

**MUNICIPALITY OF HERREID  
HERREID, SOUTH DAKOTA  
AUDIT REPORT  
FOR THE YEAR THEN ENDED  
DECEMBER 31, 2018**

**MUNICIPALITY OF HERREID**  
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# CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**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**

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Municipal Council  
Municipality of Herreid  
Herreid, 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 financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the Municipality of Herreid, South Dakota, as of December 31, 2018 and for the year then ended and the related notes to the financial statements, which collectively comprises the Municipality's basic financial statements and have issued our report thereon dated July 29, 2019, which was adverse on the aggregate discretely presented component units because the financial statements do not include financial data for the Municipality's legally separate component unit.

## **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 significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses 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 material weaknesses.

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 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 entity'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 items 2018-001, 2018-002, and 2018-003 to be material weaknesses.

*Jason W. Bauer, CPA, CGMA, PFS • [bauer@cahillbauer.com](mailto:bauer@cahillbauer.com)*

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## **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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Municipality's Response to Findings**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Mobridge, South Dakota  
July 29, 2019

**MUNICIPALITY OF HERREID  
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS  
DECEMBER 31, 2018**

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**PRIOR OTHER AUDIT FINDINGS**

**Finding 2017-001**

A lack of proper segregation of duties existed for the revenue function resulting in decreased reliability of reported financial data and increased potential for the loss public assets. The finding continues to exist, see 2018-001.

**Finding 2017-002**

The Municipality does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements. This finding continues to exist, see 2018-002.

**Finding 2017-003**

The Municipality has an inadequate listing of fixed asset records. This finding has not been corrected and is restated as current audit finding 2018-003.

**CURRENT AUDIT FINDINGS**

**Finding 2018-001:**

**Criteria:**

To obtain adequate internal control over cash management, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process.

**Condition Found:**

A lack of proper segregation of duties existed for the duties for cash, equity, revenue, expenditures, and the payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This lack of segregation of duties has a direct effect on the cash management of the Municipality.

**Cause and Effect:**

The Municipality of Herreid has a limited number of employees who prepare all records for cash, revenues, equity, expenditures, and payroll. This lack of segregation of duties could result in inaccurate financial statement and/or misappropriations of funds.

**MUNICIPALITY OF HERREID**  
**SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS**  
**DECEMBER 31, 2018**

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**Recommendation**

We recommend that 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.

**Identification of Repeat Finding:**

This is the seventh consecutive audit report in which this finding has appeared.

**Views of Responsible Officials and Planned Corrective Action:**

The Municipality of Herreid agrees with this finding and is willing to accept the risk. The Municipality is continuing its work on correcting this deficiency and implementing compensating controls where possible and practical.

**Finding 2018-002:**

**Criteria:**

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

**Condition Found:**

The Municipality does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements.

**Cause and Effect:**

This condition may affect the Municipality's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

**Recommendation**

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**Identification of Repeat Finding:**

This is the seventh consecutive audit report in which this finding has appeared.

**MUNICIPALITY OF HERREID  
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS  
DECEMBER 31, 2018**

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**Views of Responsible Officials and Planned Corrective Action:**

The Municipality's finance officer, Keith Hall, is the contact person responsible for the corrective action plan for this comment. The Municipality of Herreid is continuing its work on correcting this deficiency.

**Finding 2018-003:**

**Criteria:**

Fixed asset records should include comprehensive lists of all land, buildings, improvements and equipment that have a cost greater than the Municipality's capitalization policy. The Municipality's lists of such assets were found to be incomplete and lacking in supporting documentation.

**Condition Found:**

Fixed asset records were inadequate.

**Cause and Effect:**

Capital asset records did not contain adequate documentation to support the cost of capital assets, which could lead to misappropriation of assets.

**Recommendation**

The Municipality should conduct a comprehensive physical inventory of all fixed assets and update the subsidiary records accordingly. Costs (or estimated costs) of the assets should be properly documented.

**Identification of Repeat Finding:**

This is the second consecutive audit report in which this finding has appeared.

**Views of Responsible Officials and Planned Corrective Action:**

The Municipality agrees with the finding and will work on updating their records. The Finance Officer, Keith Hall, is the contact person responsible for this finding. The Municipality has not set an anticipated completion date.

**Closing Conference**

The contents of this report were discussed with Keith Hall, Finance Officer and Adrienne Dupper, Board President.



# CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

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Municipal Council  
Municipality of Herreid  
Herreid, South Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Herreid, South Dakota, as of December 31, 2018, and for the year then ended, and the related notes to the financial statements, which collectively comprises 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 do not express such an 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.

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

#### **Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units**

The financial statements do not include financial data for the Municipality's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Municipality's primary government unless the Municipality also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Municipality has not issued such reporting entity financial statements.

#### **Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the Municipality of Herreid, South Dakota, as of December 31, 2018.

#### **Unmodified Opinion**

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, each major fund, and the aggregate remaining fund information of the Municipality of Herreid, South Dakota, as of December 31, 2018, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended 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**

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinion on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Budgetary Comparison Schedule, the Schedule of Changes in Long Term Debt, and the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset) listed in the Table of Contents are presented for the 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 dated July 29, 2019 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.

*Caillie Bowen*

Mobridge, South Dakota

July 29, 2019

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 530,494	\$ 237,562	\$ 768,056
Investments	1,019,115	100,000	1,119,115
<b>TOTAL ASSETS</b>	<b>\$ 1,549,609</b>	<b>\$ 337,562</b>	<b>\$ 1,887,171</b>
<b>NET POSITION</b>			
Unrestricted	1,549,609	337,562	1,887,171
<b>TOTAL NET POSITION</b>	<b>\$ 1,549,609</b>	<b>337,562</b>	<b>\$ 1,887,171</b>

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

MUNICIPALITY OF HERREID  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental activities							
General government	\$ 99,658	\$ 2,936	\$ 157	\$ -	\$ (96,565)	\$ -	\$ (96,565)
Public safety	32,895	-	-	-	(32,895)	-	(32,895)
Public works	181,420	68,099	30,650	-	(82,671)	-	(82,671)
Health and welfare	1,158	-	-	-	(1,158)	-	(1,158)
Culture and recreation	184,723	12,971	-	143,304	(28,448)	-	(28,448)
Total governmental activities	499,854	84,006	30,807	143,304	(241,737)	-	(241,737)
Business-type activities							
Water	93,326	103,380	-	-	-	10,054	10,054
Sewer	110,017	115,432	-	-	-	5,415	5,415
Total business-type activities	203,343	218,812	-	-	-	15,469	15,469
Total primary government	\$ 703,197	\$ 302,818	\$ 30,807	\$ 143,304	\$ (241,737)	\$ 15,469	\$ (226,268)
General Revenues							
Taxes							
Property taxes					104,282	-	104,282
Sales tax					233,206	-	233,206
State shared revenue					3,335	-	3,335
Unrestricted investment earnings					11,502	576	12,078
Miscellaneous revenue					5,994	-	5,994
Total general revenues					358,319	576	358,895
Change in net positions					116,582	16,045	132,627
Net positions - beginning					1,433,027	321,517	1,754,544
Net positions - ending					\$ 1,549,609	\$ 337,562	\$ 1,887,171

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

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

	General Fund	Total Governmental Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 530,494	\$ 530,494
Investments	1,019,115	1,019,115
<b>TOTAL ASSETS</b>	<b>\$ 1,549,609</b>	<b>\$ 1,549,609</b>
<b>FUND BALANCES</b>		
Unassigned	1,549,609	1,549,609
<b>TOTAL FUND BALANCES</b>	<b>\$ 1,549,609</b>	<b>\$ 1,549,609</b>

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

**MUNICIPALITY OF HERREID**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**- MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Primary Government	
	General Fund	Total Governmental Funds
<b>REVENUES</b>		
<b>Taxes</b>		
General property taxes	\$ 103,844	\$ 103,844
General sales and use taxes	233,206	233,206
Amusement taxes	82	82
Penalties and interest on delinquent taxes	356	356
Licenses and permits	1,935	1,935
<b>Intergovernmental revenue</b>		
Federal grants	157	157
State grants	56,372	56,372
<b>State shared revenue</b>		
Bank franchise tax	580	580
Motor vehicle commercial prorata	3,036	3,036
Liquor tax reversion	2,755	2,755
Motor vehicle licenses (5%)	11,880	11,880
Local government highway and bridge fund	15,217	15,217
<b>County shared revenue</b>		
County road tax (25%)	517	517
Other	576	576
<b>Charges for goods and services</b>		
Sanitation	68,099	68,099
Culture and recreation	12,971	12,971
<b>Miscellaneous revenue</b>		
Investment earnings	11,502	11,502
Rentals	1,001	1,001
Contributions and donations from private sources	86,932	86,932
Other	1,548	1,548
<b>Total Revenues</b>	<b>\$ 612,566</b>	<b>\$ 612,566</b>

**MUNICIPALITY OF HERREID**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**- MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Primary Government	
	General Fund	Total Governmental Funds
<b>EXPENDITURES</b>		
General government		
Legislative	\$ 15,576	\$ 15,576
Executive	1,683	1,683
Elections	821	821
Financial administration	63,023	63,023
Other	18,555	18,555
Public safety		
Police	22,973	22,973
Fire	7,854	7,854
Protective inspection	2,068	2,068
Public works		
Highways and streets	127,056	127,056
Sanitation	51,712	51,712
Airport	1,594	1,594
Cemeteries	1,058	1,058
Health and welfare		
Health	1,158	1,158
Culture and recreation		
Recreation	43,342	43,342
Parks	139,933	139,933
Conservation and development		
Economic development and assistance (Industrial development)	1,448	1,448
Total expenditures	<u>499,854</u>	<u>499,854</u>
Excess of revenue over (under) expenditures	112,712	112,712
Other financing sources (uses)		
Sale of municipal property	3,870	3,870
Total other financing sources	<u>3,870</u>	<u>3,870</u>
Net change in fund balances	116,582	116,582
Fund balance - beginning	<u>1,433,027</u>	<u>1,433,027</u>
Fund Balance - Ending	<u>\$ 1,549,609</u>	<u>\$ 1,549,609</u>

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

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

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 60,356	\$ 177,206	\$ 237,562
Investments	-	100,000	100,000
Total current assets	<u>60,356</u>	<u>277,206</u>	<u>337,562</u>
 Total assets	 <u>\$ 60,356</u>	 <u>\$ 277,206</u>	 <u>\$ 337,562</u>
<b>NET POSITION</b>			
Restricted for			
Revenue bond contingency	-	30,987	30,987
Equipment repair and/or replacement	42,553	-	42,553
Water reserve	16,142	-	16,142
Unrestricted	<u>1,661</u>	<u>246,219</u>	<u>247,880</u>
Total net position	<u>\$ 60,356</u>	<u>\$ 277,206</u>	<u>\$ 337,562</u>

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



**MUNICIPALITY OF HERREID**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**- MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
<b>OPERATING REVENUE</b>			
Charges for goods and services	\$ 103,380	\$ 115,432	\$ 218,812
Total operating revenue	<u>103,380</u>	<u>115,432</u>	<u>218,812</u>
<b>OPERATING EXPENSES</b>			
Personal services	23,697	23,287	46,984
Other current expense	60,977	32,748	93,725
Total operating expenses	<u>84,674</u>	<u>56,035</u>	<u>140,709</u>
Operating income	<u>18,706</u>	<u>59,397</u>	<u>78,103</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	48	528	576
Debt service principle	(4,035)	(25,375)	(29,410)
Interest expense and fiscal charges	(4,617)	(28,607)	(33,224)
Total nonoperating expenses	<u>(8,604)</u>	<u>(53,454)</u>	<u>(62,058)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEMS, EXTRAORDINARY ITEMS AND TRANSFERS</b>	<u>10,102</u>	<u>5,943</u>	<u>16,045</u>
<b>CHANGE IN NET POSITION</b>	10,102	5,943	16,045
<b>NET POSITION - BEGINNING</b>	<u>50,254</u>	<u>271,263</u>	<u>321,517</u>
<b>NET POSITION - ENDING</b>	<u>\$ 60,356</u>	<u>\$ 277,206</u>	<u>\$ 337,562</u>

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

**MUNICIPALITY OF HERREID**  
**STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 103,380	\$ 115,432	\$ 218,812
Payments to employees for services	(23,697)	(23,287)	\$ (46,984)
Payments to suppliers of goods and services	(60,977)	(32,748)	\$ (93,725)
Net cash provided (used) by operating activities	<u>18,706</u>	<u>59,397</u>	<u>78,103</u>
<b>CASH FLOWS FROM (FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal paid on capital debt	(4,035)	(25,375)	(29,410)
Interest paid on capital debt	(4,617)	(28,607)	(33,224)
Net cash used by capital and related financing activities	<u>(8,652)</u>	<u>(53,982)</u>	<u>(62,634)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earnings	48	528	576
Net cash provided by investing activities	<u>48</u>	<u>528</u>	<u>576</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	10,102	5,943	16,045
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>50,254</u>	<u>271,263</u>	<u>321,517</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 60,356</u>	<u>\$ 277,206</u>	<u>\$ 337,562</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income	\$ 18,706	\$ 59,397	\$ 78,103

**MUNICIPALITY OF HERREID  
NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(See Independent Auditors' Report)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 1.c, these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (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 Herreid (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 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. The Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality.

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

The Municipality has created a Housing and Redevelopment Commission under the authority of South Dakota Codified Law 11-7-7. The financial information of the component unit is available upon request from the Herreid Housing and Redevelopment Commission, Herreid, South Dakota.

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**(See Independent Auditors' Report)**

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*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 and 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:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and;
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or;
- c. 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 financial reporting entity are described below within their respective fund types:

**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 and 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 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
- 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. (SDL 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 system and related facilities. (SDL 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**

**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.

**NOTES TO FINANCIAL STATEMENTS - Page 4**  
**(See Independent Auditors' Report)**

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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 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:

- 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 and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

*d. Deposits and Investments*

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

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

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**(See Independent Auditors' Report)**

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*e. Long-Term Liabilities*

Long-term liabilities include, but are not limited to revolving loans.

As discussed in Note 1c. above the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-type, and component unit 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.

*f. 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:

- 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.

*g. Proprietary Funds Revenue and Expense Classifications*

In the Proprietary Fund's Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash 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 or expenses.

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**(See Independent Auditors' Report)**

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*h. 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.

*i. Capital Assets*

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

Government-wide Financial Statements

Under the modified cash basis of accounting, capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. 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 capital outlay 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.

*j. Equity Classifications*

Government-wide Statements

Equity is classified as Net Position and is displayed in two components:

a: 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.

b: Unrestricted Net Position – All other net position that do not meet the definition of Restricted Net Position.



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**(See Independent Auditors' Report)**

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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 Positions*

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

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**(See Independent Auditors' Report)**

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

**NOTE 2 - DEPOSITS AND INVESTMENTS**

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 deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.11 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 only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. As of December 31, 2018, the Municipality did not have any investments. The investments reported in the financial statements consist only of Certificates of Deposit.

**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.

**Credit Risk** - State law limits eligible investments for the Municipality of Eureka. The Municipality has no investment policy that would further limit its investment choices.

**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. As of December 31, 2018, none of the Municipality's deposits were exposed to custodial credit risk.

**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 to the fund making the investment.

**NOTE 3 - PROPERTY TAXES**

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

The 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.

**NOTE 4 - PENSION PLAN**

**Plan Information:**

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors 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 by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

**Benefits Provided:**

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

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level.

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**(See Independent Auditors' Report)**

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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 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.

**Contribution:**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2018, 2017, and 2016 were \$5,114, \$4,936 and \$4,991 respectively, equal to the required contributions each year.

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**Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:**

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

Proportionate share of pension liability	\$ 500,872
Less proportionate share net pension restricted for pension benefits	<u>\$ (500,967)</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (95)</u></u>

At December 31, 2018, the Municipality reported an asset of \$95 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018 and the total pension asset used to calculate the net pension 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 0.00409430%, which is a decrease of 0.0000605% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the Municipality recognized a reduction of pension expense of \$7,494. At December 31, 2018 the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 3,609	
Changes in assumption	24,243	
Net difference between projected and actual earnings on pension plan investments		7,217
Changes in proportion and difference between Municipality contributions and proportionate share of contributions	423	188
Municipality contributions subsequent to the measurement date	<u>2,394</u>	
Total	<u><u>\$ 30,669</u></u>	<u><u>\$ 7,405</u></u>

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**(See Independent Auditors' Report)**

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\$2,394 reported as deferred outflow of resources related to pensions resulting from Municipality contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	
2019	13,087
2020	9,729
2021	(1,175)
2022	(771)
2023	-
TOTAL	<u>\$ 20,870</u>

**Actuarial Assumptions:**

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

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

Mortality rates were based on 97% the RP-2014 Mortality Table, projected generationally with Scale MP-2017, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2017.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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**(See Independent Auditors' Report)**

Asset Class	Target Allocation	LT Expected Real Rate of Return
Global Equity	58.00%	4.80%
Fixed Income	30.00%	1.80%
Real Estate	10.00%	4.60%
Cash	2.00%	0.70%
Total	100%	

**Discount Rate:**

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

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

The following presents the Municipality's proportionate share of net pension liability (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 (5.0%) or 1-percentage point higher (7.5%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Municipality's proportionate share of the net pension (asset) liability	\$ 72,121	\$ (95)	\$ (58,840)

**Pension Plan Fiduciary Net Position:**

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

**NOTE 5 - 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 year ended December 31, 2018, the Municipality managed its risks as follows:

*Liability Insurance*

The Municipality purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

*Workmen's Compensation*

The Municipality purchases liability insurance for worker's compensation from a commercial carrier. 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.

**NOTE 6 - LITIGATION**

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

**NOTE 7 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued.



**SUPPLEMENTARY INFORMATION**

**MUNICIPALITY OF HERREID  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes				
General property tax	\$ 104,700	\$ 104,700	\$ 103,844	\$ (856)
General sales and use tax	224,000	228,000	233,206	5,206
Amusement taxes	100	200	82	(118)
Penalties and interest on delinquent taxes	200	200	356	156
Licenses and permits	1,600	1,500	1,935	435
Intergovernmental revenue				
Federal grants	-	-	157	157
State grants	-	-	56,372	56,372
State shared revenue				
Bank franchise tax	1,700	1,700	580	(1,120)
Motor vehicle commercial prorated	-	-	3,036	3,036
Liquor tax reversion	3,000	3,000	2,755	(245)
Motor vehicle licenses (5%)	13,000	10,000	11,880	1,880
Local government highway and bridge fund	16,000	16,000	15,217	(783)
County shared revenue				
County road tax (25%)	500	500	517	17
Other	-	-	576	576
Charges for goods and services				
Sanitation	67,000	67,000	68,099	1,099
Culture and recreation	8,500	8,500	12,971	4,471
Miscellaneous revenue				
Investment earnings	6,500	6,500	11,502	5,002
Rentals	500	2,000	1,001	(999)
Contributions and donations from private sources	-	-	86,932	86,932
Other	2,400	2,200	1,548	(652)
Total revenue	\$ 449,700	\$ 452,000	\$ 612,566	\$ 160,566

**MUNICIPALITY OF HERREID  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
<b>EXPENDITURES</b>				
General government				
Legislative	\$ 20,300	\$ 20,300	\$ 15,576	\$ 4,724
Contingency	10,000	10,000	-	
Amount transferred		(7,150)	-	2,850
Executive	3,600	3,600	1,683	1,917
Elections	700	850	821	29
Financial administration	58,300	65,300	63,023	2,277
Other	19,900	19,900	18,555	1,345
Public safety				
Police	25,000	25,000	22,973	2,027
Fire	7,000	9,500	7,854	1,646
Protective Inspection	9,000	9,000	2,068	6,932
Public works				
Highways and streets	271,900	271,900	127,056	144,844
Cemetery	1,600	1,600	1,058	542
Airport	1,600	1,600	1,594	6
Sanitation	70,200	70,200	51,712	18,488
Health and welfare				
Health	1,900	1,900	1,158	742
Culture and recreation				
Recreation	59,100	59,100	43,342	15,758
Parks	4,400	143,240	139,933	3,307
Libraries	250	250	-	250
Conservation and development				
Economic development and assistance (industrial development)	2,000	2,000	1,448	552
<b>Total Expenditures</b>	<b>566,750</b>	<b>708,090</b>	<b>499,854</b>	<b>208,236</b>
Excess revenue over/under expenditures	(117,050)	(256,090)	112,712	368,802
Other financing sources/(uses)				
Sale of municipal property		-	3,870	3,870
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>3,870</b>	<b>3,870</b>
Net change in fund balances	(117,050)	(256,090)	116,582	372,672
Fund balance - beginning	1,433,027	1,433,027	1,433,027	-
Fund balance - ending	<u>\$ 1,315,977</u>	<u>\$ 1,176,937</u>	<u>\$ 1,549,609</u>	<u>\$ 372,672</u>

**MUNICIPALITY OF HERREID  
NOTES TO SUPPLEMENTARY INFORMATION  
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH  
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

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

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

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and major special revenue funds.
7. Budgets for the General Fund are adopted on a basis consistent with the modified cash basis of accounting.

**MUNICIPALITY OF HERREID**

**NOTES TO SUPPLEMENTARY INFORMATION - Page 2**

**SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH  
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**NOTE 2 - OTHER COMPREHENSIVE BASIS OF ACCOUNTING MODIFIED CASH  
BASIS/BUDGETARY ACCOUNTING BASIS DIFFERENCES**

The financial statements prepared in conformity with USGAAP applied within the context of the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statements of Revenues, 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.

**MUNICIPALITY OF HERREID  
SCHEDULE OF CHANGES IN LONG-TERM DEBT  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Indebtedness	Long-Term Debt 1/1/18	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/18
<b>Enterprise Long-Term Debt</b>				
USDA Rural Development Loan #93-03	\$ 232,070	\$ -	\$ 6,486	\$ 225,584
USDA Rural Development Loan #93-04	196,168	-	7,078	189,090
SRF #461252-01 Wastewater Loan	635,806	-	15,846	619,960
 Total	 \$ 1,064,044	 \$ -	 \$ 29,410	 \$ 1,034,634

**MUNICIPALITY OF HERREID  
SCHEDULE OF THE MUNICIPALITY'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY (ASSET)  
SOUTH DAKOTA RETIREMENT SYSTEM**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Municipality's proportion of the net pension liability (asset)	0.004094300%	0.004154800%	0.004152100%	0.004031300%
Municipality's proportionate share of net pension liability (asset)	\$ (95)	\$ (376)	\$ 14,025	\$ (17,098)
Municipality's covered-employee payroll	\$ 86,308	\$ 84,422	\$ 78,951	\$ 73,593
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.11%	-0.45%	17.76%	-23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.02%	100.10%	96.89%	104.10%

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

**MUNICIPALITY OF HERREID**  
**NOTE TO SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET**  
**PENSION LIABILITY (ASSET)**

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Changes of benefit terms:

N/A

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2017 and exists again this year as of June 30, 2018. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.89% as of June 30, 2017 and is 2.03% as of June 30, 2018.

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