56,269</u>	<u>133,565</u>
<i>Operating Expenses:</i>			
Personal services	21,744	14,308	36,052
Other current expense	--	--	--
Supplies and materials	70,796	102,005	172,801
<i>Total Operating Expenses</i>	<u>92,541</u>	<u>116,313</u>	<u>208,853</u>
<i>Operating Income</i>	<u>(15,244)</u>	<u>(60,044)</u>	<u>(75,288)</u>
<i>Nonoperating Expense:</i>			
Debt Service	15,383	--	15,383
<i>Total Nonoperating Expense</i>	<u>15,383</u>	<u>--</u>	<u>15,383</u>
<i>Change in net position</i>	(30,627)	(60,044)	(90,671)
<i>Net Position - Beginning of Year</i>	<u>32,413</u>	<u>142,769</u>	<u>175,182</u>
<i>Net Position - End of Year</i>	<u>\$ 1,786</u>	<u>\$ 82,725</u>	<u>\$ 84,511</u>

*The accompanying Notes to Financial Statements are
an integral part of this statement.*

MUNICIPALITY OF WOONSOCKET, SD
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2017

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipt from customers	\$ 77,858	\$ 53,600	\$ 131,458
Payments to suppliers	(47,099)	(32,863)	(79,962)
Payments to employees	(23,458)	(17,703)	(41,161)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,301</u>	<u>3,034</u>	<u>10,335</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers In	<u>23,055</u>	<u>49,018</u>	<u>72,073</u>
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>23,055</u>	<u>49,018</u>	<u>72,073</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal paid on capital debt	(7,314)	--	(7,314)
Interest paid on capital debt	(8,069)	--	(8,069)
Net Cash (Used) by Capital and Related Financing Activities	<u>(15,383)</u>	<u>--</u>	<u>(15,383)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,973	52,052	67,025
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,786</u>	<u>82,725</u>	<u>84,511</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 16,759</u>	<u>\$ 134,777</u>	<u>\$ 151,536</u>

*The accompanying Notes to Financial Statements are
an integral part of this statement.*

MUNICIPALITY OF WOONSOCKET, SD
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>			
Receipt from customers	\$ 77,296	\$ 56,269	\$ 133,565
Payments to suppliers	(70,797)	(102,005)	(172,802)
Payments to employees	<u>(21,743)</u>	<u>(14,308)</u>	<u>(36,051)</u>
<i>NET CASH PROVIDED BY OPERATING ACTIVITIES</i>	<u>(15,244)</u>	<u>(60,044)</u>	<u>(75,288)</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>			
Principal paid on capital debt	(7,099)	--	(7,099)
Interest paid on capital debt	<u>(8,284)</u>	<u>--</u>	<u>(8,284)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(15,383)</u>	<u>--</u>	<u>(15,383)</u>
<i>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</i>	(30,627)	(60,044)	(90,671)
<i>CASH AND CASH EQUIVALENTS - Beginning of Year</i>	<u>32,413</u>	<u>142,769</u>	<u>175,182</u>
<i>CASH AND CASH EQUIVALENTS - End of Year</i>	<u>\$ 1,786</u>	<u>\$ 82,725</u>	<u>\$ 84,511</u>

*The accompanying Notes to Financial Statements are
an integral part of this statement.*

MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

a. Financial Reporting Entity:

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

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

At this time, Woonsocket has no component units of government which are separate legal entities and for which the Municipality is financially accountable.

b. Basis of Presentation:

Government-Wide Financial Statements:

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality'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.

MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** *(continued)*

b. **Basis of Presentation:** *(continued)*

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, 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 Municipality 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 percent of the corresponding total for all funds of that category or type, or
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the Municipality's financial reporting entity are described below:

Governmental Funds:

General Fund – The General Fund is the general operating fund of the Municipality. 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.

2nd Cent Sales Tax Fund: To account for half of the 2% municipal general sales tax used for expenditures of capital improvements and any other use the Municipality deems appropriate for this fund. This is a major fund.

*MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

b. *Basis of Presentation: (continued)*

Fund Financial Statements: (continued)

Proprietary Funds:

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

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

Water Fund: Financed primarily by user charges, this fund accounts for the construction and operation of the 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.

c. *Measurement Focus and Basis of Accounting:*

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

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

MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** *(continued)*

c. **Measurement Focus and Basis of Accounting:** *(continued)*

Measurement Focus:

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

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

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

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

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

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

MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** *(continued)*

d. **Deposits and Investments:**

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

e. **Capital Assets:**

The accounting treatment for property, plant and equipment (capital assets) is the same whether the assets are used in governmental fund operations or proprietary fund or whether they are reported in the government-wide or fund financial statements.

Government-Wide Financial Statements:

Under the modified cash basis of accounting, capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. In the Statement of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary to match the cost with the program that benefits from the use of the capital assets.

Fund Financial Statements:

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as expenditures of the governmental fund when paid for in cash. Capital assets acquired for use in proprietary fund operations are accounted for in the same manner as in the government-wide financial statements.

f. **Long-Term Liabilities:**

Long-term liabilities include, but are not limited to, General Obligation Bonds, Revenue Bonds, Certificates of Participation, Financing (Capital Acquisition) Leases and Compensated Absences.

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

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

MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** *(continued)*

g. **Program Revenues:**

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

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

h. **Proprietary Funds Revenue and Expense Classifications:**

In the proprietary fund's Statement of Revenues, Expenses and Changes in 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.

i. **Cash and Cash Equivalents:**

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

j. **Equity Classifications:**

Government-Wide Statements:

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

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

*MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

j. *Equity Classifications: (continued)*

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between “Restricted”, “Committed”, “Assigned” and “Unassigned” components. Proprietary fund equity is classified the same as in the government-wide financial statements.

k. *Application of Net Position:*

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

l. *Fund Balance Classification Policies and Procedures:*

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

Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the governing body or Finance Officer.

Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

*MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017*

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS:

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

	Year Ended 12/31/2017	Year Ended 12/31/2016
General Fund:		
<u>Activity</u>		
Highways and Streets	\$ 17,561	\$ 30,848
Sanitation	8,553	11,125
Health and Welfare	--	7,791
Culture-Recreation	5,052	6,915
 2nd Penny Fund:		
<u>Activity</u>		
Sanitation	\$ 8,120	\$ --
Culture-Recreation	24,112	64,204

3. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

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

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

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

*MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017*

3. *DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (continued)*

Custodial Credit Risk – The risk that, in the event of a depository failure, the Municipality’s deposits may not be returned to it. The Municipality does not have a deposit policy for custodial credit risk.

Concentration of Credit Risk – The Municipality places no limit on the amount that may be invested in any one issuer.

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

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

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

5. *LONG-TERM DEBT:*

A summary of changes in long-term debt can be found on page 36.

Debt payable at December 31, 2017 is comprised of the following:

Department of Environment and Natural Resources (DENR)	<u>\$ 264,364</u>
Use of Proceeds: Drinking Water SRF Loan	
Interest Rate: 3.00% Fixed	
Maturity Date: January 2042	
Fund Servicing Debt: Water	
Subsequent Information: Principal forgiveness of \$271,678 on 1/1/17	

MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017

5. LONG-TERM DEBT: (continued)

The annual requirements to amortize all debt outstanding as of December 31, 2017 including interest, are listed below:

<i>Years Ending Dec. 31,</i>	<i>Other Long-Term Debt</i>	
	<u><i>Principal</i></u>	<u><i>Interest</i></u>
	2018	\$ 7,547
2019	7,765	7,618
2020	8,000	7,382
2021	8,243	7,140
2022	8,493	6,890
2022-2042	224,316	72,102
TOTAL	<u><u>\$ 264,364</u></u>	<u><u>\$ 108,668</u></u>

6. INTERFUND TRANSFERS:

From the General Fund to the Water Fund to supplement other funds sources	\$ 23,055
From the General Fund to the Sewer Fund to supplement other funds sources	49,018
	<u><u>\$ 72,073</u></u>

7. PENSION 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 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/asps> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2017, 2016, and 2015 were \$6,039, \$5,822 and \$5,685, respectively, equal to the required contributions each year.

Benefits Provided:

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

MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017

7. PENSION PLAN: (continued)

Benefits Provided: (continued)

percent for service prior to 2008 and 2.0 percent thereafter of final average compensation. Class B Judicial benefits are determined as 3.733 percent of service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability regardless of length of service. Three years of service is required for non-service related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of SDRS benefits payable each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded – 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded – 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% – 2.1% COLA

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25%
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLA's, the fair value of assets will be greater or equal to 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 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. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2017, 2016, and 2015 were \$5,409 \$5,330, and \$5,615, respectively, equal to the required contributions each year.

MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017

7. PENSION PLAN: (continued)

Pension Liabilities (Assets):

At June 30, 2017, SDRS is 100.01% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of this measurement period ending June 30, 2017 and reported by the Municipality as of December 31, 2017 are as follows:

Proportionate share of pension liability	\$ 516,243
Less proportionate share of net pension restricted for pension benefits	<u>516,646</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (403)</u></u>

The net pension asset was measured as of June 30, 2017 and the total pension (asset) used to calculate the net pension (asset) was based upon a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the Municipality's proportion was .00443700%, which is nearly unchanged from its proportion of .0002344% as of June 30, 2016.

Actuarial Assumptions:

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

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 percentages of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.) The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see the discussion of the investment plan's investment policy) are summarized in the following table using geometric means:

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

MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017

7. PENSION PLAN: (continued)

Discount Rate:

The discount rate used to measure the total pension liability was 6.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Municipality's proportionate share of net pension (asset) calculated using the discount rate of 6.50%, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1%</u>	<u>Current</u>	<u>1%</u>
	Decrease	Discount Rate	Increase
County's/Municipality's proportionate share of the net pension liability (asset)	\$ 73,748	\$ (403)	\$ (60,785)

Pension Plan Fiduciary Net Position:

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

8. RISK MANAGEMENT:

The Municipality 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, 2017, the Municipality managed its risks as follows:

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 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.

MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017

8. RISK MANAGEMENT: (continued)

Liability Insurance: (continued)

The Municipality pays an annual premium, 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:

Governmental General Liability
Automobile Liability
Officials Liability
Governmental Property

The agreement with the South Dakota Public Assurance Alliance provides that the above coverages will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. The Municipality carries a \$250-1,000 deductible for the property coverage, depending on the type of property.

The Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

Unemployment Benefits:

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

MUNICIPALITY OF WOONSOCKET, SD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2017

9. PRIOR PERIOD ADJUSTMENTS:

The Municipality has carried old outstanding checks on their balance sheet for years. The following financial statement items were restated as of January 1, 2016:

Statement of Net Position-Modified Cash Basis	
Beginning Net Position	\$ 466,689
Adjustment to Cash	<u>17,671</u>
<i>Beginning Net Position As Restated at January 1, 2016</i>	<u><u>\$ 484,360</u></u>
Statement of Revenues, Expenditures and Changes in Fund Balances-	
Beginning Fund Balance	\$ 291,507
General Government	<u>17,671</u>
<i>Beginning Fund Balance at January 1, 2016</i>	<u><u>\$ 309,178</u></u>

SUPPLEMENTAL INFORMATION

MUNICIPALITY OF WOONSOCKET, SD
BUDGETARY COMPARISON SCHEDULES – MODIFIED CASH BASIS
GENERAL FUND
DECEMBER 31, 2017

	<i>Budgeted Amounts</i>		<i>Actual Amounts</i>	<i>Variance with Final Budget Positive (Negative)</i>
	<i>Original</i>	<i>Final</i>		
<i>Resources (Inflows):</i>				
<i>Taxes:</i>				
General property tax	\$ 182,812	\$ 182,812	\$ 196,910	\$ 14,098
General sales and use tax	100,000	100,000	85,047	(14,953)
<i>Total Taxes:</i>	<u>282,812</u>	<u>282,812</u>	<u>281,957</u>	<u>(855)</u>
<i>Intergovernmental:</i>				
<i>State Shared Revenue:</i>				
Grants	1,000	1,000	2,500	1,500
Bank franchise tax	100	100	551	451
Motor vehicle commercial prorated	3,000	3,000	3,142	142
Liquor tax reversion	3,500	3,500	4,066	566
Motor vehicle licenses (5%)	6,000	6,000	12,762	6,762
Local government highway and bridge fund	12,000	12,000	23,883	11,883
<i>County Shared Revenue:</i>				
County road tax (25%)	7,000	7,000	6,355	(645)
County hwy & bridge tax (25%)	3,500	3,500	-	(3,500)
<i>Total Intergovernmental Revenue</i>	<u>36,100</u>	<u>36,100</u>	<u>53,259</u>	<u>17,159</u>
<i>Licenses and Permits</i>	<u>3,000</u>	<u>3,000</u>	<u>6,200</u>	<u>3,200</u>
<i>Charges for Goods and Services:</i>				
Sanitation	53,500	53,500	43,972	(9,528)
Culture & recreation	1,000	1,000	--	(1,000)
<i>Total Charges for Goods and Services</i>	<u>54,500</u>	<u>54,500</u>	<u>43,972</u>	<u>(10,528)</u>
<i>Fines and Forfeits</i>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<i>Miscellaneous Revenue:</i>				
Investment income	7,650	7,650	2,895	(4,755)
Contributions and donations from private sources	800	800	--	(800)
Other	--	--	40,739	40,739
<i>Total Miscellaneous Revenue</i>	<u>8,450</u>	<u>8,450</u>	<u>43,634</u>	<u>35,184</u>
<i>Total Revenue</i>	<u>\$ 384,862</u>	<u>\$ 384,862</u>	<u>\$ 429,022</u>	<u>\$ 44,160</u>

See accompanying Notes to Budgetary Comparison Schedules.

MUNICIPALITY OF WOONSOCKET, SD
BUDGETARY COMPARISON SCHEDULES – MODIFIED CASH BASIS
GENERAL FUND
(CONTINUED)
DECEMBER 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<i>Charges to Appropriation (Outflows):</i>				
<i>General Government:</i>				
Legislative				
Legislative	\$ 6,950	\$ 6,950	\$ 6,800	\$ 150
Contingency	14,000	14,000	14,000	--
Executive	2,600	2,600	2,600	--
Elections	375	375	528	(153)
Financial Administration	73,130	73,130	74,308	(1,178)
Other	17,890	17,890	18,000	(110)
<i>Total General Government</i>	<u>114,945</u>	<u>114,945</u>	<u>116,236</u>	<u>(1,291)</u>
<i>Public Safety:</i>				
Police	21,000	21,000	20,000	1,000
<i>Total Public Safety</i>	<u>21,000</u>	<u>21,000</u>	<u>20,000</u>	<u>1,000</u>
<i>Public Works:</i>				
Highways and streets	97,153	97,153	114,714	(17,561)
Sanitation	66,354	66,354	74,907	(8,553)
Cemeteries	9,050	9,050	8,460	590
<i>Total Public Works</i>	<u>172,557</u>	<u>172,557</u>	<u>198,081</u>	<u>(25,524)</u>
Health and Welfare	2,460	2,460	2,423	37
<i>Culture and Recreation:</i>				
Recreation	31,300	31,300	30,254	1,046
Parks	25,600	25,600	26,921	(1,321)
Libraries	13,000	13,000	17,777	(4,777)
<i>Total Culture and Recreation</i>	<u>69,900</u>	<u>69,900</u>	<u>74,952</u>	<u>(5,052)</u>
Conservation and Development	4,000	4,000	6,382	(2,382)
Miscellaneous	--	--	5,595	(5,595)
Capital Replacement	--	--	--	--
<i>Total Expenditures</i>	<u>384,862</u>	<u>384,862</u>	<u>423,669</u>	<u>(38,807)</u>
Excess of Revenues (Under) Expenditures	--	--	5,353	5,353
Transfers out	--	--	(82,073)	(82,073)
<i>Net Change in Fund Balance</i>	--	--	(76,720)	(76,720)
Beginning Budgetary Fund Balance	247,182	247,182	247,182	--
Ending Budgetary Fund Balance	<u>\$ 247,182</u>	<u>\$ 247,182</u>	<u>\$ 170,462</u>	<u>\$ (76,720)</u>

See accompanying Notes to Budgetary Comparison Schedules.

MUNICIPALITY OF WOONSOCKET, SD
BUDGETARY COMPARISON SCHEDULES – MODIFIED CASH BASIS
2ND CENT SALES TAX FUND
DECEMBER 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<i>Variance with Final Budget Positive (Negative)</i>
	<u>Original</u>	<u>Final</u>		<u>Actual Amounts</u>
<i>Resources (Inflows):</i>				
<i>Taxes</i>	\$ 100,000	\$ 100,000	\$ 86,659	\$ (13,341)
<i>Miscellaneous</i>	--	--	--	800
<i>Total Revenue</i>	<u>100,000</u>	<u>100,000</u>	<u>86,659</u>	<u>(12,541)</u>
<i>Charges to Appropriations (Outflows):</i>				
<i>Public Works:</i>				
<i>Highways and streets</i>	75,000	75,000	28,730	46,270
<i>Sanitation</i>	--	--	--	--
<i>Total Public Works</i>	<u>75,000</u>	<u>75,000</u>	<u>28,730</u>	<u>46,270</u>
<i>Culture and Recreation</i>	<u>25,000</u>	<u>25,000</u>	<u>71,087</u>	<u>(46,087)</u>
<i>Conservation and Development:</i>	--	5,000	35,000	(30,000)
<i>Total Expenditures</i>	<u>100,000</u>	<u>105,000</u>	<u>134,817</u>	<u>(29,817)</u>
<i>Excess of Revenues (Under) Expenditures</i>	--	(5,000)	(48,158)	(42,358)
<i>Transfers in</i>	--	--	10,000	(42,358)
<i>Net Change in Fund Balance</i>	--	(5,000)	(38,158)	(84,716)
<i>Beginning Budgetary Fund Balance</i>	40,885	40,885	40,885	--
<i>Ending Budgetary Fund Balance</i>	<u>\$ 40,885</u>	<u>\$ 35,885</u>	<u>\$ 2,727</u>	<u>\$ (84,716)</u>

See accompanying Notes to Budgetary Comparison Schedules.

MUNICIPALITY OF WOONSOCKET, SD
NOTES TO BUDGETARY COMPARISON SCHEDULES
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND
AND FOR EACH MAJOR SPECIAL REVENUE FUND
WITH A LEGALLY REQUIRED BUDGET
DECEMBER 31, 2017

Note 1: Budgets and Budgetary Accounting:

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

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

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 and special revenue funds.

The Municipality did not encumber any amounts at December 31, 2017.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
7. The Municipality of Woonsocket presents its budget on the modified cash basis of accounting to coincide with the basis of accounting utilized by the basic financial statements. See Note 1 to the basic financial statements for a definition of modified cash basis.

MUNICIPALITY OF WOONSOCKET, SD
SCHEDULE OF CHANGES IN LONG-TERM DEBT
DECEMBER 31, 2017 AND 2016

<u>Indebtedness</u>	2017			<u>Long-Term Debt December 31, 2017</u>
	<u>Long-Term Debt January 1, 2017</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	
Governmental Long-Term Debt:				
Other Long-Term Liabilities	\$ 271,678	\$ --	\$ 7,314	\$ 264,364
Total	\$ 271,678	\$ --	\$ 7,314	\$ 264,364

<u>Indebtedness</u>	2016			<u>Long-Term Debt December 31, 2016</u>
	<u>Long-Term Debt January 1, 2016</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	
Governmental Long-Term Debt:				
Other Long-Term Liabilities	\$ 278,777	\$ --	\$ 7,099	\$ 271,678
Total	\$ 278,777	\$ --	\$ 7,099	\$ 271,678

**MUNICIPALITY OF WOONSOCKET, SD
MUNICIPAL OFFICIALS
DECEMBER 31, 2017**

Governing Board Members:

**Lindy Peterson
Richard Reider
John Ames
Darin Kilcoin
Joel Rassel
Jim Steichen
Derek Foos**

Municipal Finance Officer:

Tara Weber

Municipal Attorney:

Jeffrey D. Larson