

**MUNICIPALITY OF EMERY  
EMERY, SOUTH DAKOTA**

**AUDIT REPORT**

FOR THE YEAR JANUARY 1, 2016 TO DECEMBER 31, 2016  
AND  
FOR THE YEAR JANUARY 1, 2017 TO DECEMBER 31, 2017

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF EMERY

---

MUNICIPAL OFFICIALS  
DECEMBER 31, 2017

MAYOR:

Joshua Kayser

GOVERNING BOARD:

Eric Roskens, President  
Corey Dye  
David Kayser  
Kenny Kayser  
Greg Kotas  
Ben Schulz

FINANCE OFFICER:

Kristi Wollmann

ATTORNEY:

Mike Fink

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS  
P.O. Box 247  
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

TABLE OF CONTENTS

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 <i>Government Auditing Standards</i> .....	1-2
Schedule of Prior Audit Findings .....	3
Schedule of Current Audit Findings .....	4-6
Independent Auditor's Report .....	7-8
BASIC FINANCIAL STATEMENTS:	
As of and For the Year Ended December 31, 2017:	
Government-Wide Financial Statements:	
Statement of Net Position – Modified Cash Basis .....	9
Statement of Activities – Modified Cash Basis .....	10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet – Modified Cash Basis .....	11
Statement of Revenues, Expenditures, and Changes In Fund Balance – Modified Cash Basis .....	12-13
Proprietary Funds:	
Balance Sheet – Modified Cash Basis .....	14
Statement of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis .....	15
As of and For the Year Ended December 31, 2016:	
Government-Wide Financial Statements:	
Statement of Net Position – Modified Cash Basis .....	16
Statement of Activities – Modified Cash Basis .....	17
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet – Modified Cash Basis .....	18
Statement of Revenues, Expenditures, and Changes In Fund Balance – Modified Cash Basis .....	19-20
Proprietary Funds:	
Balance Sheet – Modified Cash Basis .....	21
Statement of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis .....	22
Notes to the Modified Cash Basis Financial Statements .....	23-35

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

TABLE OF CONTENTS  
(Continued)

Supplementary Information:

For the Year Ended December 31, 2017:

Budgetary Comparison Schedules – Budgetary Basis:

General Fund..... 36-37

For the Year Ended December 31, 2016:

Budgetary Comparison Schedules – Budgetary Basis:

General Fund..... 38-39

Notes to the Supplementary Information – Budgetary Comparison Schedules..... 40

Schedule of the Municipality's Proportionate Share of the  
Net Pension Liability (Asset)..... 41

Schedule of the Municipality Contributions - South Dakota Retirement System..... 42

Schedule of Long-Term Liabilities..... 43-44

Schedule of Expenditures of State Awards..... 45

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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

Municipal Council  
Municipality of Emery  
Emery, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the Municipality of Emery, South Dakota (Municipality), as of December 31, 2017 and 2016, 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 August 3, 2018, which was adverse because of errors and omissions in the financial statements.

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 of Emery'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 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 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 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 item 2017-001 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, 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

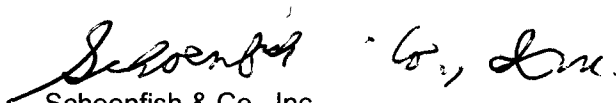
express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Current Audit Findings as items 2017-002 and 2017-003.

#### 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 not 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.



Schoenfish & Co., Inc.  
Certified Public Accountants  
August 3, 2018

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS  
P.O. Box 247  
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2015-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2017-001.

Compliance – Related Finding:

Finding Number 2015-002:

The Municipality of Emery purchased a snow plow truck, snow plow and mount wing without advertising for competitive bids as required by SDCL 5-18A-14. This comment has been corrected.

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

---

SCHEDULE OF CURRENT AUDIT FINDINGSCURRENT OTHER AUDIT FINDINGS:Internal Control – Related Findings – Material Weaknesses:Finding Number 2017-001:

Material weaknesses were noted in internal accounting control and record keeping resulting in diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. This is a continuing audit comment since 2010.

Criteria:

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

Condition:

The following deficiencies in internal accounting control and record keeping were noted:

- a. A lack of proper segregation of duties existed for the revenue, expenditure, and payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.
- b. The following records were not maintained by employees of the Municipality:
  1. Budgets recorded in the records did not match the budget ordinance.
  2. Water Deposits must be developed into a complete listing of outstanding deposits.
- c. Receipts were not written for all revenue received and revenue was not recorded accurately by fund type.
- d. The receipts were not all recorded properly nor was it all receipted into the appropriate fund.
- e. Disbursements could not be verified as to accuracy of amounts nor by fund.
- f. Cash balances could not be determined by fund type.
- g. Several figures did not flow from one year to the next and were not recorded in the proper funds.
- h. The mayor and finance officer are husband and wife within the audit period.

SDCL 9-14-18 states that the finance officer "shall keep regular books of account in which shall be entered all indebtedness of the Municipality, and which shall at all times show the financial condition of the Municipality, the amount of bonds, warrants, certificates, or other evidences of indebtedness issued by the governing body, and the amounts of all bonds, warrants, certificates, or other evidences of indebtedness which have been redeemed and the amount of each outstanding."

SDCL 9-14-19 states that the finance officer "shall supervise the accounting system for all departments and offices of the Municipality in accordance with the recommendations of the Department of Legislative Audit."

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, and improper records were maintained for the Municipality of Emery.

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366



SCHEDULE OF CURRENT AUDIT FINDINGS  
(Continued)

Recommendations:

1. We recommend that the municipal officials be cognizant of the lack of segregation of duties for the revenue, expenditure, and payroll functions and attempt to provide compensating internal controls whenever and wherever possible and practical.
2. We recommend that all necessary accounting records be established and properly maintained.

Management's Response:

The Municipality of Emery Mayor, Joshua Kayser, is the contact person responsible for the response for this comment. This comment is due to the expertise of staff and the size of the Municipality of Emery 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 policies and to provide compensating controls.

Compliance – Related Finding:Finding Number 2017-002:

The General Fund was budgeted to spend more money than was available in 2016 and 2017. Expenditures were in excess of the amounts budgeted in several departments in the General Fund in 2016 and 2017. This is the first audit in which a similar comment has occurred.

Criteria:

SDCL 9-21-2 states in part, "The governing body of each municipality shall, no later than its first regular meeting in September of each year or within ten days thereafter, introduce the annual appropriation ordinance for the ensuing fiscal year, in which it shall appropriate the sums of money necessary to meet all lawful expenses and liabilities of the municipality." Also, SDCL 9-21-9 states, "Neither the governing body nor any department or office of the municipality shall add to the municipal expenditures in any fiscal year any sum in excess of the amount provided for in the annual appropriation ordinance except as otherwise specially provided. Nor shall the amount spent for any purpose or any department exceed the total amount appropriated for such purpose or for such department in the annual appropriation ordinance for such year, except as otherwise specially provided."

Condition:

The Municipality expended money in excess of amounts budgeted without supplementing the budget as allowed by SDCL 9-21-7. Also, the Municipality budgeted to spend more than available, which is not allowed as stated in SDCL 9-21-9.

Effect:

Without amending the budget or limiting expenditures, expenditures are being made without proper authority. Also, budgets are not being properly adopted in accordance with budgetary guidelines.

Recommendation:

3. We recommend that budgets be adopted in accordance with SDCL 9-21-9 and that the expenditures be limited to amounts budgeted or budget supplements be made in accordance with SDCL 9-21-7 and SDCL 9-21-6.1 to allow for expenditures.

Management's Response:

The Municipality of Emery Mayor, Joshua Kayser, is the contact person responsible for the response for this comment. The Municipality will be more careful to follow the budgetary guidelines prescribed by law.

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF CURRENT AUDIT FINDINGS

(Continued)

Finding Number 2017-003:

The amount of purchases from a business owned by a member of the governing board were in excess of the amounts authorized by South Dakota Codified Laws SDCL 6-1-1 and 6-1-2, resulting in a conflict of interest. This is the first audit in which a similar comment has occurred.

Criteria:

SDCL 6-1-1 states in part, "It shall be unlawful for any officer of a county, municipality...who has been elected or appointed, to be interested, either by himself or agent, in any contract entered into by said county, municipality...either for labor or services to be rendered, or for the purchase of commodities, materials, supplies, or equipment of any kind, the expense, price or consideration of which is paid from public funds..."

SDCL 6-1-2 outlines seven exceptions to SDCL 6-1-1.

Condition:

Schulz Electric is owned by councilman Ben Schulz. In 2016 and 2017 while Ben Schulz was a councilman, work was done for the Municipality in excess of that allowed by SDCL 6-1-1. An analysis of this purchase revealed that it did not qualify under SDCL 6-1-2 as an exception to the provisions of SDCL 6-1-1.

Effect:

When the Municipality makes purchases from a councilman there is no assurance that the councilman has not used his position to encourage the purchase from his business.

Recommendation:

4. We recommend purchases made from a business owned by a municipal official be limited to those authorized by SDCL 6-1-1 and 6-1-2.

Management's Response:

The Municipality of Emery Mayor, Joshua Kayser, is the contact person responsible for the response for this comment. The Municipality will monitor all anticipated expenditures which may involve councilmen.

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the officials during the course of the audit and with the mayor, two governing board members and finance officer on August 28, 2018.

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Municipality of Emery  
Emery, 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, and each major fund of the Municipality of Emery, South Dakota (Municipality), as of December 31, 2017 and 2016, 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

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

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

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

### Basis for Adverse Opinions

Several errors and omissions were noted in the financial statements. Some of the more serious items were improper recording of receipts and disbursements, omission of several receipts and disbursements, and not being able to determine cash balances by fund type.

### Opinions

In our opinion, because of the effects of the items reported in the Basis for Adverse Opinions paragraph, the financial statements referred to above do not present fairly the respective financial position, modified cash basis, of the governmental activities, business-type activities, and each major fund of the Municipality of Emery as of December 31, 2017 and 2016, and the respective changes in financial position, modified cash basis, where applicable, thereof for each of the years in the biennial period then ended in conformity with accounting principles generally accepted in the United States of America with the basis of accounting described in Note 1.c.

### 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 opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Budgetary Comparison Schedules, the Schedule of the Municipality's Proportionate Share of Net Pension Liability (Asset), the Schedule of the Municipal Contributions, the Schedule of Long-Term Liabilities, and the Schedule of Expenditures of State Awards 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matters disclosed in the auditor's report, it is inappropriate to, and the auditor does not express an opinion on the supplementary information.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2018, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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.  
Certified Public Accountants  
August 3, 2018

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS  
P.O. Box 247  
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

**MUNICIPALITY OF EMERY**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**December 31, 2017**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and Cash Equivalents		941,260.69	941,260.69
Investments	26,225.75		26,225.75
Internal Balances	(72,651.11)	72,651.11	0.00
<b>TOTAL ASSETS</b>	<b>(46,425.36)</b>	<b>1,013,911.80</b>	<b>967,486.44</b>
<b>NET POSITION:</b>			
Restricted for:			
Debt Service Purpose		114,048.58	114,048.58
Unrestricted	(46,425.36)	899,863.22	853,437.86
<b>TOTAL NET POSITION</b>	<b>(46,425.36)</b>	<b>1,013,911.80</b>	<b>967,486.44</b>

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

**MUNICIPALITY OF EMERY**  
**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	Business-Type Activities	Total
			Grants and Contributions	Capital Grants and Contributions			
Primary Government:							
Governmental Activities:							
General Government	66,337.70	2,490.00			(63,847.70)		(63,847.70)
Public Safety	13,499.29		1,340.00		(12,159.29)		(12,159.29)
Public Works	141,875.84		26,704.29		(115,171.55)		(115,171.55)
Culture and Recreation	121,201.87	16,485.86	22,000.00		(82,716.01)		(82,716.01)
Conservation and Development	51,130.00				(51,130.00)		(51,130.00)
Total Governmental Activities	394,044.70	18,975.86	50,044.29	0.00	(325,024.55)		(325,024.55)
Business-type Activities:							
Water	1,188,132.08	116,050.87		956,834.23	(115,246.98)		(115,246.98)
Sewer	1,340,285.32	129,306.43			(1,210,978.89)		(1,210,978.89)
Solid Waste	32,770.32	54,041.35			21,271.03		21,271.03
Daycare	227,075.89	128,560.39	12,763.46		(85,752.04)		(85,752.04)
Total Business-Type Activities	2,788,263.61	427,959.04	12,763.46	956,834.23	(1,390,706.88)		(1,390,706.88)
Total Primary Government	3,182,308.31	446,934.90	62,807.75	956,834.23	(325,024.55)		(1,715,731.43)
General Revenues:							
Taxes:							
Property Taxes							
Sales Taxes							
State Shared Revenues							
Unrestricted Investment Earnings							
Miscellaneous Revenue							
Long-Term Debt Issued							
Transfers							
Total General Revenues and Transfers							
Change in Net Position							
Net Position - Beginning							
NET POSITION - ENDING							

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

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

	<u>General Fund</u>
<b>ASSETS:</b>	
Investments	<u>26,225.75</u>
<b>TOTAL ASSETS</b>	<u><u>26,225.75</u></u>
<b>LIABILITIES AND FUND BALANCES:</b>	
Liabilities:	
Due to Sewer Fund	<u>72,651.11</u>
Total Liabilities	<u>72,651.11</u>
Fund Balances:	
Unassigned	<u>(46,425.36)</u>
Total Fund Balances	<u>(46,425.36)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>26,225.75</u></u>

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

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

	<b>General Fund</b>
<b>Revenues:</b>	
Taxes:	
General Property Taxes	125,664.25
General Sales and Use Taxes	170,307.93
Amusement Taxes	60.00
Penalties & Interest on Delinquent Taxes	450.68
Total Taxes	296,482.86
Licenses and Permits	2,490.00
Intergovernmental Revenue:	
State Grants	23,340.00
State Shared Revenue:	
Bank Franchise Tax	598.30
Prorate License Fees	1,014.91
Liquor Tax Reversion	2,775.07
Motor Vehicle Licenses	14,985.77
Local Government Highway and Bridge Fund	6,906.02
County Shared Revenue:	
County Road Tax	1,022.52
Total Intergovernmental Revenue	50,642.59
Charges for Goods and Services:	
Culture and Recreation	16,485.86
Total Charges for Goods and Services	16,485.86
Fines and Forfeits:	
Other	120.00
Total Fines and Forfeits	120.00
Miscellaneous Revenue:	
Investment Earnings	730.74
Other	4,113.00
Total Miscellaneous Revenue	4,843.74
Total Revenue	371,065.05
<b>Expenditures:</b>	
General Government:	
Legislative	19,348.79
Executive	4,908.84
Financial Administration	39,575.24
Other	2,504.83
Total General Government	66,337.70

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



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

	<b>General Fund</b>
<b>Expenditures: (continued)</b>	
Public Safety:	
Police	12,000.00
Fire	1,499.29
Total Public Safety	<u>13,499.29</u>
Public Works:	
Highways and Streets	141,875.84
Total Public Works	<u>141,875.84</u>
Culture and Recreation:	
Recreation	59,550.01
Parks	61,651.86
Total Culture and Recreation	<u>121,201.87</u>
Conservation and Development:	
Economic Development and Assistance (Industrial Development)	51,130.00
Total Conservation and Development	<u>51,130.00</u>
Total Expenditures	<u>394,044.70</u>
Excess of Revenue Over (Under) Expenditures	<u>(22,979.65)</u>
<b>Other Financing Sources (Uses):</b>	
Transfers Out	(50,000.00)
Sale of Municipal Property	400.00
Total Other Financing Sources (Uses)	<u>(49,600.00)</u>
Net Change in Fund Balance	<u>(72,579.65)</u>
Fund Balance - Beginning	<u>26,154.29</u>
FUND BALANCE - ENDING	<u><u>(46,425.36)</u></u>

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

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

	<b>Enterprise Funds</b>				
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Daycare Fund</b>	<b>Totals</b>
<b>ASSETS:</b>					
Current Assets:					
Cash and Cash Equivalents	332,815.19	374,814.20	186,596.94	47,034.36	941,260.69
Due from General Fund		72,651.11			72,651.11
Total Current Assets	332,815.19	447,465.31	186,596.94	47,034.36	1,013,911.80
<b>TOTAL ASSETS</b>	<b>332,815.19</b>	<b>447,465.31</b>	<b>186,596.94</b>	<b>47,034.36</b>	<b>1,013,911.80</b>
<b>NET POSITION:</b>					
Restricted for:					
Revenue Bond Debt Service	33,804.80	80,243.78			114,048.58
Unrestricted	299,010.39	367,221.53	186,596.94	47,034.36	899,863.22
<b>TOTAL NET POSITION</b>	<b>332,815.19</b>	<b>447,465.31</b>	<b>186,596.94</b>	<b>47,034.36</b>	<b>1,013,911.80</b>

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

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

	Enterprise Funds				
	Water Fund	Sewer Fund	Solid Waste Fund	Daycare Fund	Totals
<b>Operating Revenue:</b>					
Charges for Goods and Services	88,086.74	62,892.55	54,041.35	126,345.39	331,366.03
Revenue Dedicated to Servicing Debt	27,964.13	66,413.88			94,378.01
Miscellaneous				2,215.00	2,215.00
Total Operating Revenue	116,050.87	129,306.43	54,041.35	128,560.39	427,959.04
<b>Operating Expenses:</b>					
Personal Services	5,168.83	1,396.72	18,301.56	149,100.48	173,967.59
Other Current Expense	14,972.85	7,852.96	14,468.76	47,073.50	84,368.07
Materials	49,324.20				49,324.20
Capital Assets	1,108,622.20	1,312,363.64		26,346.24	2,447,332.08
Total Operating Expenses	1,178,088.08	1,321,613.32	32,770.32	222,520.22	2,754,991.94
Operating Income (Loss)	(1,062,037.21)	(1,192,306.89)	21,271.03	(93,959.83)	(2,327,032.90)
<b>Nonoperating Revenue (Expense):</b>					
Operating Grants				12,763.46	12,763.46
Debt Service	(3,223.59)	(5,987.76)		(2,336.91)	(11,548.26)
Interest Expense	(6,820.41)	(12,684.24)		(2,218.76)	(21,723.41)
Long-Term Debt Issued	303,274.00	1,465,096.00		80,000.00	1,848,370.00
Total Nonoperating Revenue (Expense)	293,230.00	1,446,424.00	0.00	88,207.79	1,827,861.79
Income (Loss) Before Contributions and Transfers	(768,807.21)	254,117.11	21,271.03	(5,752.04)	(499,171.11)
Capital Contributions	956,834.23				956,834.23
Transfers In				50,000.00	50,000.00
Change in Net Position	188,027.02	254,117.11	21,271.03	44,247.96	507,663.12
Net Position - Beginning	144,788.17	193,348.20	165,325.91	2,786.40	506,248.68
NET POSITION - ENDING	332,815.19	447,465.31	186,596.94	47,034.36	1,013,911.80

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

**MUNICIPALITY OF EMERY**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**December 31, 2016**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and Cash Equivalents	91.34	506,248.68	506,340.02
Investments	26,062.95		26,062.95
<b>TOTAL ASSETS</b>	<b>26,154.29</b>	<b>506,248.68</b>	<b>532,402.97</b>
<b>NET POSITION:</b>			
Restricted for:			
Debt Service Fund		19,670.57	19,670.57
Unrestricted	26,154.29	486,578.11	512,732.40
<b>TOTAL NET POSITION</b>	<b>26,154.29</b>	<b>506,248.68</b>	<b>532,402.97</b>

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

**MUNICIPALITY OF EMERY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
For the Year Ended December 31, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	58,206.46	2,030.00			(56,176.46)		(56,176.46)
Public Safety	12,307.69	35.00			(12,272.69)		(12,272.69)
Public Works	137,675.75	5,265.19	24,751.08		(107,659.48)		(107,659.48)
Health and Welfare			1,309.00		1,309.00		1,309.00
Culture and Recreation	82,867.27	15,919.29			(66,947.98)		(66,947.98)
Conservation and Development	31,903.53				(31,903.53)		(31,903.53)
Miscellaneous Expenditures	500.00				(500.00)		(500.00)
Total Governmental Activities	323,460.70	23,249.48	26,060.08	0.00	(274,151.14)		(274,151.14)
Business-type Activities:							
Water	164,607.96	95,835.95		72,249.00		3,476.99	3,476.99
Sewer	152,723.94	76,871.51				(75,852.43)	(75,852.43)
Solid Waste	31,912.02	54,587.60	7,608.32			30,283.90	30,283.90
Daycare	143,256.18	102,067.45				(41,188.73)	(41,188.73)
Total Business-Type Activities	492,500.10	329,362.51	7,608.32	72,249.00		(83,280.27)	(83,280.27)
Total Primary Government	815,960.80	352,611.99	33,668.40	72,249.00	(274,151.14)	(83,280.27)	(357,431.41)
General Revenues:							
Taxes:							
Property Taxes					124,754.01		124,754.01
Sales Taxes					138,092.41		138,092.41
State Shared Revenues					3,420.53		3,420.53
Grants and Contributions not Restricted to Specific Programs					2,248.11		2,248.11
Unrestricted Investment Earnings					541.44		541.44
Debt Issued						136,680.00	136,680.00
Miscellaneous Revenue					4,100.23		4,100.23
Transfers					(29,891.63)	29,891.63	0.00
Total General Revenues and Transfers					243,265.10	166,571.63	409,836.73
Change in Net Position					(30,886.04)	83,291.36	52,405.32
Net Position - Beginning					57,040.33	422,957.32	479,997.65
NET POSITION - ENDING					26,154.29	506,248.68	532,402.97

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

**MUNICIPALITY OF EMERY  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
December 31, 2016**

	<b>General Fund</b>
	<hr/>
<b>ASSETS:</b>	
Cash and Cash Equivalents	91.34
Investments	<hr/> 26,062.95
 TOTAL ASSETS	 <hr/> <hr/> 26,154.29
 <b>FUND BALANCES:</b>	
Unassigned	<hr/> 26,154.29
 TOTAL FUND BALANCES	 <hr/> <hr/> 26,154.29

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

**MUNICIPALITY OF EMERY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2016**

	<b>General Fund</b>
<b>Revenues:</b>	
Taxes:	
General Property Taxes	124,356.53
General Sales and Use Taxes	138,092.41
Amusement Taxes	60.00
Penalties & Interest on Delinquent Taxes	337.48
Total Taxes	262,846.42
Licenses and Permits	2,030.00
Intergovernmental Revenue:	
State Grants	1,309.00
State Shared Revenue:	
Bank Franchise Tax	504.27
Prorate License Fees	1,744.12
Liquor Tax Reversion	2,916.26
Motor Vehicle Licenses	14,289.75
Local Government Highway and Bridge Fund	7,694.69
County Shared Revenue:	
County Road Tax	1,022.52
Total Intergovernmental Revenue	29,480.61
Charges for Goods and Services:	
Highways and Streets	5,244.50
Sanitation	20.69
Culture and Recreation	15,919.29
Total Charges for Goods and Services	21,184.48
Fines and Forfeits:	
Other	35.00
Total Fines and Forfeits	35.00
Miscellaneous Revenue:	
Investment Earnings	541.44
Contributions and Donations from Private Sources	2,248.11
Other	4,100.23
Total Miscellaneous Revenue	6,889.78
<b>Total Revenue</b>	<b>322,466.29</b>
<b>Expenditures:</b>	
General Government:	
Legislative	16,842.01
Executive	3,299.47
Financial Administration	32,652.57
Other	5,412.41
Total General Government	58,206.46

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

**MUNICIPALITY OF EMERY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2016**

	<b>General Fund</b>
<b>Expenditures: (continued)</b>	
Public Safety:	
Police	11,000.00
Other Protection	1,307.69
Total Public Safety	12,307.69
Public Works:	
Highways and Streets	133,275.71
Sanitation	4,400.04
Total Public Works	137,675.75
Culture and Recreation:	
Recreation	80,572.75
Parks	2,294.52
Total Culture and Recreation	82,867.27
Conservation and Development:	
Economic Development and Assistance (Industrial Development)	31,903.53
Total Conservation and Development	31,903.53
Miscellaneous:	
Other Expenditures	500.00
Total Miscellaneous	500.00
Total Expenditures	323,460.70
Excess of Revenue Over (Under) Expenditures	(994.41)
<b>Other Financing Sources (Uses):</b>	
Transfers Out	(29,891.63)
Total Other Financing Sources (Uses)	(29,891.63)
Net Change in Fund Balance	(30,886.04)
Fund Balance - Beginning	57,040.33
FUND BALANCE - ENDING	26,154.29

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



**MUNICIPALITY OF EMERY**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**December 31, 2016**

	<b>Enterprise Funds</b>				
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Daycare Fund</b>	<b>Totals</b>
<b>ASSETS:</b>					
Current Assets:					
Cash and Cash Equivalents	144,788.17	193,348.20	165,325.91	2,786.40	506,248.68
Total Current Assets	<u>144,788.17</u>	<u>193,348.20</u>	<u>165,325.91</u>	<u>2,786.40</u>	<u>506,248.68</u>
<b>TOTAL ASSETS</b>	<u>144,788.17</u>	<u>193,348.20</u>	<u>165,325.91</u>	<u>2,786.40</u>	<u>506,248.68</u>
<b>NET POSITION:</b>					
Restricted for:					
Revenue Bond Debt Service	5,840.67	13,829.90			19,670.57
Unrestricted	<u>138,947.50</u>	<u>179,518.30</u>	<u>165,325.91</u>	<u>2,786.40</u>	<u>486,578.11</u>
<b>TOTAL NET POSITION</b>	<u>144,788.17</u>	<u>193,348.20</u>	<u>165,325.91</u>	<u>2,786.40</u>	<u>506,248.68</u>

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

**MUNICIPALITY OF EMERY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2016**

	<b>Enterprise Funds</b>				
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Daycare Fund</b>	<b>Totals</b>
<b>Operating Revenue:</b>					
Charges for Goods and Services	89,995.28	63,041.61	54,587.60	102,067.45	309,691.94
Revenue Dedicated to Servicing Debt	5,840.67	13,829.90			19,670.57
Total Operating Revenue	95,835.95	76,871.51	54,587.60	102,067.45	329,362.51
<b>Operating Expenses:</b>					
Personal Services	5,557.44	2,042.14	13,751.42	106,855.44	128,206.44
Other Current Expense	105,792.79	128,936.18	18,160.60	36,400.74	289,290.31
Materials	43,213.73	3,073.62			46,287.35
Total Operating Expenses	154,563.96	134,051.94	31,912.02	143,256.18	463,784.10
Operating Income (Loss)	(58,728.01)	(57,180.43)	22,675.58	(41,188.73)	(134,421.59)
<b>Nonoperating Revenue (Expense):</b>					
Operating Grants				7,608.32	7,608.32
Debt Service	(3,109.02)	(5,774.91)			(8,883.93)
Interest Expense	(6,934.98)	(12,897.09)			(19,832.07)
Long-Term Debt Issued	19,044.00	117,636.00			136,680.00
Total Nonoperating Revenue (Expense)	9,000.00	98,964.00	0.00	7,608.32	115,572.32
Income (Loss) Before Contributions and Transfers	(49,728.01)	41,783.57	22,675.58	(33,580.41)	(18,849.27)
Capital Contributions	72,249.00				72,249.00
Transfers In				29,891.63	29,891.63
Change in Net Position	22,520.99	41,783.57	22,675.58	(3,688.78)	83,291.36
Net Position - Beginning	122,267.18	151,564.63	142,650.33	6,475.18	422,957.32
NET POSITION - ENDING	144,788.17	193,348.20	165,325.91	2,786.40	506,248.68

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

---

## NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c, these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have not been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

#### a. Financial Reporting Entity:

The reporting entity of the Municipality of Emery (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 Assets 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 and discretely presented component units. 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 if it meets the following criteria:

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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.

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.

Solid Waste Fund – financed primarily by user charges, this fund accounts for the collection and disposal of solid waste from the municipality. (SDCL 9-32-11 and 34A-6) This is a major fund.

Daycare Fund – financed primarily by user charges, this fund accounts for the operation of a municipal daycare facility. This is a major fund.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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.

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 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.
- b. Recording assets and liabilities related to interfund receivables and payables resulting from cash transactions between funds.

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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

d. Deposits and Investments:

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

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

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

f. Revenue Received in Advance:

Under the modified cash basis of accounting, cash may have been received in advance of the Municipality's providing a good or service to a customer. These amounts are reported in the financial statements, in the year the cash is received.

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 Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-

---

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

capital financing activities, or investing activities are not reported as components of operating revenues and expenses.

i. 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 places 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 is distinguished between Nonspendable, Restricted, Committed, Assigned, or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

j. 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.

k. 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.
- 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.

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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

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

	Year Ended 12/31/2017	Year Ended 12/31/2016
General Government:		
Legislative		\$ 2,212.01
Executive		\$ 114.47
Financial Administration	\$ 2,400.24	\$ 2,412.41
Other		\$ 2,412.41
Fire	\$ 499.29	
Parks	\$ 23,067.36	
Economic Development and Assistance	\$ 7,500.00	
Other Expenditures		\$ 500.00

The Municipality plans to take the following actions to address these violations: use contingency transfers and supplemental budgets when legal 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.

Deposits are reported at cost plus interest, if the account is of the add-on type.

**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 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.

As of December 31, 2017 and 2016, the Municipality did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.



NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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. As of December 31, 2017 the Municipality's deposits in financial institutions were exposed to custodial credit risk as follows (examples);

Depository Name	% Under collateralized	At-Risk Amount
Security State Bank	0.9%	<u>\$ 8,707.38</u>
Total Deposits Exposed to Custodial Credit Risk		<u>\$ 8,707.38</u>

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.

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 deposits and investments to the fund making the investment. The amount of income from deposits was immaterial for the Municipality.

#### 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. LONG-TERM COMMITMENTS

The Municipality of Emery entered into a forty-year commitment with Hanson Rural Water District to provide water to the Municipality. A monthly charge in the amount of \$715.00 is paid by the Municipality to Hanson Rural Water District. The monthly charge represents a contribution by the Municipality to aid Hanson Rural Water District in the construction of the facilities necessary to provide the Municipality with water. The Municipality will not acquire ownership of any of these water facilities through lease payments. Payments are made from the Municipality's Water Fund.

The following are the minimum payments on this commitment:

2018	\$ 8,580.00
2019	\$ 8,580.00
2020	\$ 8,580.00
2021	\$ 4,290.00

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

6. RESTRICTED NET POSITION

Restricted net position for the year ended December 31, 2017 and 2016 was as follows:

	<u>Year Ended</u> <u>12/31/2017</u>	<u>Year Ended</u> <u>12/31/2016</u>
Major Funds:		
Debt Service		
Water Fund	\$ 33,804.80	\$ 5,840.67
Sewer Fund	\$ 80,243.78	13,829.90
Totals	<u>\$ 114,048.58</u>	<u>\$ 19,670.57</u>

These balances are restricted due to statutory requirements.

7. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2017 were as follows:

	<u>Transfers To:</u>
	Daycare Fund
<u>Transfers From:</u>	
Major Funds:	
General Fund	<u>\$ 50,000.00</u>

Interfund transfers for the year ended December 31, 2016 were as follows:

	<u>Transfers To:</u>
	Daycare Fund
<u>Transfers From:</u>	
Major Funds:	
General Fund	<u>\$ 29,891.63</u>

The Municipality typically budgets transfers to conduct the indispensable functions of the Municipality.

8. INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at December 31, 2017 were:

	<u>Interfund</u> <u>Receivables</u>	<u>Interfund</u> <u>Payables</u>
Major Funds:		
Sewer Fund	\$ 72,651.11	
General Fund		\$72,651.11

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

The purpose for the interfund receivable and payable balances is to supplement deficits cash balances at year end. The Municipality expects all interfund receivables and payables to be paid within one year.

## 9. 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 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 <http://www.sdrs.sd.gov/publications/asp.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, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

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

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to 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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2017, 2016, and 2015 were \$11,769.97, \$9,305.85, and \$6,781.44, respectively, equal to the required contributions each year.

Pension Liabilities (Assets):

At June 30, 2017, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension liability of 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, 2017 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 1,041,643.38
Less proportionate share of total pension liability	<u>\$ 1,042,455.85</u>
Proportionate share of net pension liability (asset)	<u>\$ (812.47)</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 0.00895270%, which is an increase of 0.0011495% from its proportion measured as of June 30, 2016.

At June 30, 2016, SDRS is 6.89% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the Municipality as of the measurement period ending June 30, 2016 and reported by the Municipality as of December 31, 2016 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 846,744.92
Less proportionate share of total pension liability	<u>\$ 820,386.48</u>
Proportionate share of net pension liability (asset)	<u>\$ 26,358.44</u>

The net pension liability (asset) was measured as of June 30, 2016 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, 2016, the Municipality's proportion was 0.00780320%, which is an increase of 0.0058451% from its proportion measured as of June 30, 2015.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

Actuarial Assumptions:

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

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00%
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 female and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 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	100%	

The total pension liability (asset) in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Discount Rate	7.25 percent through 2017 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Mortality Table for males and females, as appropriate. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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, 2016 (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%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	100%	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that 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:

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)	\$ 148,803.14	\$(812.47)	\$(122,648.23)

Pension Plan Fiduciary Net Position:

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

**10. SIGNIFICANT CONTINGENCIES - LITIGATION**

At December 31, 2017 and 2016, the Municipality was not involved in any significant litigation.

**11. RISK MANAGEMENT**

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2017 and 2016, the Municipality managed its risks as follows:

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

Employee Health Insurance:

The Municipality does not provide health insurance for its employees.

Liability Insurance:

The Municipality purchases liability insurance for risks related to torts; theft of 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.

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 and 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 during the past three years.

Unemployment Benefits:

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

**12. RELATED PARTIES**

The mayor and the finance officer for over half the audit period are husband and wife which affects the internal control of the Municipality.

The Municipality purchased a building for \$80,000 for Daycare purposes from the husband of a councilwoman.

Various electrical services and products were purchased from a company owned by a member of the municipal council in the amount of \$5,086.23 in 2016 and \$10,733.84 in 2017.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF EMERY**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2017**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Final Budget - Positive (Negative)</b>
<b>Revenues:</b>				
Taxes:				
General Property Taxes	153,000.00	153,000.00	125,664.25	(27,335.75)
General Sales and Use Taxes	175,000.00	175,000.00	170,307.93	(4,692.07)
Amusement Tax	48.00	48.00	60.00	12.00
Penalties and Interest on Delinquent Taxes	200.04	200.04	450.68	250.64
Total Taxes	328,248.04	328,248.04	296,482.86	(31,765.18)
Licenses and Permits	1,760.00	1,760.00	2,490.00	730.00
Intergovernmental Revenue:				
Federal Grants	0.00	0.00	465,588.01	465,588.01
State Grants	0.00	23,340.00	23,340.00	0.00
State Shared Revenue:				
Bank Franchise Tax	550.00	550.00	598.30	48.30
Prorate License Fees	1,700.00	1,700.00	1,014.91	(685.09)
Liquor Tax Reversion	2,500.00	2,500.00	2,775.07	275.07
Motor Vehicle Licenses	16,000.00	16,000.00	14,985.77	(1,014.23)
Local Government Highway and Bridge Fund	6,000.00	6,000.00	6,906.02	906.02
County Shared Revenue:				
County Road Tax	1,100.00	1,100.00	1,022.52	(77.48)
County Road and Bridge Tax	1,100.00	1,100.00	0.00	(1,100.00)
Total Intergovernmental Revenue	28,950.00	52,290.00	516,230.60	463,940.60
Charges for Goods and Services:				
Public Safety	25.00	25.00	0.00	(25.00)
Highways and Streets	600.00	600.00	0.00	(600.00)
Culture and Recreation	13,750.00	13,750.00	16,485.86	2,735.86
Total Charges for Goods and Services	14,375.00	14,375.00	16,485.86	2,110.86
Fines and Forfeits:				
Other	0.00	0.00	120.00	120.00
Total Fines and Forfeits	0.00	0.00	120.00	120.00
Miscellaneous Revenue:				
Investment Earnings	350.00	350.00	730.74	380.74
Contributions and Donations from Private Sources	250.00	250.00	0.00	(250.00)
Other	3,710.00	3,710.00	4,113.00	403.00
Total Miscellaneous Revenue	4,310.00	4,310.00	4,843.74	533.74
Total Revenue	377,643.04	400,983.04	836,653.06	435,670.02



**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF EMERY**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2017**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures:</b>				
General Government:				
Legislative	15,445.00	19,445.00	19,348.79	96.21
Executive	3,475.00	4,975.00	4,908.84	66.16
Financial Administration	34,675.00	37,175.00	39,575.24	(2,400.24)
Other	4,050.00	4,050.00	2,504.83	1,545.17
Total General Government	57,645.00	65,645.00	66,337.70	(692.70)
Public Safety:				
Police	12,000.00	12,000.00	12,000.00	0.00
Fire	1,000.00	1,000.00	1,499.29	(499.29)
Other Protection	2,000.00	2,000.00	0.00	2,000.00
Total Public Safety	15,000.00	15,000.00	13,499.29	1,500.71
Public Works:				
Highways and Streets	186,300.00	186,300.00	141,875.84	44,424.16
Sanitation	4,728.00	4,728.00	0.00	4,728.00
Total Public Works	191,028.00	191,028.00	141,875.84	49,152.16
Culture and Recreation:				
Recreation	66,145.00	67,645.00	59,550.01	8,094.99
Parks	38,584.50	38,584.50	61,651.86	(23,067.36)
Total Culture and Recreation	104,729.50	106,229.50	121,201.87	(14,972.37)
Conservation and Development				
Economic Development and Assistance (Industrial Development)	7,500.00	43,630.00	51,130.00	(7,500.00)
Total Conservation and Development	7,500.00	43,630.00	51,130.00	(7,500.00)
Total Expenditures	375,902.50	421,532.50	394,044.70	27,487.80
Excess of Revenue Over (Under) Expenditures	1,740.54	(20,549.46)	442,608.36	463,157.82
<b>Other Financing Sources (Uses):</b>				
Transfers Out	(20,000.00)	(50,000.00)	(50,000.00)	0.00
Sale of Municipal Property	0.00	0.00	400.00	400.00
Total Other Financing Sources (Uses)	(20,000.00)	(50,000.00)	(49,600.00)	400.00
Net Change in Fund Balances	(18,259.46)	(70,549.46)	393,008.36	463,557.82
Fund Balance - Beginning	26,154.29	26,154.29	26,154.29	0.00
FUND BALANCE - ENDING	7,894.83	(44,395.17)	419,162.65	463,557.82

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF EMERY**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2016**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Final Budget - Positive (Negative)</b>
<b>Revenues:</b>				
Taxes:				
General Property Taxes	128,020.00	128,020.00	124,356.53	(3,663.47)
General Sales and Use Taxes	180,000.00	180,000.00	138,092.41	(41,907.59)
Amusement Tax	48.00	48.00	60.00	12.00
Penalties and Interest on Delinquent Taxes	150.00	150.00	337.48	187.48
Total Taxes	308,218.00	308,218.00	262,846.42	(45,371.58)
Licenses and Permits	1,770.00	1,770.00	2,030.00	260.00
Intergovernmental Revenue:				
State Grants	0.00	1,309.00	1,309.00	0.00
State Shared Revenue:				
Bank Franchise Tax	500.00	500.00	504.27	4.27
Prorate License Fees	1,700.00	1,700.00	1,744.12	44.12
Liquor Tax Reversion	6,000.00	6,000.00	2,916.26	(3,083.74)
Motor Vehicle Licenses	12,500.00	12,500.00	14,289.75	1,789.75
Local Government Highway and Bridge Fund	6,000.00	6,000.00	7,694.69	1,694.69
County Shared Revenue:				
County Road Tax	1,500.00	1,500.00	1,022.52	(477.48)
Total Intergovernmental Revenue	28,200.00	29,509.00	29,480.61	(28.39)
Charges for Goods and Services:				
Public Safety	25.00	25.00	0.00	(25.00)
Highways and Streets	0.00	0.00	5,244.50	5,244.50
Sanitation	0.00	0.00	20.69	20.69
Culture and Recreation	12,900.00	12,900.00	15,919.29	3,019.29
Total Charges for Goods and Services	12,925.00	12,925.00	21,184.48	8,259.48
Fines and Forfeits:				
Other	0.00	0.00	35.00	35.00
Total Fines and Forfeits	0.00	0.00	35.00	35.00
Miscellaneous Revenue:				
Investment Earnings	250.00	250.00	541.44	291.44
Contributions and Donations from Private Sources	0.00	0.00	2,248.11	2,248.11
Other	2,800.00	2,800.00	4,100.23	1,300.23
Total Miscellaneous Revenue	3,050.00	3,050.00	6,889.78	3,839.78
Total Revenue	354,163.00	355,472.00	322,466.29	(33,005.71)

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF EMERY**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2016**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Final Budget - Positive (Negative)</b>
<b>Expenditures:</b>				
General Government:				
Legislative	14,630.00	14,630.00	16,842.01	(2,212.01)
Executive	3,185.00	3,185.00	3,299.47	(114.47)
Financial Administration	25,125.00	37,125.00	32,652.57	4,472.43
Other	2,000.00	3,000.00	5,412.41	(2,412.41)
Total General Government	44,940.00	57,940.00	58,206.46	(266.46)
Public Safety:				
Police	12,000.00	12,000.00	11,000.00	1,000.00
Fire	1,000.00	1,000.00	0.00	1,000.00
Other Protection	2,000.00	3,390.00	1,307.69	2,082.31
Total Public Safety	15,000.00	16,390.00	12,307.69	4,082.31
Public Works:				
Highways and Streets	198,825.00	198,825.00	133,275.71	65,549.29
Sanitation	6,358.00	6,358.00	4,400.04	1,957.96
Total Public Works	205,183.00	205,183.00	137,675.75	67,507.25
Culture and Recreation:				
Recreation	67,915.00	80,915.00	80,572.75	342.25
Parks	40,152.50	40,152.50	2,294.52	37,857.98
Total Culture and Recreation	108,067.50	121,067.50	82,867.27	38,200.23
Conservation and Development				
Economic Opportunity	3,000.00	33,000.00	31,903.53	1,096.47
Total Conservation and Development	3,000.00	33,000.00	31,903.53	1,096.47
Miscellaneous:				
Other Expenditures	0.00	0.00	500.00	(500.00)
Total Miscellaneous	0.00	0.00	500.00	(500.00)
Total Expenditures	376,190.50	433,580.50	323,460.70	110,119.80
Excess of Revenue Over (Under)				
Expenditures	(22,027.50)	(78,108.50)	(994.41)	77,114.09
<b>Other Financing Sources (Uses):</b>				
Transfers Out	(15,000.00)	(43,000.00)	(29,891.63)	13,108.37
Total Other Financing Sources (Uses)	(15,000.00)	(43,000.00)	(29,891.63)	13,108.37
Net Change in Fund Balances	(37,027.50)	(121,108.50)	(30,886.04)	90,222.46
Fund Balance - Beginning	57,040.33	57,040.33	57,040.33	0.00
FUND BALANCE - ENDING	20,012.83	(64,068.17)	26,154.29	90,222.46

---

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund  
and for each major Special Revenue Fund with a legally required budget.

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 and special revenue funds.

The Municipality did not encumber any amounts at December 31, 2017 and 2016.

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

NOTE 2. GAAP/Budgetary Accounting Basis Differences:

The Municipality's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenue and expenditures are recognized on a modified cash basis. Utilizing the modified cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

SUPPLEMENTARY INFORMATION

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

South Dakota Retirement System

Last Three Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Municipality's proportion of the net pension liability/asset	0.0089527%	0.0078032%	0.0019581%
Municipality's proportionate share of net pension liability (asset)	\$ (812)	\$ 26,358	\$ (8,305)
Municipality's covered-employee payroll	\$ 180,671	\$ 149,462	\$ 35,750
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.45%	17.64%	23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.1%	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 Three Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 11,770	\$ 9,306	\$ 6,781
Contributions in relation to the contractually required contribution	<u>\$ 11,770</u>	<u>\$ 9,306</u>	<u>\$ 6,781</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Municipality's covered-employee payroll	\$ 196,306	\$ 155,097	\$ 113,024
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%

SUPPLEMENTARY INFORMATION

LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance 01/01/16	Additions	Deletions	Ending Balance 12/31/17	Due Within One Year
<b>Primary Government:</b>					
<b>Business-Type Activities:</b>					
Bonds Payable:					
Sewer Project Revenue Bonds, Series 2008	358,422.71		11,762.67	346,660.04	6,206.28
Water Revenue Bonds, Series 2008	192,731.77		6,332.61	186,399.16	3,341.33
Rural Electric Economic Development	0.00	40,000.00	1,233.00	38,767.00	1,519.83
Areawide Business Council, Inc.	0.00	40,000.00	1,103.91	38,896.09	1,602.28
SRF - Drinking Water	0.00	322,318.00	0.00	322,318.00	1,665.61
SRF - Clean Water	0.00	1,582,730.00	960,717.00	622,013.00	3,080.22
<b>Total Business-Type Activities</b>	<u>551,154.48</u>	<u>1,985,048.00</u>	<u>981,149.19</u>	<u>1,555,053.29</u>	<u>17,415.55</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>551,154.48</u>	<u>1,985,048.00</u>	<u>981,149.19</u>	<u>1,555,053.29</u>	<u>17,415.55</u>

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

Revenue Bonds:

Sewer Project Revenue Bonds - Series 2008 Interest Rate at 3.625%; Maturity November 21, 2048; Payable from Sewer Fund	\$ 346,660.04
Water Revenue Bonds - Series 2008 Interest Rate at 3.625%; Maturity November 21, 2048; Payable from Sewer Fund	\$ 186,339.16
Rural Electric Economic Development Note Interest Rate at 3% Maturity February 25, 2037 Payable from Daycare Fund	\$ 38,767.00
Areawide Business Council, Inc. Note Interest Rate at 2.5% Maturity April 20, 2022 Payable form Daycare Fund	\$ 38,896.09
State Revolving Fund Loan – Drinking Water; Interest Rate at 3.00%; Maturity August 15, 2048; Payable from Water Fund	\$ 322,318.00
State Revolving Fund Loan – Clean Water; Interest Rate at 3.25%; Maturity August 15, 2048; Payable from Sewer Fund	\$ 622,013.00

SUPPLEMENTARY INFORMATION  
(Continued)

The annual requirements to amortize all debt outstanding as of December 31, 2017, are as follows:

Annual Requirements to Maturity for Long-Term Debt  
December 31, 2017

Year Ending Dec. 31,	Sewer Project Revenue Bond, Series 2008		Water Revenue Bond, Series 2008		Rural Electric Economic Development	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	6,206.28	12,465.72	3,341.33	6,702.67	1,519.83	1,142.25
2019	6,435.02	12,236.98	3,464.48	6,579.52	1,566.05	1,096.03
2020	6,672.21	11,999.79	3,592.17	6,451.83	1,613.70	1,048.38
2021	6,918.14	11,753.86	3,724.58	6,319.42	1,662.79	999.29
2022	7,173.13	11,498.87	3,861.86	6,182.14	1,713.37	948.71
2023-2027	40,031.86	53,328.14	21,552.30	28,667.70	9,380.89	3,929.51
2028-2032	47,973.68	45,386.32	25,828.00	24,392.00	10,897.01	2,413.39
2033-2037	57,491.05	35,868.95	30,951.95	19,268.05	10,414.06	677.37
2038-2042	68,896.54	24,463.46	37,092.42	13,127.58		
2043-2047	82,564.76	10,795.24	44,451.09	5,768.91		
2048-2052	16,297.37	338.59	8,538.98	172.20		
Totals	346,660.04	230,135.92	186,399.16	123,632.02	38,767.70	12,254.93

Year Ending Dec. 31,	Areawide Business Council		SRF - Drinking Water		SRF - Clean Water	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	1,602.28	954.08	1,665.61	2,417.30	3,080.22	5,053.86
2019	1,642.79	913.57	6,788.28	9,543.68	12,573.21	19,963.11
2020	1,684.30	872.06	6,994.23	9,337.73	12,986.85	19,549.47
2021	1,726.92	829.44	7,206.44	9,125.52	13,414.09	19,122.23
2022	32,239.80	265.34	7,425.06	8,906.90	13,855.39	18,680.93
2023-2027			40,644.25	41,015.55	76,421.64	86,259.96
2028-2032			47,195.45	34,464.35	89,847.08	72,834.52
2033-2037			54,802.60	26,857.20	105,631.10	57,050.50
2038-2042			63,635.89	18,023.91	124,187.94	38,493.66
2043-2047			73,893.02	7,766.78	146,004.78	16,676.82
2048-2052			12,067.17	181.45	24,010.70	391.22
Totals	38,896.09	3,834.49	322,318.00	167,640.37	622,013.00	354,076.28

Year Ending Dec. 31,	Totals	
	Principal	Interest
2018	17,415.55	28,735.88
2019	32,469.83	50,332.89
2020	33,543.46	49,259.26
2021	34,652.96	48,149.76
2022	66,268.61	46,482.89
2023-2027	188,030.94	213,200.86
2028-2032	221,741.22	179,490.58
2033-2037	259,290.76	139,722.07
2038-2042	293,812.79	94,108.61
2043-2047	346,913.65	41,007.75
2048-2052	60,914.22	1,083.46
Totals	1,555,053.99	891,574.01



SCHEDULE OF EXPENDITURES OF STATE AWARDS  
December 31, 2016 and 2017

	<u>TOTAL GRANT AWARD</u>	<u>EXPENDED 2016</u>	<u>EXPENDED 2017</u>
<u>South Dakota Consolidated</u> <u>Water Facilities Construction</u>	<u>\$ 615,000.00</u>	<u>\$ 23,918.86</u>	<u>\$ 316,132.63</u>
<u>Program-Grant No. 2016G-203</u>			