

**MUNICIPALITY OF EMERY
EMERY, SOUTH DAKOTA**

AUDIT REPORT

FOR THE YEAR JANUARY 1, 2018 TO DECEMBER 31, 2018
AND
FOR THE YEAR JANUARY 1, 2019 TO DECEMBER 31, 2019

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF EMERY

MUNICIPAL OFFICIALS
DECEMBER 31, 2019

MAYOR:

Joshua Kayser

GOVERNING BOARD:

Ben Schulz, President
Eric Roskens, Vice-President
Corey Dye
Andy Erickson
Kenny Kayser
Greg Kotas

FINANCE OFFICER:

Kristi Wollmann

ATTORNEY:

Mike Fink

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

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, 2019 and December 31, 2018, 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 28, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality 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 2019-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 2019-002, 2019-003, and 2019-004.

Municipality's Responses 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 28, 2020

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGSPRIOR OTHER AUDIT FINDINGS:Internal Control – Related Finding – Material Weakness:Finding Number 2017-001:

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 a similar comment is restated as current audit finding number 2019-001.

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 comment has not been corrected and is restated as current audit finding number 2019-002.

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 comment has not been correct and is restated as current audit finding number 2019-003.

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SCHEDULE OF CURRENT AUDIT FINDINGSCURRENT OTHER AUDIT FINDINGS:Internal Control – Related Findings – Material Weaknesses:Finding Number 2019-001:

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 Finance Officer processes all revenue transactions from beginning to end. The Finance Officer also receives money, issues receipts, records receipts, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

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.

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 2019-002:

The General Fund was budgeted to spend more money than was available in 2018 and 2019. Expenditures were in excess of the amounts budgeted in several departments in the General Fund in 2018 and 2019. This is a continuing audit comment since 2016.

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

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SCHEDULE OF CURRENT AUDIT FINDINGS
(Continued)

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:

2. 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.

Finding Number 2019-003:

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 a continuing audit comment since 2016.

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 2018 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:

3. 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.

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SCHEDULE OF CURRENT AUDIT FINDINGS
(Continued)

Finding Number 2019-004:

The Municipality of Emery contracted for street construction, including curb and gutter, without advertising for competitive bids as required by SDCL 5-18A-14. This is the first consecutive audit in which a similar comment has occurred.

Criteria:

Portions of a single construction project may be awarded to several different bidders, however, the value of the total project must be considered when comparing to the bid limit to determine if it must be bid. (SDCL 5-18A-14)

Condition:

We examined several instances which required bidding and found that the above mentioned instance was improper. The Municipality entered into a contract for street improvements totaling \$87,694.56 without evidence of receiving competitive bids.

Effect:

The lack of bidding in this instance may have caused the entity to pay more for the project than it would have had competitive bids have been obtained.

Recommendation:

4. We recommend that all expenditures for public improvement projects totaling \$50,000 be bid as required by law.

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 purchases to properly follow the bid laws.

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 maintenance head on September 18, 2020.

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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, 2019 and December 31, 2018, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, the business-type activities, and each major fund of the Municipality of Emery as of December 31, 2019 and

December 31, 2018, and the respective changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming 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 the Net Pension Liability (Asset), and the Schedule of Municipal Contributions schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2020 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 28, 2020

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MUNICIPALITY OF EMERY
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2019

	Primary Government	
	Governmental Activities	Business-Type Activities
		Total
ASSETS:		
Cash and Cash Equivalents	51,947.18	708,660.71
Investments	26,786.14	26,786.14
TOTAL ASSETS	78,733.32	735,446.85
NET POSITION:		
Restricted for:		
Capital Projects Purposes	14,006.15	14,006.15
Bond Debt Service		226,280.80
Equipment Repair and/or Replacement		120,400.92
Unrestricted	64,727.17	374,758.98
TOTAL NET POSITION	78,733.32	735,446.85

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, 2019

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
Primary Government:						
General Governmental Activities:						
Public Safety	66,189.46	2,795.00			(63,394.46)	(63,394.46)
Public Works	13,463.00				(13,463.00)	(13,463.00)
Health and Welfare	142,211.54		25,150.13		(117,061.41)	(117,061.41)
Culture and Recreation	1,826.90		1,099.00		(727.90)	(727.90)
Conservation and Development	59,896.09	14,815.20	7,690.90		(37,389.99)	(37,389.99)
	695.00				(695.00)	(695.00)
Total Governmental Activities	284,281.99	17,610.20	33,940.03	0.00	(232,731.76)	(232,731.76)
Business-type Activities:						
Water	309,088.01	118,638.99		74,607.59		(115,841.43)
Sewer	211,850.76	132,760.72			(79,090.04)	(79,090.04)
Solid Waste	41,907.17	55,370.13			13,462.96	13,462.96
Daycare	205,378.27	157,337.12	7,207.02		(40,834.13)	(40,834.13)
Total Business-Type Activities	768,224.21	464,106.96	7,207.02	74,607.59	(222,302.64)	(222,302.64)
Total Primary Government	1,052,506.20	481,717.16	41,147.05	74,607.59	(232,731.76)	(455,034.40)
General Revenues:						
Taxes:						
Property Taxes					133,211.90	133,211.90
Sales Taxes					166,241.13	166,241.13
State Shared Revenues					3,336.21	3,336.21
Unrestricted Investment Earnings					1,326.34	1,326.34
Debt Issued					187,823.00	187,823.00
Miscellaneous Revenue					4,317.37	4,317.37
Transfers					100,000.00	0.00
Total General Revenues and Transfers					408,432.95	87,823.00
Change in Net Position					175,701.19	(134,479.64)
Net Position - Beginning					(96,967.87)	791,193.17
NET POSITION - ENDING					78,733.32	656,713.53
						735,446.85

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, 2019**

	General Fund	Pool Capital Projects Fund	Total Governmental Funds
ASSETS:			
Cash and Cash Equivalents	37,941.03	14,006.15	51,947.18
Investments	26,786.14		26,786.14
TOTAL ASSETS	64,727.17	14,006.15	78,733.32
FUND BALANCES:			
Restricted for Capital Projects Purposes		14,006.15	14,006.15
Unassigned	64,727.17		64,727.17
TOTAL FUND BALANCES	64,727.17	14,006.15	78,733.32

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, 2019

	General Fund	Pool Capital Projects Fund	Total Governmental Funds
Revenues:			
Taxes:			
General Property Taxes	133,004.04		133,004.04
General Sales and Use Taxes	166,241.13		166,241.13
Amusement Taxes	60.00		60.00
Penalties & Interest on Delinquent Taxes	147.86		147.86
Total Taxes	299,453.03	0.00	299,453.03
Licenses and Permits	1,590.00	0.00	1,590.00
Intergovernmental Revenue:			
State Grants	1,099.00		1,099.00
State Shared Revenue:			
Bank Franchise Tax	423.08		423.08
Liquor Tax Reversion	2,913.13		2,913.13
Motor Vehicle Licenses	16,672.58		16,672.58
Local Government Highway and Bridge Fund	7,455.03		7,455.03
County Shared Revenue:			
County Road Tax	1,022.52		1,022.52
Total Intergovernmental Revenue	29,585.34	0.00	29,585.34
Charges for Goods and Services:			
Culture and Recreation	14,815.20		14,815.20
Total Charges for Goods and Services	14,815.20	0.00	14,815.20
Miscellaneous Revenue:			
Investment Earnings	1,326.34		1,326.34
Rentals	1,205.00		1,205.00
Contributions and Donations from Private Sources		7,690.90	7,690.90
Other	4,317.37		4,317.37
Total Miscellaneous Revenue	6,848.71	7,690.90	14,539.61
Total Revenue	352,292.28	7,690.90	359,983.18
Expenditures:			
General Government:			
Legislative	26,039.31		26,039.31
Elections	355.74		355.74
Financial Administration	37,698.74		37,698.74
Other	2,095.67		2,095.67
Total General Government	66,189.46	0.00	66,189.46

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, 2019

	General Fund	Pool Capital Projects Fund	Total Governmental Funds
Expenditures: (continued)			
Public Safety:			
Police	12,500.00		12,500.00
Fire	963.00		963.00
Total Public Safety	13,463.00	0.00	13,463.00
Public Works:			
Highways and Streets	142,211.54		142,211.54
Total Public Works	142,211.54	0.00	142,211.54
Health and Welfare:			
Health	1,826.90		1,826.90
Total Health and Welfare	1,826.90	0.00	1,826.90
Culture and Recreation:			
Recreation	46,007.84		46,007.84
Parks	10,287.09		10,287.09
Auditorium	3,601.16		3,601.16
Total Culture and Recreation	59,896.09	0.00	59,896.09
Conservation and Development:			
Economic Development and Assistance	695.00		695.00
Total Conservation and Development	695.00	0.00	695.00
Total Expenditures	284,281.99	0.00	284,281.99
Excess of Revenue Over (Under)			
Expenditures	68,010.29	7,690.90	75,701.19
Other Financing Sources (Uses):			
Transfers In	100,000.00	6,315.25	106,315.25
Transfers Out	(6,315.25)		(6,315.25)
Total Other Financing Sources (Uses)	93,684.75	6,315.25	100,000.00
Net Change in Fund Balance	161,695.04	14,006.15	175,701.19
Fund Balance - Beginning	(96,967.87)	0.00	(96,967.87)
FUND BALANCE - ENDING	64,727.17	14,006.15	78,733.32

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, 2019

	Enterprise Funds				
	Water Fund	Sewer Fund	Solid Waste Fund	Daycare Fund	Totals
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	219,928.01	265,000.77	171,712.56	72.19	656,713.53
Total Current Assets	<u>219,928.01</u>	<u>265,000.77</u>	<u>171,712.56</u>	<u>72.19</u>	<u>656,713.53</u>
TOTAL ASSETS	<u>219,928.01</u>	<u>265,000.77</u>	<u>171,712.56</u>	<u>72.19</u>	<u>656,713.53</u>
NET POSITION:					
Restricted for:					
Revenue Bond Debt Service	65,668.29	160,612.51			226,280.80
Equipment Repair and/or Replacement	61,935.00		58,465.92		120,400.92
Unrestricted	<u>92,324.72</u>	<u>104,388.26</u>	<u>113,246.64</u>	<u>72.19</u>	<u>310,031.81</u>
TOTAL NET POSITION	<u>219,928.01</u>	<u>265,000.77</u>	<u>171,712.56</u>	<u>72.19</u>	<u>656,713.53</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, 2019

	Enterprise Funds				
	Water Fund	Sewer Fund	Solid Waste Fund	Daycare Fund	Totals
Operating Revenue:					
Charges for Goods and Services	90,194.60	65,242.89	55,370.13	157,337.12	368,144.74
Surcharge as a Security for Debt	28,444.39	67,517.83			95,962.22
Total Operating Revenue	118,638.99	132,760.72	55,370.13	157,337.12	464,106.96
Operating Expenses:					
Personal Services	15,915.72	13,725.25	21,797.97	163,448.70	214,887.64
Other Current Expense	161,250.65	14,898.16	20,109.20	36,359.19	232,617.20
Materials	41,854.35			351.94	42,206.29
Capital Assets	57,126.03	115,131.64			172,257.67
Total Operating Expenses	276,146.75	143,755.05	41,907.17	200,159.83	661,968.80
Operating Income (Loss)	(157,507.76)	(10,994.33)	13,462.96	(42,822.71)	(197,861.84)
Nonoperating Revenue (Expense):					
Operating Grants	74,607.59			7,207.02	81,814.61
Debt Service (Principal)	(12,557.54)	(24,487.74)		(3,208.84)	(40,254.12)
Debt Service (Interest)	(20,383.72)	(43,607.97)		(2,009.60)	(66,001.29)
Long-Term Debt Issued	64,255.00	123,568.00			187,823.00
Total Nonoperating Revenue (Expense)	105,921.33	55,472.29	0.00	1,988.58	163,382.20
Income (Loss) Before Transfers	(51,586.43)	44,477.96	13,462.96	(40,834.13)	(34,479.64)
Transfers In				46,137.30	46,137.30
Transfers Out		(123,068.65)	(23,068.65)		(146,137.30)
Change in Net Position	(51,586.43)	(78,590.69)	(9,605.69)	5,303.17	(134,479.64)
Net Position - Beginning	271,514.44	343,591.46	181,318.25	(5,230.98)	791,193.17
NET POSITION - ENDING	219,928.01	265,000.77	171,712.56	72.19	656,713.53

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, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents		667,789.55	667,789.55
Investments	26,435.75		26,435.75
Internal Balances	(123,403.62)	123,403.62	0.00
TOTAL ASSETS	(96,967.87)	791,193.17	694,225.30
NET POSITION:			
Restricted for:			
Debt Service Fund		208,558.44	208,558.44
Equipment Repair and/or Replacement		136,295.17	136,295.17
Unrestricted	(96,967.87)	446,339.56	349,371.69
TOTAL NET POSITION	(96,967.87)	791,193.17	694,225.30

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, 2018

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
Primary Government:						
General Government	84,774.03	1,850.00			(82,924.03)	(82,924.03)
Public Safety	15,991.58				(15,991.58)	(15,991.58)
Public Works	240,767.33		24,449.50		(216,317.83)	(216,317.83)
Health and Welfare			1,244.00		1,244.00	1,244.00
Culture and Recreation	79,948.12	25,615.80			(54,332.32)	(54,332.32)
Conservation and Development	690.00				(690.00)	(690.00)
Total Governmental Activities	422,171.06	27,465.80	25,693.50	0.00	(369,011.76)	(369,011.76)
Business-type Activities:						
Water	948,296.20	109,843.43	701,970.04		(136,482.73)	(136,482.73)
Sewer	1,071,567.17	120,918.98			(950,648.19)	(950,648.19)
Solid Waste	57,831.40	52,552.71			(5,278.69)	(5,278.69)
Daycare	205,337.61	143,663.52	7,517.12		(54,156.97)	(54,156.97)
Total Business-Type Activities	2,283,032.38	426,978.64	709,487.16	0.00	(1,146,566.58)	(1,146,566.58)
Total Primary Government	2,705,203.44	454,444.44	735,180.66	0.00	(369,011.76)	(1,515,578.34)
General Revenues:						
Taxes:						
Property Taxes					133,530.02	133,530.02
Sales Taxes					167,459.67	167,459.67
State Shared Revenues					3,250.47	3,250.47
Unrestricted Investment Earnings					1,208.12	1,208.12
Debt Issued						926,309.00
Miscellaneous Revenue					10,559.92	10,559.92
Transfers					2,461.05	(2,461.05)
					318,469.25	923,847.95
Total General Revenues and Transfers					(50,542.51)	(222,718.63)
Change in Net Position						(273,261.14)
Net Position - Beginning					(46,425.36)	1,013,911.80
NET POSITION - ENDING					(96,967.87)	791,193.17
						694,225.30

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, 2018

	General Fund
ASSETS:	
Investments	<u>26,435.75</u>
TOTAL ASSETS	<u><u>26,435.75</u></u>
LIABILITIES AND FUND BALANCES:	
Liabilities:	
Due to Sewer Fund	<u>123,403.62</u>
Total Liabilities	<u>123,403.62</u>
FUND BALANCES:	
Unassigned	<u>(96,967.87)</u>
Total Fund Balances	<u>(96,967.87)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>26,435.75</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, 2018

	General Fund
Revenues:	
Taxes:	
General Property Taxes	132,361.27
General Sales and Use Taxes	167,459.67
Amusement Taxes	60.00
Penalties & Interest on Delinquent Taxes	1,108.75
Total Taxes	300,989.69
Licenses and Permits	1,600.00
Intergovernmental Revenue:	
State Grants	1,244.00
State Shared Revenue:	
Bank Franchise Tax	439.00
Prorate License Fees	1,746.45
Liquor Tax Reversion	2,811.47
Motor Vehicle Licenses	14,424.53
Local Government Highway and Bridge Fund	7,256.00
County Shared Revenue:	
County Road Tax	1,022.52
Total Intergovernmental Revenue	28,943.97
Charges for Goods and Services:	
Culture and Recreation	25,615.80
Total Charges for Goods and Services	25,615.80
Miscellaneous Revenue:	
Investment Earnings	1,208.12
Rentals	250.00
Other	4,946.92
Total Miscellaneous Revenue	6,405.04
Total Revenue	363,554.50
Expenditures:	
General Government:	
Legislative	22,066.64
Executive	5,425.56
Financial Administration	54,293.96
Other	2,987.87
Total General Government	84,774.03

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, 2018

	General Fund
Expenditures: (continued)	
Public Safety:	
Police	12,000.00
Fire	902.00
Total Public Safety	12,902.00
Public Works:	
Highways and Streets	240,767.33
Total Public Works	240,767.33
Health and Welfare:	
Health	3,089.58
Total Health and Welfare	3,089.58
Culture and Recreation:	
Recreation	62,584.02
Parks	2,483.07
Auditorium	14,881.03
Total Culture and Recreation	79,948.12
Conservation and Development:	
Economic Development and Assistance	690.00
Total Conservation and Development	690.00
Total Expenditures	422,171.06
Excess of Revenue Over (Under)	
Expenditures	(58,616.56)
Other Financing Sources (Uses):	
Transfers In	2,461.05
Sale of Municipal Property	5,613.00
Total Other Financing Sources (Uses)	8,074.05
Net Change in Fund Balance	(50,542.51)
Fund Balance - Beginning	(46,425.36)
FUND BALANCE - ENDING	(96,967.87)

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, 2018

	Enterprise Funds				
	Water Fund	Sewer Fund	Solid Waste Fund	Daycare Fund	Totals
ASSETS:					
Cash and Cash Equivalents	271,514.44	214,956.86	181,318.25		667,789.55
Due from General Fund		123,403.62			123,403.62
Due from Daycare Fund		5,230.98			5,230.98
Total Assets	271,514.44	343,591.46	181,318.25	0.00	796,424.15
TOTAL ASSETS	271,514.44	343,591.46	181,318.25	0.00	796,424.15
LIABILITIES:					
Current Liabilities:					
Due to Sewer Fund				5,230.98	5,230.98
Total Current Liabilities	0.00	0.00	0.00	5,230.98	5,230.98
TOTAL LIABILITIES	0.00	0.00	0.00	5,230.98	5,230.98
NET POSITION:					
Restricted for Revenue Bond Debt Service	61,881.82	146,676.62			208,558.44
Equipment Repair and/or Replacement	83,337.44		52,957.73		136,295.17
Unrestricted	126,295.18	196,914.84	128,360.52	(5,230.98)	446,339.56
TOTAL NET POSITION	271,514.44	343,591.46	181,318.25	(5,230.98)	791,193.17

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, 2018

	Enterprise Funds				
	Water Fund	Sewer Fund	Solid Waste Fund	Daycare Fund	Totals
Operating Revenue:					
Charges for Goods and Services	80,840.01	59,123.42	50,791.69	143,663.52	334,418.64
Surcharge as Security for Debt	26,016.03	61,524.51			87,540.54
Miscellaneous	2,987.39	271.05	1,761.02		5,019.46
Total Operating Revenue	109,843.43	120,918.98	52,552.71	143,663.52	426,978.64
Operating Expenses:					
Personal Services	4,344.28	1,649.97	16,194.61	157,328.22	179,517.08
Other Current Expense	75,141.09	5,767.31	41,636.79	39,412.97	161,958.16
Capital Assets	844,226.16	1,015,300.20		3,377.98	1,862,904.34
Total Operating Expenses	923,711.53	1,022,717.48	57,831.40	200,119.17	2,204,379.58
Operating Income (Loss)	(813,868.10)	(901,798.50)	(5,278.69)	(56,455.65)	(1,777,400.94)
Nonoperating Revenue (Expense):					
Operating Grants	701,970.04			7,517.12	709,487.16
Debt Service	(5,239.04)	(9,708.98)		(3,121.02)	(18,069.04)
Interest Expense	(19,345.63)	(39,140.71)		(2,097.42)	(60,583.76)
Long-Term Debt Issued	129,730.00	796,579.00			926,309.00
Total Nonoperating Revenue (Expense)	807,115.37	747,729.31	0.00	2,298.68	1,557,143.36
Income (Loss) Before Transfers	(6,752.73)	(154,069.19)	(5,278.69)	(54,156.97)	(220,257.58)
Transfers In		50,195.34		1,891.63	52,086.97
Transfers Out	(54,548.02)				(54,548.02)
Change in Net Position	(61,300.75)	(103,873.85)	(5,278.69)	(52,265.34)	(222,718.63)
Net Position - Beginning	332,815.19	447,465.31	186,596.94	47,034.36	1,013,911.80
NET POSITION - ENDING	271,514.44	343,591.46	181,318.25	(5,230.98)	791,193.17

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.

Capital Projects Fund – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments)

Pool Capital Projects Fund – to account for financial resources to be used for the reconstruction of the municipal swimming pool. This is 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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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.

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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

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

d. Interfund Eliminations and Reclassifications:

Government-wide Statements:

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

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

e. 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.

f. 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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

g. 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.

h. 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.

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Position, revenues and expenses are classified 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-capital financing activities, or investing activities are not reported as components of operating revenues and expenses.

j. Equity Classifications:

Government-wide Statements:

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

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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.

k. Application of Net Position:

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

l. Fund Balance Classification Policies and Procedures:

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

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Finance Officer.
- 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.

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 <u>12/31/2019</u>	Year Ended <u>12/31/2018</u>
General Government:		
Legislative	\$ 4,239.31	
Executive		\$ 25.56
Elections	\$ 355.74	
Health & Welfare:		
Health		\$ 89.58
Culture & Recreation:		
Auditorium		\$ 13,881.03

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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

As of December 31, 2019 and 2018, the Municipality did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

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

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:

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, 2019 and 2018 was as follows:

	<u>Year Ended 12/31/2019</u>	<u>Year Ended 12/31/2018</u>
Major Purposes:		
Capital Projects	\$14,006.15	
Debt Service		
Water Fund	65,668.29	61,881.82
Sewer Fund	160,612.51	146,676.62
Equipment Repair/Replacement		
Water Fund	61,935.00	83,337.44
Sewer Fund	58,465.92	52,957.73
Totals	<u>\$360,687.87</u>	<u>\$344,853.61</u>

These balances are restricted due to statutory requirements.

7. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2019 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u>			<u>Total</u>
	<u>Pool Capital Projects Fund</u>	<u>General Fund</u>	<u>Daycare Fund</u>	
Major Funds:				
General Fund	\$ 6,315.25			\$ 6,315.25
Sewer Fund		\$ 100,000.00	\$ 23,068.65	123,068.65
Solid Waste Fund			23,068.65	23,068.65
Total	<u>\$ 6,315.25</u>	<u>\$ 100,000.00</u>	<u>\$ 46,137.30</u>	<u>\$ 152,452.55</u>

Interfund transfers for the year ended December 31, 2018 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u>			<u>Total</u>
	<u>General Fund</u>	<u>Sewer</u>	<u>Daycare Fund</u>	
Major Funds:				
Water	<u>\$ 2,461.05</u>	<u>\$ 50,195.34</u>	<u>\$ 1,891.63</u>	<u>\$ 54,548.02</u>

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

8. INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at December 31, 2018 were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
Sewer Fund	\$ 128,634.60	
General Fund		\$ 123,403.62
Daycare Fund		5,230.98

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 hybrid defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

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

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

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2019, 2018, and 2017, were \$12,417.91, \$12,110.43, and \$11,769.97, respectively, equal to the required contributions each year.

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

At June 30, 2019, SDRS is 100.09% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of the measurement period ending June 30, 2019.

Proportionate share of net position restricted for pension benefits	\$ 1,187,959.44
Less proportionate share of total pension liability	<u>\$ 1,188,969.62</u>
Proportionate share of net pension liability (asset)	<u>\$ (1,010.18)</u>

The net pension liability (asset) was measured as of June 30, 2019 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, 2019, the Municipality's proportion was 0.00953250%, which is an increase of 0.0005798% from its proportion measured as of June 30, 2018.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

At June 30, 2018, SDRS is 100.02% 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, 2018 and reported by the Municipality as of December 31, 2018 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 1,204,658.31
Less proportionate share of total pension liability	<u>\$ 1,204,887.98</u>
Proportionate share of net pension liability (asset)	<u>\$ (229.67)</u>

The net pension liability (asset) was measured as of June 30, 2018 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the Municipality's proportion was 0.00984730%, which is an increase of 0.0008946% from its proportion measured as of June 30, 2017.

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2019 and June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense
Future COLAs	1.88%

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.

The actuarial assumptions used in the June 30, 2019 and June 30, 2018 valuations were based on the results of an actual experience study for the period of July 1, 2011 and to June 30, 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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

June 30, 2019 (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%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	2.0%	0.9%
Total	100%	

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<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%	

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) as of December 31, 2019 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)	\$ 167,670.77	\$(1,010.18)	\$(138,454.68)

The following presents the Municipality's proportionate share of net pension liability (asset) as of December 31, 2018 calculated using the discount rate of 6.50 percent, as well as what the Municipality's

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$ 173,459.08	\$(229.67)	\$(141516.03)

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, 2019 and 2018, 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, 2019 and 2018, the Municipality managed its risks as follows:

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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

Various electrical services and products were purchased from a company owned by a member of the municipal council in the amount of \$13,687.35 in 2018.

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF EMERY
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
Revenues:				
Taxes:				
General Property Taxes	136,500.00	136,500.00	133,004.04	(3,495.96)
General Sales and Use Taxes	158,000.00	158,000.00	166,241.13	8,241.13
Amusement Tax	50.00	50.00	60.00	10.00
Penalties and Interest on Delinquent Taxes	450.00	450.00	147.86	(302.14)
Total Taxes	295,000.00	295,000.00	299,453.03	4,453.03
Licenses and Permits	2,000.00	2,000.00	1,590.00	(410.00)
Intergovernmental Revenue:				
State Grants	0.00	1,099.00	1,099.00	0.00
State Shared Revenue:				
Bank Franchise Tax	400.00	400.00	423.08	23.08
Prorate License Fees	1,700.00	1,700.00	0.00	(1,700.00)
Liquor Tax Reversion	2,900.00	2,900.00	2,913.13	13.13
Motor Vehicle Licenses	16,000.00	16,000.00	16,672.58	672.58
Local Government Highway and Bridge Fund	7,000.00	7,000.00	7,455.03	455.03
County Shared Revenue:				
County Road Tax	1,000.00	1,000.00	1,022.52	22.52
County HBR Tax	3,000.00	3,000.00	0.00	(3,000.00)
Total Intergovernmental Revenue	32,000.00	33,099.00	29,585.34	(3,513.66)
Charges for Goods and Services:				
Culture and Recreation	22,500.00	22,500.00	14,815.20	(7,684.80)
Total Charges for Goods and Services	22,500.00	22,500.00	14,815.20	(7,684.80)
Miscellaneous Revenue:				
Investment Earnings	1,200.00	1,200.00	1,326.34	126.34
Rentals	2,000.00	2,000.00	1,205.00	(795.00)
Other	2,300.00	2,300.00	4,317.37	2,017.37
Total Miscellaneous Revenue	5,500.00	5,500.00	6,848.71	1,348.71
Total Revenue	357,000.00	358,099.00	352,292.28	(5,806.72)
Expenditures:				
General Government:				
Legislative	20,600.00	21,800.00	26,039.31	(4,239.31)
Executive	5,300.00	5,300.00	0.00	5,300.00
Elections	0.00	0.00	355.74	(355.74)
Financial Administration	44,200.00	44,200.00	37,698.74	6,501.26
Other	2,500.00	2,500.00	2,095.67	404.33
Total General Government	72,600.00	73,800.00	66,189.46	7,610.54
Public Safety:				
Police	12,000.00	12,500.00	12,500.00	0.00
Fire	1,500.00	1,700.00	963.00	737.00
Total Public Safety	13,500.00	14,200.00	13,463.00	737.00

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF EMERY
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
Expenditures (continued):				
Public Works:				
Highways and Streets	204,000.00	204,000.00	142,211.54	61,788.46
Sanitation	10,000.00	10,000.00	0.00	10,000.00
Total Public Works	214,000.00	214,000.00	142,211.54	71,788.46
Health and Welfare:				
Health	1,500.00	1,900.00	1,826.90	73.10
Total Health and Welfare	1,500.00	1,900.00	1,826.90	73.10
Culture and Recreation:				
Recreation	100,000.00	101,025.00	46,007.84	55,017.16
Parks	30,000.00	30,000.00	10,287.09	19,712.91
Auditorium	20,000.00	24,000.00	3,601.16	20,398.84
Total Culture and Recreation	150,000.00	155,025.00	59,896.09	95,128.91
Conservation and Development				
Economic Development and Assistance (Industrial Development)	7,500.00	7,500.00	695.00	6,805.00
Total Conservation and Development	7,500.00	7,500.00	695.00	6,805.00
Total Expenditures	459,100.00	466,425.00	284,281.99	182,143.01
Excess of Revenue Over (Under) Expenditures	(102,100.00)	(108,326.00)	68,010.29	176,336.29
Other Financing Sources (Uses):				
Transfers In	102,100.00	102,100.00	100,000.00	(2,100.00)
Transfers Out			(6,315.25)	(6,315.25)
Total Other Financing Sources (Uses)	102,100.00	102,100.00	93,684.75	(8,415.25)
Net Change in Fund Balances	0.00	(6,226.00)	161,695.04	167,921.04
Fund Balance - Beginning	(96,967.87)	(96,967.87)	(96,967.87)	0.00
FUND BALANCE - ENDING	(96,967.87)	(103,193.87)	64,727.17	167,921.04

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

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget -
				Positive (Negative)
Revenues:				
Taxes:				
General Property Taxes	150,800.00	150,800.00	132,361.27	(18,438.73)
General Sales and Use Taxes	201,225.00	201,225.00	167,459.67	(33,765.33)
Amusement Tax	48.00	48.00	60.00	12.00
Penalties and Interest on Delinquent Taxes	200.00	200.00	1,108.75	908.75
Total Taxes	352,273.00	352,273.00	300,989.69	(51,283.31)
Licenses and Permits	1,730.00	1,730.00	1,600.00	(130.00)
Intergovernmental Revenue:				
State Grants	0.00	0.00	1,244.00	1,244.00
State Shared Revenue:				
Bank Franchise Tax	625.00	625.00	439.00	(186.00)
Prorate License Fees	1,750.00	1,750.00	1,746.45	(3.55)
Liquor Tax Reversion	2,500.00	2,500.00	2,811.47	311.47
Motor Vehicle Licenses	17,500.00	17,500.00	14,424.53	(3,075.47)
Local Government Highway and Bridge Fund	6,000.00	6,000.00	7,256.00	1,256.00
County Shared Revenue:				
County Road Tax	1,022.52	1,022.52	1,022.52	0.00
County Road and Bridge Tax	3,000.00	3,000.00	0.00	(3,000.00)
Total Intergovernmental Revenue	32,397.52	32,397.52	28,943.97	(3,453.55)
Charges for Goods and Services:				
Highways and Streets	375.00	375.00	0.00	(375.00)
Culture and Recreation	20,650.00	20,650.00	25,615.80	4,965.80
Total Charges for Goods and Services	21,025.00	21,025.00	25,615.80	4,590.80
Miscellaneous Revenue:				
Investment Earnings	550.00	550.00	1,208.12	658.12
Rentals	0.00	0.00	250.00	250.00
Contributions and Donations from Private Sources	100.00	100.00	0.00	(100.00)
Other	4,120.00	4,120.00	4,946.92	826.92
Total Miscellaneous Revenue	4,770.00	4,770.00	6,405.04	1,635.04
Total Revenue	412,195.52	412,195.52	363,554.50	(48,641.02)
Expenditures:				
General Government:				
Legislative	18,060.00	22,160.00	22,066.64	93.36
Executive	4,800.00	5,400.00	5,425.56	(25.56)
Financial Administration	32,895.00	56,020.00	54,293.96	1,726.04
Other	2,850.00	3,000.00	2,987.87	12.13
Total General Government	58,605.00	86,580.00	84,774.03	1,805.97

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

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
Expenditures (continued):				
Public Safety:				
Police	12,000.00	12,000.00	12,000.00	0.00
Fire	1,000.00	1,000.00	902.00	98.00
Total Public Safety	13,000.00	13,000.00	12,902.00	98.00
Public Works:				
Highways and Streets	206,900.00	301,400.00	240,767.33	60,632.67
Sanitation	4,678.00	4,678.00	0.00	4,678.00
Total Public Works	211,578.00	306,078.00	240,767.33	65,310.67
Health and Welfare:				
Health	2,000.00	3,000.00	3,089.58	(89.58)
Total Health and Welfare	2,000.00	3,000.00	3,089.58	(89.58)
Culture and Recreation:				
Recreation	65,602.00	66,527.00	62,584.02	3,942.98
Parks	15,724.50	15,724.50	2,483.07	13,241.43
Auditorium		1,000.00	14,881.03	(13,881.03)
Total Culture and Recreation	81,326.50	83,251.50	79,948.12	3,303.38
Conservation and Development				
Economic Development and Assistance	7,500.00	7,500.00	690.00	6,810.00
Total Conservation and Development	7,500.00	7,500.00	690.00	6,810.00
Total Expenditures	374,009.50	499,409.50	422,171.06	77,238.44
Excess of Revenue Over (Under)				
Expenditures	38,186.02	(87,213.98)	(58,616.56)	28,597.42
Other Financing Sources (Uses):				
Transfers In	0.00	0.00	2,461.05	2,461.05
Transfers Out	(35,000.00)	(35,000.00)	0.00	35,000.00
Sale of Municipal Property	0.00	0.00	5,613.00	5,613.00
Total Other Financing Sources (Uses)	(35,000.00)	(35,000.00)	8,074.05	43,074.05
Net Change in Fund Balances	3,186.02	(122,213.98)	(50,542.51)	71,671.47
Fund Balance - Beginning	(46,425.36)	(46,425.36)	(46,425.36)	0.00
FUND BALANCE - ENDING	(43,239.34)	(168,639.34)	(96,967.87)	71,671.47

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, 2019 and 2018.

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

South Dakota Retirement System

Last Five Years

	2019	2018	2017	2016	2015
Municipality's proportion of the net pension liability/asset	0.0095325%	0.0098473%	0.0089527%	0.0078032%	0.0019581%
Municipality's proportionate share of net pension liability (asset)	\$ (1,010)	\$ (230)	\$ (812)	\$ 26,358	\$ (8,305)
Municipality's covered-employee payroll	\$ 202,755	\$ 203,020	\$ 180,671	\$ 149,462	\$ 35,750
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.50%	0.11%	0.45%	17.64%	23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.09%	100.02%	100.10%	96.89%	104.10%

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

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE MUNICIPALITY CONTRIBUTIONS

South Dakota Retirement System

Last Five Years

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 12,418	\$ 12,110	\$ 11,770	\$ 9,306	\$ 6,781
Contributions in relation to the contractually required contribution	\$ 12,418	\$ 12,110	\$ 11,770	\$ 9,306	\$ 6,781
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Municipality's covered-employee payroll	\$ 207,666	\$ 201,841	\$ 196,306	\$ 155,097	\$ 113,024
Contributions as a percentage of covered-employee payroll	5.98%	6.00%	6.00%	6.00%	6.00%

**Notes to Supplementary Information
for the Two Years Ended December 31, 2019**
Schedule of the Proportionate Share of the Net Pension Liability (Asset) and
Schedule of Pension Contributions.

Changes of benefit terms:

No significant changes.

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2018 and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018 and is 1.88% as of June 30, 2019.

The changes in actuarial assumptions decreased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 2.03% COLA, reflecting the current and assumed future restricted maximum COLA of 1.88%.

Actuarial assumptions are reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

SUPPLEMENTARY INFORMATIONLONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance 01/01/18	Additions	Deletions	Ending Balance 12/31/19	Due Within One Year
Primary Government:					
Business-Type Activities:					
Bonds Payable:					
Sewer Project Revenue Bonds, Series 2008	346,660.04		12,645.75	334,014.29	6,672.21
Water Revenue Bonds, Series 2008	186,399.16		6,808.03	179,591.13	3,592.17
Rural Electric Economic Development	38,767.00		3,085.18	35,681.82	1,613.70
Areawide Business Council, Inc.	38,896.09		3,244.87	35,651.22	1,684.30
SRF - Drinking Water	322,318.00	143,985.00	10,988.55	455,314.45	10,146.32
SRF - Clean Water	622,013.00	920,147.00	580,079.97	962,080.03	20,605.56
Emery Fire Department Note Payable		50,000.00		50,000.00	10,000.00
Total Business-Type Activities	<u>1,555,053.29</u>	<u>1,114,132.00</u>	<u>616,852.35</u>	<u>2,052,332.94</u>	<u>54,314.26</u>
TOTAL PRIMARY GOVERNMENT	<u>1,555,053.29</u>	<u>1,114,132.00</u>	<u>616,852.35</u>	<u>2,052,332.94</u>	<u>54,314.26</u>

Debt payable at December 31, 2019 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	\$ 334,014.29
Water Revenue Bonds - Series 2008 Interest Rate at 3.625%; Maturity November 21, 2048; Payable from Sewer Fund	\$ 179,591.13
Rural Electric Economic Development Note Interest Rate at 3% Maturity February 25, 2037 Payable from Daycare Fund	\$ 35,681.82
Areawide Business Council, Inc. Note Interest Rate at 2.5% Maturity April 20, 2022 Payable form Daycare Fund	\$ 35,651.22
State Revolving Fund Loan – Drinking Water; Interest Rate at 3.00%; Maturity August 15, 2048; Payable from Water Fund	\$ 455,314.45
State Revolving Fund Loan – Clean Water; Interest Rate at 3.25%; Maturity August 15, 2048; Payable from Sewer Fund	\$ 962,080.03
Notes Payable Emery Fire Department; Interest Rate at 0.00%; Maturity November 15, 2024 Payable from Water Fund	\$ 50,000.00

SUPPLEMENTARY INFORMATION
(Continued)

The annual requirements to amortize all debt outstanding as of December 31, 2019, are as follows:

Annual Requirements to Maturity for Long-Term Debt
December 31, 2019

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
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	7,437.52	11,234.48	4,004.20	6,039.80	1,765.47	896.61
2024	7,711.65	10,960.35	4,151.79	5,892.21	1,819.15	842.93
2025-2029	43,037.27	50,322.73	23,170.34	27,049.66	9,960.22	3,350.18
2030-2034	51,575.32	41,784.68	27,767.05	22,452.95	11,570.01	1,740.39
2035-2039	61,807.20	31,552.80	33,275.67	16,944.33	5,577.11	190.73
2040-2044	74,068.98	19,291.02	39,877.15	10,342.85		
2045-2049	67,612.87	5,519.13	36,166.32	3,172.68		
Totals	334,014.29	205,917.71	179,591.13	110,847.87	35,681.82	10,017.22

Year Ending Dec. 31,	Areawide Business Council		SRF - Drinking Water		SRF - Clean Water	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	1,684.30	872.06	10,146.32	13,546.00	20,605.56	31,018.16
2021	1,726.92	829.44	10,454.15	13,238.17	21,283.44	30,340.28
2022	32,240.00	265.14	10,771.34	12,920.98	21,983.63	29,640.09
2023			11,098.12	12,594.20	22,706.84	28,916.88
2024			11,434.84	12,257.48	23,453.87	28,169.85
2025-2029			62,593.33	55,868.27	129,363.57	128,755.03
2030-2034			72,682.40	45,779.20	152,089.65	86,028.95
2035-2039			84,397.66	34,063.94	178,808.19	79,310.41
2040-2044			98,001.21	20,460.39	210,220.52	47,898.08
2045-2049			83,735.08	5,111.71	181,564.76	12,024.50
Totals	35,651.22	1,966.64	455,314.45	225,840.34	962,080.03	502,102.23

Year Ending Dec. 31,	Emery Fire Dept Note Payable		Totals	
	Principal	Interest	Principal	Interest
2020	10,000.00	0.00	54,314.26	64,936.22
2021	10,000.00	0.00	55,770.02	63,480.46
2022	10,000.00	0.00	87,743.33	61,455.93
2023	10,000.00	0.00	57,012.15	59,681.97
2024	10,000.00	0.00	58,571.30	58,122.82
2025-2029			268,124.73	265,345.87
2030-2034			315,684.43	197,786.17
2035-2039			363,865.83	162,062.21
2040-2044			422,167.86	97,992.34
2045-2049			369,079.03	25,828.02
Totals	50,000.00	0.00	2,052,332.94	1,056,692.01

SCHEDULE OF EXPENDITURES OF STATE AWARDS
December 31, 2018 and 2019

	<u>TOTAL GRANT AWARD</u>	<u>EXPENDED 2018</u>	<u>EXPENDED 2019</u>
<u>South Dakota Consolidated</u> <u>Water Facilities Construction</u>	<u>\$ 615,000.00</u>	<u>\$ 231,921.23</u>	<u>\$ 18,041.85</u>
<u>Program-Grant No. 2016G-203</u>			