

**MUNICIPALITY OF VALLEY SPRINGS
VALLEY SPRINGS, SOUTH DAKOTA**

AUDIT REPORT

FOR THE YEAR JANUARY 1, 2017 TO DECEMBER 31, 2017
AND
FOR THE YEAR JANUARY 1, 2018 TO DECEMBER 31, 2018

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF VALLEY SPRINGS

MUNICIPAL OFFICIALS
DECEMBER 31, 2018

MAYOR:

Carl Moss

GOVERNING BOARD:

Lance Bauske, President
Dean Helgeson, Vice-President
Lynn Schmidt
Brian Staeffler

FINANCE OFFICER:

Sandy Severtson

ATTORNEY:

Patrick Glover

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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

Governing Board
Municipality of Valley Springs
Valley Springs, 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 Valley Springs, South Dakota (Municipality), as of December 31, 2018 and 2017 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated June 8, 2020.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2019-001 to be a material weakness.

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, and 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 Responses to Findings

The Municipality's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. 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.



Schoenfish & Co., Inc.
Certified Public Accountants
June 8, 2020

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGSPRIOR AUDIT FINDINGS:

The Municipality of Valley Springs has not had an audit in recent years. The following comments were from an internal control review dated January 5, 2016.

- a. The 2013 annual financial report was not completed until November 25, 2015 and was not presented to the governing board until January 12, 2016 and was not filed with the Department of Legislative Audit or published until December 2015 contrary to the requirements of SDCL 9-22-21. In addition, the 2014 annual financial report has not been prepared as of the date of this letter. We recommend the Municipality prepare, publish, and file the annual financial report in accordance with SDCL 9-22-21.
- b. The balances of the general ledger accounts for cash with fiscal agent, taxes receivable, utility accounts receivable, special assessments receivable, water customer deposits, capital assets and bonds payable were not updated on a monthly basis or balances with the subsidiary records. The general ledger accounts were reconciled on worksheets by the Finance Officer but were not updated on the general ledger record until the preparation of the annual financial reports by the public accountant. Therefore, some of the general ledger balances reflected the amounts as of December 31, 2013 instead of December 31, 2015 which was the date of the most current annual report filed. We recommend the Municipality maintain current general ledger account balances.

Items b. has been corrected. Item a. has not been corrected and was communicated to management.

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SCHEDULE OF CURRENT AUDIT FINDINGSCURRENT OTHER AUDIT FINDINGS:Internal Control – Related Finding – Material Weakness:Finding Number 2018-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for the revenues. This is the first consecutive audit in which a similar deficiency has been reported.

Criteria:

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

Condition:

- a. The office personnel process all revenue transactions from beginning to end. They also receive money, issue receipts, record receipts, post receipts in the accounting records, prepare bank deposits, reconcile bank statements, and prepare financial statements.

Effect:

As a result, 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:

1. We recommend that the Municipality of Valley Springs 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.

Management's Response:

The Municipality of Valley Springs Mayor, Carl Moss, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Valley Springs, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to develop a policy to provide compensating controls.

CLOSING CONFERENCE

The audit findings were discussed with the officials during the course of the audit and with the Mayor and Finance Officer on June 25, 2020.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Valley Springs
Valley Springs, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Valley Springs, South Dakota, (Municipality) as of December 31, 2018 and 2017 and for each of the years in the biennial period then ended, 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Valley Springs as of December 31, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for each of the years in the biennial period then ended in accordance with 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 with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's financial statements. The Budgetary Comparison Schedules, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset), the Schedule of the Municipality's Contributions, and the Schedule of Long-Term Liabilities listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report June 8, 2020 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 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 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.

Schoenfish & Co., Inc.

Schoenfish & Co., Inc.
 Certified Public Accountants
 June 8, 2020

Schoenfish & Co., Inc.

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MUNICIPALITY OF VALLEY SPRINGS
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2018

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	89,879.83	188,262.48	278,142.31
Investments	44,651.85	482,563.13	527,214.98
TOTAL ASSETS	<u>134,531.68</u>	<u>670,825.61</u>	<u>805,357.29</u>
NET POSITION:			
Unrestricted	134,531.68	670,825.61	805,357.29
TOTAL NET POSITION	<u>134,531.68</u>	<u>670,825.61</u>	<u>805,357.29</u>

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

MUNICIPALITY OF VALLEY SPRINGS
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 For the Year Ended December 31, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Government Business-Type Activities		Total
			Capital Grants and Contributions	Total		Governmental Activities	Business-Type Activities	
Primary Government:								
Governmental Activities:								
General Government	120,877.07	185.00			(120,692.07)			(120,692.07)
Public Safety	53,822.19	5,117.92			(48,704.27)			(48,704.27)
Public Works	108,624.40		19,891.02	4,476.85	(84,256.53)			(84,256.53)
Health and Welfare	3,155.36		868.00		(2,267.36)			(2,267.36)
Culture and Recreation	19,153.10				(19,153.10)			(19,153.10)
Conservation and Development	3,025.00				(3,025.00)			(3,025.00)
*Interest on Long-Term Debt	4,009.68				(4,009.68)			(4,009.68)
Total Governmental Activities	<u>312,666.80</u>	<u>5,302.92</u>	<u>20,779.02</u>	<u>4,476.85</u>	<u>(282,108.01)</u>	<u>0.00</u>		<u>(282,108.01)</u>
Business-type Activities:								
Water	214,283.09	125,998.70		11,294.34		(76,990.05)		(76,990.05)
Sewer	101,164.16	131,132.63		11,294.35		41,262.82		41,262.82
Total Business-Type Activities	<u>315,447.25</u>	<u>257,131.33</u>	<u>0.00</u>	<u>22,588.69</u>	<u>(35,727.23)</u>			<u>(35,727.23)</u>
Total Primary Government	<u>628,114.05</u>	<u>262,434.25</u>	<u>20,779.02</u>	<u>27,065.54</u>	<u>(282,108.01)</u>	<u>(35,727.23)</u>		<u>(317,835.24)</u>
General Revenues:								
Taxes:								
Property Taxes					186,257.79			186,257.79
Sales Taxes					117,891.05			117,891.05
State Shared Revenues					10,169.07			10,169.07
Unrestricted Investment Earnings					925.01	5,006.48		5,931.49
Miscellaneous Revenue					6,103.74			6,103.74
Total General Revenues					<u>321,346.66</u>	<u>5,006.48</u>		<u>326,353.14</u>
Change in Net Position					<u>39,238.65</u>	<u>(30,720.75)</u>		<u>8,517.90</u>
Net Position - Beginning					95,293.03	701,546.36		796,839.39
NET POSITION - ENDING					<u>134,531.68</u>	<u>670,825.61</u>		<u>805,357.29</u>

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

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

**MUNICIPALITY OF VALLEY SPRINGS
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2018**

	General Fund
ASSETS:	
Cash and Cash Equivalents	89,650.92
Cash with Fiscal Agent	228.91
Investments	44,651.85
TOTAL ASSETS	134,531.68
FUND BALANCES:	
Assigned	12,191.00
Unassigned	122,340.68
TOTAL FUND BALANCES	134,531.68

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

MUNICIPALITY OF VALLEY SPRINGS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018

	<u>General Fund</u>
Revenues:	
Taxes:	
General Property Taxes	184,553.55
General Sales and Use Taxes	117,891.05
Amusement Taxes	72.00
Penalties & Interest on Delinquent Taxes	1,632.24
Total Taxes	304,148.84
Licenses and Permits	4,817.92
Intergovernmental Revenue:	
State Grants	888.00
State Shared Revenue:	
Bank Franchise Tax	5,395.25
Prorate License Fees	658.69
Liquor Tax Reversion	4,773.82
Motor Vehicle Licenses	6,558.13
Local Government Highway and Bridge Fund	11,432.70
County Shared Revenue:	
County Wheel Tax	1,241.50
Total Intergovernmental Revenue	30,948.09
Charges for Goods and Services:	
General Government	185.00
Total Charges for Goods and Services	185.00
Fines and Forfeits:	
Court Fines and Costs	300.00
Miscellaneous Revenue:	
Investment Earnings	925.01
Special Assessments	4,476.85
Other	3,645.86
Total Miscellaneous Revenue	9,047.72
Total Revenue	349,447.57
Expenditures:	
General Government:	
Legislative	11,796.02
Elections	78.85
Financial Administration	63,098.14
Other	45,904.06
Total General Government	120,877.07

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

MUNICIPALITY OF VALLEY SPRINGS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018

	General Fund
Expenditures (continued):	
Public Safety:	
Police	38,793.04
Fire	10,984.48
Protective Inspections	1,995.00
Other Protections	2,049.67
Total Public Safety	53,822.19
Public Works:	
Highways and Streets	92,060.31
Sanitation	2,499.88
Total Public Works	94,560.19
Health and Welfare:	
Health	2,647.30
Humane Society	508.06
Total Health and Welfare	3,155.36
Culture and Recreation:	
Recreation	1,313.84
Parks	17,839.26
Total Culture and Recreation	19,153.10
Conservation and Development:	
Economic Development and Assistance (Industrial Development)	3,025.00
Total Conservation and Development	3,025.00
Debt Service	18,073.89
Total Expenditures	312,666.80
Excess Revenue Over (Under) Expenditures	36,780.77
Other Financing Sources (Uses):	
Sale of Municipal Property	2,457.88
Total Other Financing Sources (Uses)	2,457.88
Net Change in Fund Balance	39,238.65
Fund Balance - Beginning	95,293.03
FUND BALANCE- ENDING	134,531.68

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

**MUNICIPALITY OF VALLEY SPRINGS
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2018**

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	77,406.60	110,855.88	188,262.48
Investments	228,130.91	254,432.22	482,563.13
Total Current Assets	<u>305,537.51</u>	<u>365,288.10</u>	<u>670,825.61</u>
 TOTAL ASSETS	 <u>305,537.51</u>	 <u>365,288.10</u>	 <u>670,825.61</u>
 NET POSITION:			
Unrestricted	<u>305,537.51</u>	<u>365,288.10</u>	<u>670,825.61</u>
 TOTAL NET POSITION	 <u>305,537.51</u>	 <u>365,288.10</u>	 <u>670,825.61</u>

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

MUNICIPALITY OF VALLEY SPRINGS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2018

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Charges for Goods and Services	125,998.70	131,132.63	257,131.33
Total Operating Revenue	<u>125,998.70</u>	<u>131,132.63</u>	<u>257,131.33</u>
Operating Expenses:			
Personal Services	32,005.59	20,758.83	52,764.42
Other Current Expenses	171,414.38	54,997.61	226,411.99
Total Operating Expenses	<u>203,419.97</u>	<u>75,756.44</u>	<u>279,176.41</u>
Operating Income (Loss)	<u>(77,421.27)</u>	<u>55,376.19</u>	<u>(22,045.08)</u>
Non-operating Revenue (Expense)			
Investment Earnings	2,514.93	2,491.55	5,006.48
Debt Service	<u>(8,182.63)</u>	<u>(23,496.98)</u>	<u>(31,679.61)</u>
Interest Expense	<u>(2,680.49)</u>	<u>(1,910.74)</u>	<u>(4,591.23)</u>
Total Non-operating Revenue (Expense)	<u>(8,348.19)</u>	<u>(22,916.17)</u>	<u>(31,264.36)</u>
Income (Loss) Before Contributions	<u>(85,769.46)</u>	<u>32,460.02</u>	<u>(53,309.44)</u>
Capital Contributions	<u>11,294.34</u>	<u>11,294.35</u>	<u>22,588.69</u>
Change in Net Position	<u>(74,475.12)</u>	<u>43,754.37</u>	<u>(30,720.75)</u>
Net Position - Beginning	<u>380,012.63</u>	<u>321,533.73</u>	<u>701,546.36</u>
NET POSITION - ENDING	<u><u>305,537.51</u></u>	<u><u>365,288.10</u></u>	<u><u>670,825.61</u></u>

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

MUNICIPALITY OF VALLEY SPRINGS
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2017

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	51,477.93	208,078.15	259,556.08
Investments	43,815.10	493,468.21	537,283.31
TOTAL ASSETS	95,293.03	701,546.36	796,839.39
NET POSITION:			
Unrestricted	95,293.03	701,546.36	796,839.39
TOTAL NET POSITION	95,293.03	701,546.36	796,839.39

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

MUNICIPALITY OF VALLEY SPRINGS
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 For the Year Ended December 31, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating		Governmental Activities	Primary Government	
			Grants and Contributions	Capital Grants and Contributions		Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	92,296.52	80.00		15,421.55	(76,794.97)		(76,794.97)
Public Safety	71,642.94	6,593.04			(65,049.90)		(65,049.90)
Public Works	182,096.81		19,185.35	42,897.61	(120,013.85)		(120,013.85)
Health and Welfare	1,947.95		758.00		(1,189.95)		(1,189.95)
Culture and Recreation	36,276.59				(36,276.59)		(36,276.59)
Conservation and Development	2,965.00				(2,965.00)		(2,965.00)
*Interest on Long-Term Debt	7,428.40				(7,428.40)		(7,428.40)
Total Governmental Activities	394,654.21	6,673.04	19,943.35	58,319.16	(309,718.66)	0.00	(309,718.66)
Business-type Activities:							
Water	126,535.02	126,259.73				(275.29)	(275.29)
Sewer	159,856.50	130,114.21				(29,742.29)	(29,742.29)
Total Business-Type Activities	286,391.52	256,373.94	0.00	0.00		(30,017.58)	(30,017.58)
Total Primary Government	681,045.73	283,046.98	19,943.35	58,319.16	(309,718.66)	(30,017.58)	(339,736.24)
General Revenues:							
Taxes:							
Property Taxes					171,636.70		171,636.70
Sales Taxes					104,008.60		104,008.60
State Shared Revenue					9,866.24		9,866.24
Unrestricted Investment Earnings					586.82	3,831.50	4,418.32
Debt Issued						93,750.00	93,750.00
Miscellaneous Revenue					4,091.32	8,539.00	12,630.32
Total General Revenues					290,189.68	106,120.50	396,310.18
Change in Net Position					(19,528.98)	76,102.92	56,573.94
Net Position - Beginning					114,822.01	625,443.44	740,265.45
NET POSITION - ENDING					95,293.03	701,546.36	796,839.39

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

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

**MUNICIPALITY OF VALLEY SPRINGS
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2017**

	General Fund
ASSETS:	
Cash and Cash Equivalents	50,222.87
Cash with Fiscal Agent	1,255.06
Investments	43,815.10
TOTAL ASSETS	95,293.03
FUND BALANCES:	
Assigned for Next Year's Budget	14,731.00
Unassigned	80,562.03
TOTAL FUND BALANCES	95,293.03

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

MUNICIPALITY OF VALLEY SPRINGS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2017

	<u>General Fund</u>
Revenues:	
Taxes:	
General Property Taxes	171,188.67
General Sales and Use Taxes	104,008.60
Amusement Taxes	72.00
Penalties & Interest on Delinquent Taxes	376.03
Total Taxes	275,645.30
Licenses and Permits	6,543.04
Intergovernmental Revenues:	
State Grants	36,321.96
State Shared Revenues:	
Bank Franchise Tax	5,154.20
Prorate License Fees	640.25
Liquor Tax Reversion	4,712.04
Motor Vehicle Licenses	6,441.98
Local Government Highway and Bridge Fund	10,881.29
County Shared Revenues:	
County Wheel Tax	1,221.83
Total Intergovernmental Revenues	65,373.55
Charges for Goods and Services:	
General Government	80.00
Total Charges for Goods and Services	80.00
Fines and Forfeits:	
Court Fines and Costs	50.00
Miscellaneous Revenues:	
Investment Earnings	586.82
Special Assessments	7,333.65
Contributions and Donations from Private Sources	15,421.55
Other	4,091.32
Total Miscellaneous Revenues	27,433.34
Total Revenues	375,125.23
Expenditures:	
General Government:	
Legislative	13,442.05
Elections	102.43
Financial Administration	66,335.46
Other	12,416.58
Total General Government	92,296.52

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

MUNICIPALITY OF VALLEY SPRINGS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2017

	General Fund
Expenditures (continued):	
Public Safety:	
Police	37,912.16
Fire	29,871.77
Other Protection	3,859.01
Total Public Safety	71,642.94
Public Works:	
Highways and Streets	153,328.60
Sanitation	6,073.46
Total Public Works	159,402.06
Health and Welfare:	
Health	1,354.10
Humane Society	593.85
Total Health and Welfare	1,947.95
Culture and Recreation:	
Recreation	1,622.08
Parks	34,654.51
Total Culture and Recreation	36,276.59
Conservation and Development:	
Economic Development and Assistance (Industrial Development)	2,965.00
Total Conservation and Development	2,965.00
Debt Service	30,123.15
Total Expenditures	394,654.21
Net Change in Fund Balance	(19,528.98)
Fund Balance - Beginning	114,822.01
FUND BALANCE- ENDING	95,293.03

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

**MUNICIPALITY OF VALLEY SPRINGS
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2017**

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	139,756.65	68,321.50	208,078.15
Investments	240,255.98	253,212.23	493,468.21
Total Current Assets	380,012.63	321,533.73	701,546.36
 TOTAL ASSETS	380,012.63	321,533.73	701,546.36
 NET POSITION:			
Unrestricted	380,012.63	321,533.73	701,546.36
 TOTAL NET POSITION	380,012.63	321,533.73	701,546.36

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

MUNICIPALITY OF VALLEY SPRINGS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2017

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Charges for Goods and Services	126,259.73	130,114.21	256,373.94
Total Operating Revenue	<u>126,259.73</u>	<u>130,114.21</u>	<u>256,373.94</u>
Operating Expenses:			
Personal Services	29,340.23	25,030.84	54,371.07
Other Current Expenses	41,641.67	6,160.98	47,802.65
Capital Assets	54,647.86	86,318.48	140,966.34
Total Operating Expenses	<u>125,629.76</u>	<u>117,510.30</u>	<u>243,140.06</u>
Operating Income (Loss)	<u>629.97</u>	<u>12,603.91</u>	<u>13,233.88</u>
Non-operating Revenue (Expense)			
Investment Earnings	1,851.07	1,980.43	3,831.50
Debt Service	(670.88)	(37,175.58)	(37,846.46)
Interest Expense	(234.38)	(5,170.62)	(5,405.00)
Long-Term Debt Issued	93,750.00		93,750.00
Other	8,539.00		8,539.00
Total Non-operating Revenue (Expense)	<u>103,234.81</u>	<u>(40,365.77)</u>	<u>62,869.04</u>
Change in Net Position	<u>103,864.78</u>	<u>(27,761.86)</u>	<u>76,102.92</u>
Net Position - Beginning	<u>276,147.85</u>	<u>349,295.59</u>	<u>625,443.44</u>
NET POSITION - ENDING	<u><u>380,012.63</u></u>	<u><u>321,533.73</u></u>	<u><u>701,546.36</u></u>

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS1. 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 Valley Springs (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.

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.

Fund Financial Statements:

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

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

The funds of the Municipality 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 a major fund.

Proprietary Funds:

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

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

Water Fund – financed primarily by user charges, this fund accounts for the construction and operation of the 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's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

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.

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used, applied with 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 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. Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

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

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.

d. Deposits and Investments:

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

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

e. Capital Assets:

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Government-wide Financial Statements:

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

f. Long-Term Liabilities:

Long-term liabilities include, but are not limited to, Revenue Bonds.

As discussed in Note 1c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The 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 principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

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

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the 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 in a manner consistent with how they are classified in the Statement of Cash

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues and expenses.

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.

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 – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

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.

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:

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- 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 Finance Officer.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

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

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 to the expenditures compared to appropriations:

	<u>Year Ended</u> <u>12/31/2018</u>	<u>Year Ended</u> <u>12/31/2017</u>
General Fund:		
Police	\$ 0.04	\$ 0.16
Other Protection		\$ 714.01

The Municipality plans to take the following actions to address these violations: use supplemental budgets when authority exists.

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) 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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

As of December 31, 2018 and 2017, the Municipality did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

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

Custodial Credit Risk – Deposits – 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 maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

5. OPERATING LEASE

The Municipality of Valley Springs entered into an operating lease for a mower. The minimum monthly payment is \$447.18 and is paid by the General Fund and Sewer Fund

The following are the minimum payments on the operating lease:

2019	\$ 3,577.42
2020	5,366.14
2021	1,788.72

6. PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer hybrid defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

<http://www.sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

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

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation 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 or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2018, 2017, and 2016, were \$5,962.74, \$5,751.02, and \$5,602.67, respectively, equal to the required contributions each year.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Pension Liabilities (Assets):

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

Proportionate share of pension liability	\$ 571,874.14
Less proportionate share of net pension restricted for pension benefits	<u>\$ 571,983.17</u>
Proportionate share of net pension liability (asset)	<u>\$ (109.03)</u>

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 Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the Municipality's proportion was 0.00467470%, which is an increase (decrease) of 0.0000204% from its proportion measured as of June 30, 2017.

At June 30, 2017, SDRS is 100.1% funded and accordingly has net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the Municipality as of the measurement period ending June 30, 2017 and reported by the Municipality as of December 31, 2018 are as follows:

Proportionate share of pension liability	\$ 541,526.11
Less proportionate share of net pension restricted for pension benefits	<u>\$ 541,948.49</u>
Proportionate share of net pension liability (asset)	<u>\$ (422.38)</u>

The net pension liability (asset) was measured as of June 30, 2017 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on 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 0.00465430%, which is an increase (decrease) of (0.0002799%) from its proportion measured as of June 30, 2016.

Actuarial Assumptions:

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

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of 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 for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 and 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.50 percent. 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 from 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:

At June 30, 2018, the following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, 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% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$ 82,344.31	\$ (109.02)	\$ (67,180.34)

At June 30, 2017, the following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, 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:

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$ 77,359.29	\$ (422.38)	\$ (63,761.95)

Pension Plan Fiduciary Net Position:

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

7. SIGNIFICANT CONTINGENCIES – LITIGATION

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

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, 2018, the Municipality managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

The 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, vehicle coverage, property and building coverage, errors and omissions of officials and employee coverage.

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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

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

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

The amount available for refund to the Municipality is considered a deposit for financial reporting purposes.

As of December 31, 2018, the Municipality's balance available to be refunded per the SDPAA was \$15,446.00, which was an increase of \$5,553.22 from the previous year.

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.

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

Unemployment Benefits:

The 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.

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF VALLEY SPRINGS
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes	174,800.00	174,800.00	184,553.55	9,753.55
General Sales and Use Taxes	100,700.00	100,700.00	117,891.05	17,191.05
Amusement Taxes	120.00	120.00	72.00	(48.00)
Penalties and Interest on Delinquent Taxes	1,160.00	1,160.00	1,632.24	472.24
Total Taxes	276,780.00	276,780.00	304,148.84	27,368.84
Licenses and Permits	4,555.00	4,555.00	4,817.92	262.92
Intergovernmental Revenues:				
State Grants	0.00	0.00	888.00	888.00
State Shared Revenues:				
Bank Franchise Tax	3,500.00	3,500.00	5,395.25	1,895.25
Prorate License Fees	650.00	650.00	658.69	8.69
Liquor Tax Reversion	4,400.00	4,400.00	4,773.82	373.82
Motor Vehicle Licenses	6,000.00	6,000.00	6,558.13	558.13
Local Government Highway and Bridge Fund	12,200.00	12,200.00	11,432.70	(767.30)
County Shared Revenues:				
County Wheel Tax	1,200.00	1,200.00	1,241.50	41.50
Total Intergovernmental Revenues	27,950.00	27,950.00	30,948.09	2,998.09
Charges for Goods and Services:				
General Government	75.00	75.00	185.00	110.00
Total Charges for Goods and Services	75.00	75.00	185.00	110.00
Fines and Forfeits:				
Court Fines and Costs	0.00	0.00	300.00	300.00
Total Fines and Forfeits	0.00	0.00	300.00	300.00
Miscellaneous Revenues:				
Investment Earnings	0.00	0.00	925.01	925.01
Special Assessments	3,500.00	3,500.00	4,476.85	976.85
Contributions and Donations from Private Sources	200.00	200.00	0.00	(200.00)
Other	3,200.00	3,200.00	3,645.86	445.86
Total Miscellaneous Revenue	6,900.00	6,900.00	9,047.72	2,147.72
Total Revenue	316,260.00	316,260.00	349,447.57	33,187.57
Expenditures:				
General Government:				
Legislative	12,670.00	12,670.00	11,796.02	873.98
Contingency	5,000.00	5,000.00		
Amount Transferred		(5,000.00)		0.00
Elections	440.00	440.00	78.85	361.15
Financial Administration	63,878.00	63,878.00	63,098.14	779.86
Other	14,455.00	47,280.00	45,904.06	1,375.94
Total General Government	96,443.00	124,268.00	120,877.07	3,390.93

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF VALLEY SPRINGS
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures (Continued):				
Public Safety:				
Police	38,793.00	38,793.00	38,793.04	(0.04)
Fire	11,000.00	11,000.00	10,984.48	15.52
Protective Inspection	2,800.00	4,200.00	1,995.00	2,205.00
Other Protection	5,175.00	5,175.00	2,049.67	3,125.33
Total Public Safety	57,768.00	59,168.00	53,822.19	5,345.81
Public Works:				
Highways and Streets	117,216.00	117,216.00	92,060.31	25,155.69
Sanitation	3,265.00	3,265.00	2,499.88	765.12
Total Public Works	120,481.00	120,481.00	94,560.19	25,920.81
Health and Welfare:				
Health	1,375.00	2,650.00	2,647.30	2.70
Humane Society	750.00	750.00	508.06	241.94
Total Health and Welfare	2,125.00	3,400.00	3,155.36	244.64
Culture and Recreation:				
Recreation	1,700.00	1,700.00	1,313.84	386.16
Parks	24,725.00	24,725.00	17,839.26	6,885.74
Museums	200.00	200.00	0.00	200.00
Total Culture and Recreation	26,625.00	26,625.00	19,153.10	7,471.90
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	3,450.00	3,450.00	3,025.00	425.00
Total Conservation and Development	3,450.00	3,450.00	3,025.00	425.00
Debt Service	24,099.00	29,499.00	18,073.89	11,425.11
Total Expenditures	330,991.00	366,891.00	312,666.80	54,224.20
Excess of Revenues Over (Under) Expenditures	(14,731.00)	(50,631.00)	36,780.77	87,411.77
Other Financing Sources (Uses):				
Sale of Municipal Property	0.00	0.00	2,457.88	2,457.88
Total Other Financing Sources (Uses)	0.00	0.00	2,457.88	2,457.88
Net Change in Fund Balances	(14,731.00)	(50,631.00)	39,238.65	89,869.65
Fund Balance - Beginning	95,293.03	95,293.03	95,293.03	0.00
FUND BALANCE - ENDING	80,562.03	44,662.03	134,531.68	89,869.65

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF VALLEY SPRINGS
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes	174,522.00	174,522.00	171,188.67	(3,333.33)
General Sales and Use Taxes	94,926.00	94,926.00	104,008.60	9,082.60
Amusement Taxes	75.00	75.00	72.00	(3.00)
Penalties and Interest on Delinquent Taxes	548.00	548.00	376.03	(171.97)
Total Taxes	270,071.00	270,071.00	275,645.30	5,574.30
Licenses and Permits	4,133.00	4,133.00	6,543.04	2,410.04
Intergovernmental Revenue:				
State Grants	0.00	0.00	36,321.96	36,321.96
State Shared Revenue:				
Bank Franchise Tax	3,103.00	3,103.00	5,154.20	2,051.20
Prorate License Fees	617.00	617.00	640.25	23.25
Liquor Tax Reversion	4,981.00	4,981.00	4,712.04	(268.96)
Motor Vehicle Licenses	5,714.00	5,714.00	6,441.98	727.98
Local Government Highway and Bridge Fund	12,884.00	12,884.00	10,881.29	(2,002.71)
County Shared Revenue:				
County Road Tax		0.00		0.00
County Wheel Tax	1,228.00	1,228.00	1,221.83	(6.17)
Total Intergovernmental Revenue	28,527.00	28,527.00	65,373.55	36,846.55
Charges for Goods and Services:				
General Government	75.00	75.00	80.00	5.00
Sanitation	250.00	250.00	0.00	(250.00)
Total Charges for Goods and Services	325.00	325.00	80.00	(245.00)
Fines and Forfeits:				
Court Fines and Costs	0.00	0.00	50.00	50.00
Total Fines and Forfeits	0.00	0.00	50.00	50.00
Miscellaneous Revenue:				
Investment Earnings	120.00	120.00	586.82	466.82
Special Assessments	8,000.00	8,000.00	7,333.65	(666.35)
Contributions and Donations from Private Sources	0.00	0.00	15,421.55	15,421.55
Other	3,381.00	3,381.00	4,091.32	710.32
Total Miscellaneous Revenue	11,501.00	11,501.00	27,433.34	15,932.34
Total Revenue	314,557.00	314,557.00	375,125.23	60,568.23

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF VALLEY SPRINGS
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
General Government:				
Legislative	10,590.00	14,790.00	13,442.05	1,347.95
Contingency	5,000.00	5,000.00		
Amount Transferred		(5,000.00)		0.00
Elections	433.00	433.00	102.43	330.57
Financial Administration	62,037.00	68,537.00	66,335.46	2,201.54
Other	14,415.00	14,415.00	12,416.58	1,998.42
Total General Government	<u>92,475.00</u>	<u>98,175.00</u>	<u>92,296.52</u>	<u>5,878.48</u>
Public Safety:				
Police	37,912.00	37,912.00	37,912.16	(0.16)
Fire	10,000.00	30,000.00	29,871.77	128.23
Protective Inspection	1,200.00	3,300.00	0.00	3,300.00
Other Protection	3,145.00	3,145.00	3,859.01	(714.01)
Total Public Safety	<u>52,257.00</u>	<u>74,357.00</u>	<u>71,642.94</u>	<u>2,714.06</u>
Public Works:				
Highways and Streets	124,397.00	158,397.00	153,328.60	5,068.40
Sanitation	5,384.00	6,184.00	6,073.46	110.54
Total Public Works	<u>129,781.00</u>	<u>164,581.00</u>	<u>159,402.06</u>	<u>5,178.94</u>
Health and Welfare:				
Health	1,892.00	1,892.00	1,354.10	537.90
Humane Society	690.00	690.00	593.85	96.15
Total Health and Welfare	<u>2,582.00</u>	<u>2,582.00</u>	<u>1,947.95</u>	<u>634.05</u>
Culture and Recreation:				
Recreation	1,457.00	1,657.00	1,622.08	34.92
Parks	24,105.00	35,105.00	34,654.51	450.49
Museums	100.00	100.00	0.00	100.00
Total Culture and Recreation	<u>25,662.00</u>	<u>36,862.00</u>	<u>36,276.59</u>	<u>585.41</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	3,215.00	3,215.00	2,965.00	250.00
Total Conservation and Development	<u>3,215.00</u>	<u>3,215.00</u>	<u>2,965.00</u>	<u>250.00</u>
Debt Service	<u>24,099.00</u>	<u>30,124.00</u>	<u>30,123.15</u>	<u>0.85</u>
Total Expenditures	<u>330,071.00</u>	<u>409,896.00</u>	<u>394,654.21</u>	<u>15,241.79</u>
Net Change in Fund Balances	<u>(15,514.00)</u>	<u>(95,339.00)</u>	<u>(19,528.98)</u>	<u>75,810.02</u>
Fund Balance - Beginning	<u>114,822.01</u>	<u>114,822.01</u>	<u>114,822.01</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>99,308.01</u>	<u>19,483.01</u>	<u>95,293.03</u>	<u>75,810.02</u>

NOTES TO THE SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund

NOTE 1. Budgets and Budgetary Accounting

The Municipality followed 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 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. Unexpected 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.

The Municipality did not encumber any amounts at December 31, 2018 and 2017.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. The budget for the General Fund is adopted on a basis consistent with the accounting principles generally accepted in the United States (USGAAP), within the limitations of the modified cash basis of accounting.

NOTE 2. GAAP/Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP, within the limitations of the modified cash basis of accounting, present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balances, however, in the Budgetary RSI 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.

SUPPLEMENTARY INFORMATION

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

South Dakota Retirement System

Last Four Years*

	2018	2017	2016	2015
Municipality's proportion of the net pension liability/asset	0.0046747%	0.0046543%	0.0049342%	0.0049058%
Municipality's proportionate share of net pension liability (asset)	\$ (109)	\$ (422)	\$ 16,667	\$ (20,807)
Municipality's covered-employee payroll	\$ 97,274	\$ 94,565	\$ 93,817	\$ 88,811
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.11%	0.45%	17.77%	23.43%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.02%	100.10%	96.89%	104.10%

* The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is 06/30 of previous fiscal year.

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE MUNICIPALITY CONTRIBUTIONS

South Dakota Retirement System

Last Four Years

	2018	2017	2016	2015
Contractually required contribution	\$ 5,963	\$ 5,751	\$ 5,666	\$ 5,443
Contributions in relation to the contractually required contribution	\$ 5,963	\$ 5,751	\$ 5,666	\$ 5,443
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Municipality's covered-employee payroll	\$ 99,381	\$ 95,933	\$ 94,430	\$ 90,718
Contributions as a percentage of covered-employee payroll	6.00%	6.07%	6.00%	6.00%

**Notes to Required Supplementary Information
for the Year Ended December 31, 2018**
Schedule of the Proportionate Share of the Net Pension Liability (Asset) and
Schedule of Pension 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.

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

SUPPLEMENTAL INFORMATIONLONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance 01/01/17	Additions	Deletions	Ending Balance 12/31/2018	Due Within One Year
Primary Government:					
Governmental Activities:					
Sales Tax Revenue					
Borrower Bond Series 2004	191,857.32		36,758.96	155,098.36	19,291.35
Total Debt	191,857.32	0.00	36,758.96	155,098.36	19,291.35
Accrued Compensated Absences-					
Governmental Funds	6,298.76	12,471.34	12,495.44	6,274.66	6,274.66
Total Governmental					
Activities	198,156.08	12,471.34	49,254.40	161,373.02	25,566.01
Business-Type Activities:					
Bonds Payable:					
Revenue Obligation					
Bond Series 1998	93,466.59		60,672.57	32,794.02	32,794.02
National Rural Water Association					
Water Revenue Bonds	0.00	93,750.00	8,853.50	84,896.50	8,431.51
Total Debt	93,466.59	93,750.00	69,526.07	117,690.52	41,225.53
Accrued Compensated Absences-					
Business-Type Funds	3,299.82	8,687.05	9,297.73	2,689.14	2,689.14
Total Business-Type Activities	96,766.41	102,437.05	78,823.80	120,379.66	43,914.67
TOTAL PRIMARY GOVERNMENT	294,922.49	114,908.39	128,078.20	281,752.68	69,480.68

Long-term liabilities at December 31, 2018 are comprised of the following:

GOVERNMENTAL ACTIVITIES:Sales Tax Revenue Bond:

Dated December 17, 2004, 3.25% Interest Rate,
Final Maturity January 1, 2026,
Retired by the General Fund

\$ 155,098.36

BUSINESS-TYPE ACTIVITIES:Clean Water SRF Loan Revenue Obligation Bond:

Series 1998 for Sewer, 5.25% Interest,
Final Maturity January 1, 2019,
Payable from Sewer Fund

\$ 32,794.02

SUPPLEMENTAL INFORMATION

National Rural Water Association Water Revenue Bonds:

Drinking Water for Water Meters, 3.00% Interest,
 Final Maturity November 1, 2027,
 Payable from Water Fund \$ 84,896.50

Compensated Absences:

Accrued Sick Leave Balances
 for employees paid by the following funds:

General Fund	\$ 6,274.66
Water Fund	\$ 2,689.14

The annual requirements to amortize all debt outstanding as of December 31, 2018, except for compensated absences but including interest payments of \$32,665.17, are as follows:

Annual Requirements to Maturity for Long-Term Debt
 December 31, 2018

Year Ending	Sales Tax Revenue Borrower Bond - Series 2004		Clean Water SRF Loan Revenue Obligation Bond Series 1998		National Rural Water Association Water Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
December 31, 2019	19,291.35	4,807.17	32,794.02	1,082.94	8,431.51	2,431.61
2020	19,926.00	4,172.52			8,687.94	2,175.18
2021	20,581.53	3,516.99			8,952.20	1,910.92
2022	21,258.63	2,839.89			9,224.49	1,638.63
2023	21,958.00	2,140.52			9,505.07	1,358.05
2024-2028	52,082.85	2,138.82			40,095.29	2,451.93
Totals	155,098.36	19,615.91	32,794.02	1,082.94	84,896.50	11,966.32

Year Ending	Totals	
	Principal	Interest
December 31, 2019	60,516.88	8,321.72
2020	28,613.94	6,347.70
2021	29,533.73	5,427.91
2022	30,483.12	4,478.52
2023	31,463.07	3,498.57
2024-2028	92,178.14	4,590.75
Totals	272,788.88	32,665.17