



Financial Statements  
December 31, 2017  
**City of Webster**

City of Webster  
Municipal Officials (unaudited)  
December 31, 2017

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Mayor..... Mike Grosek

Governing Board..... Dale Miller, President  
Jim Grimes, Vice-President  
Wayne Klungseth  
Derek Sinner  
Roger Monson  
Mike Dunse

Finance Officer ..... Linda Hoberg

Attorney ..... Kent Delaney

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|--|----|
| Independent Auditor’s Report.....  | 1  |
| <b>Financial Statements</b>  |    |
| Statement of Net Position–Modified Cash Basis .....  | 5  |
| Statement of Activities–Modified Cash Basis .....  | 6  |
| Balance Sheet–Modified Cash Basis–Governmental Funds.....  | 7  |
| Statement of Revenues, Expenditures and Changes in Fund Balances–Modified Cash Basis–Governmental<br>Funds.....  | 8  |
| Statement of Net Position–Modified Cash Basis–Proprietary Funds .....  | 10 |
| Statement of Revenues, Expenses and Changes in Fund Net Position–Modified Cash Basis–Proprietary Funds<br>.....  | 11 |
| Statement of Cash Flows–Modified Cash Basis–Proprietary Funds .....  | 12 |
| Notes to Financial Statements.....   | 13 |
| <b>Supplementary Information</b>   |    |
| Schedule of Employer’s Share of Net Pension Liability (Asset) and Employer’s Contribution .....  | 28 |
| Schedule of Changes in Notes and Bonds Payable.....  | 29 |
| Budgetary Comparison Schedule–General Fund.....  | 30 |
| Budgetary Comparison Schedule–Liquor, Lodging and Dining Gross Receipts Tax Fund .....   | 32 |
| Combining Balance Sheet–Modified Cash Basis–Nonmajor Governmental Funds.....   | 33 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances–Modified Cash Basis–<br>Nonmajor Governmental Funds.....  | 34 |
| Notes to Supplementary Information.....  | 35 |
| Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters<br>Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> ..... | 37 |
| Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over<br>Compliance Required by the Uniform Guidance.....  | 39 |
| Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards .....   | 41 |
| Schedule of Findings and Questioned Costs.....   | 42 |



## Independent Auditor's Report

The City Council  
City of Webster  
Webster, South Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Webster (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City'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; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express 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.

## Summary of Opinions

| <u>Opinion Unit</u>                                 | <u>Type of Opinion</u> |
|---|------------------------|
| Governmental Activities                             | Unmodified             |
| Business-Type Activities                            | Unmodified             |
| Aggregate Discretely Presented Component Units      | Adverse                |
| General Fund  | Unmodified             |
| Liquor, Lodging, and Dining Gross Receipts Tax Fund | Unmodified             |
| Pool Debt Service                                   | Unmodified             |
| Nonmajor Governmental Funds                         | Unmodified             |
| Water Fund  | Unmodified             |
| Sewer Fund  | Unmodified             |
| Liquor Fund   | Unmodified             |

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

Management has not included the financial data for a legally separate component unit in the City's financial statements. Accounting principles applicable to the City's modified cash basis of accounting require the financial data for the component unit to be reported with the financial data for the City's primary government unless the city also issues financial statements for the financial reporting entity that include the financial data for its component unit. The amount by which this departure would affect the assets, net position, revenues and expenditures of the aggregate discretely presented component unit has not been determined.

### **Adverse Opinion on the Aggregate Discretely Presented Component Unit**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate discretely Presented Component Unit" paragraph, the modified cash basis financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the aggregate discretely presented component unit of the City as of December 31, 2017, or the changes in financial position thereof for the year then ended in accordance with modified cash basis of accounting.

### **Unmodified Opinions**

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis - of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Webster as of December 31, 2017, and the respective changes in financial position - modified cash basis and, where applicable, cash flows - modified cash basis thereof and for the year then ended in conformity with the basis of accounting described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 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 opinions are not modified with respect to this matter.

### **Change in Basis of Accounting**

As discussed in Note 10 to the financial statements, during 2017 the City changed from an accrual basis of accounting to a modified cash basis of accounting. Accordingly, amounts reported for government-wide net position, General Fund fund balance, Liquor, Lodging, and Dining Gross Receipts Tax Fund fund balance, Pool Debt Service Fund fund balance, Nonmajor Governmental Funds fund balance, Water Fund net position, Sewer Fund net position, and Liquor Fund net position beginning of the year, have been restated in the 2017 financial statements to account for the change. Our opinions are not modified with respect to that matter.

### **Emphasis of Matter**

As discussed in Note 10 to the financial statements, certain errors resulting in an understatement of net position in the Liquor Fund and Business-Type Activities as of December 31, 2016, were discovered and corrected by management of the City during the current year. Accordingly, amounts reported for beginning net position have been restated in the 2017 financial statements to correct for the error. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The listing of municipal officers, schedule of employer's share of net pension asset and pension contributions, budgetary comparison, combining nonmajor fund financial statements, and schedule of changes in notes and bonds payable are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance), and is not a required part of the financial statements.

The schedule of employer's share of net pension asset and pension contributions, budgetary comparison schedules, schedule of changes in notes and bonds payable, the combining nonmajor fund financial statements, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matter described in the Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit paragraph, it is inappropriate to and we do not express an opinion on such supplementary information.

The listing of municipal officers has not been subjected to the auditing procedures applied in the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota  
September 20, 2018

City of Webster  
Statement of Net Position—Modified Cash Basis  
December 31, 2017

|                                 | Primary Government         |                             |                     |
|---------------------------------|----------------------------|-----------------------------|---------------------|
|                                 | Governmental<br>Activities | Business-Type<br>Activities | Total               |
| <b>Assets</b>                   |                            |                             |                     |
| Cash and cash equivalents       | \$ 593,488                 | \$ 1,930,853                | \$ 2,524,341        |
| Restricted assets:              |                            |                             |                     |
| Cash and cash equivalents       | -                          | 451,864                     | 451,864             |
|                                 | <u>\$ 593,488</u>          | <u>\$ 2,382,717</u>         | <u>\$ 2,976,205</u> |
| <b>Net Position</b>             |                            |                             |                     |
| Restricted for:                 |                            |                             |                     |
| Debt service purposes           | \$ 37,820                  | \$ 372,664                  | \$ 410,484          |
| Cemetery reserve                | 42,992                     | -                           | 42,992              |
| Equipment repair or replacement | -                          | 79,200                      | 79,200              |
| Promoting the City              | 181,972                    | -                           | 181,972             |
| Other purposes:                 |                            |                             |                     |
| Community Development Fund      | 142,878                    | -                           | 142,878             |
| Active Living Trail Fund        | 5,082                      | -                           | 5,082               |
| Library Fines Fund              | 15,108                     | -                           | 15,108              |
| Golf Course Caddie Fund         | 6,784                      | -                           | 6,784               |
| Diamond Trust Fund              | 12,283                     | -                           | 12,283              |
| Fire federal grants             | 8,901                      | -                           | 8,901               |
| Unrestricted                    | 139,668                    | 1,930,853                   | 2,070,521           |
|                                 | <u>\$ 593,488</u>          | <u>\$ 2,382,717</u>         | <u>\$ 2,976,205</u> |



City of Webster  
Statement of Activities—Modified Cash Basis  
Year Ended December 31, 2017

| Functions/Programs                                | Expenses            | Program Revenues     |                                    |  | Net Revenue (Expense) and Changes in Net Position |                          |                     |
|---|---------------------|----------------------|------------------------------------|--|---|--------------------------|---------------------|
|   |                     | Charges for Services | Operating Grants and Contributions | Capital Grants, Contributions, and Loan Proceeds | Primary Government                                |                          | Total               |
|   |                     |                      |                                    |  | Governmental Activities                           | Business-Type Activities |                     |
| <b>Primary Government</b>                         |                     |                      |                                    |  |   |                          |                     |
| Governmental activities:                          |                     |                      |                                    |  |   |                          |                     |
| General government                                | \$ 258,749          | \$ 26,374            | \$ -                               | \$ -   | \$ (232,375)                                      | \$ -                     | \$ (232,375)        |
| Public safety                                     | 578,485             | 7,752                | -                                  | -  | (570,733)   | -                        | (570,733)           |
| Public works                                      | 2,136,490           | 20,825               | 103,520                            | 1,390,275  | (621,870)   | -                        | (621,870)           |
| Culture and recreation                            | 588,528             | 130,162              | -                                  | 140,974  | (317,392)   | -                        | (317,392)           |
| Conservation and development                      | 10,000              | -                    | -                                  | -  | (10,000)  | -                        | (10,000)            |
| Debt service                                      | 1,943,251           | -                    | -                                  | -  | (1,943,251)                                       | -                        | (1,943,251)         |
| Total governmental activities                     | <u>5,515,503</u>    | <u>185,113</u>       | <u>103,520</u>                     | <u>1,531,249</u>                                 | <u>(3,695,621)</u>                                | <u>-</u>                 | <u>(3,695,621)</u>  |
| Business-type activities:                         |                     |                      |                                    |  |   |                          |                     |
| Water   | 450,063             | 441,330              | -                                  | -  | -   | (8,733)                  | (8,733)             |
| Sewer   | 455,973             | 474,608              | 7,447                              | -  | -   | 26,082                   | 26,082              |
| Liquor  | 1,373,192           | 1,417,944            | -                                  | -  | -   | 44,752                   | 44,752              |
| Total business-type activities                    | <u>2,279,228</u>    | <u>2,333,882</u>     | <u>7,447</u>                       | <u>-</u>   | <u>-</u>  | <u>62,101</u>            | <u>62,101</u>       |
| Total primary government                          | <u>\$ 7,794,731</u> | <u>\$ 2,518,995</u>  | <u>\$ 110,967</u>                  | <u>\$ 1,531,249</u>                              | <u>(3,695,621)</u>                                | <u>62,101</u>            | <u>(3,633,520)</u>  |
| <b>General Revenues</b>                           |                     |                      |                                    |  |   |                          |                     |
| Taxes:  |                     |                      |                                    |  |   |                          |                     |
| Property taxes                                    |                     |                      |                                    |  | 586,156   | -                        | 586,156             |
| Sales taxes                                       |                     |                      |                                    |  | 1,221,000   | -                        | 1,221,000           |
| State shared revenues                             |                     |                      |                                    |  | 19,552  | -                        | 19,552              |
| Unrestricted investment earnings                  |                     |                      |                                    |  | 3,004   | 5,053                    | 8,057               |
| Debt issued                                       |                     |                      |                                    |  | 1,800,000   | -                        | 1,800,000           |
| Miscellaneous revenue                             |                     |                      |                                    |  | 995   | -                        | 995                 |
| Compensation for loss or damage to capital assets |                     |                      |                                    |  | 20,301  | -                        | 20,301              |
| Transfers   |                     |                      |                                    |  | 45,517  | (45,517)                 | -                   |
| Total general revenues and transfers              |                     |                      |                                    |  | <u>3,696,525</u>                                  | <u>(40,464)</u>          | <u>3,656,061</u>    |
| Change in Net Position                            |                     |                      |                                    |  | 904   | 21,637                   | 22,541              |
| Net Position - Beginning, As Previously Stated    |                     |                      |                                    |  | 790,162   | 5,039,894                | 5,830,056           |
| Correction of Error (See Note 10)                 |                     |                      |                                    |  | -   | 19,336                   | 19,336              |
| Change in Reporting (See Note 10)                 |                     |                      |                                    |  | <u>(197,578)</u>                                  | <u>(2,698,150)</u>       | <u>(2,895,728)</u>  |
| Net Position - Beginning, Restated                |                     |                      |                                    |  | <u>592,584</u>                                    | <u>2,361,080</u>         | <u>2,953,664</u>    |
| Net Position - Ending                             |                     |                      |                                    |  | <u>\$ 593,488</u>                                 | <u>\$ 2,382,717</u>      | <u>\$ 2,976,205</u> |

See Notes to Financial Statements

City of Webster  
 Balance Sheet—Modified Cash Basis—Governmental Funds  
 December 31, 2017

|                           | General<br>Fund   | Liquor,<br>Lodging and<br>Dining Gross<br>Receipts Tax<br>Fund | Pool Debt<br>Service<br>Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---------------------------|-------------------|--|------------------------------|-----------------------------------|--------------------------------|
| <b>Assets</b>             |                   |  |                              |                                   |                                |
| Cash and cash equivalents | \$ 182,660        | \$ 181,972   | \$ 37,820                    | \$ 191,036                        | \$ 593,488                     |
|                           | <u>\$ 182,660</u> | <u>\$ 181,972</u>  | <u>\$ 37,820</u>             | <u>\$ 191,036</u>                 | <u>\$ 593,488</u>              |
| <b>Fund Balances</b>      |                   |  |                              |                                   |                                |
| 264 Restricted            | \$ 42,992         | \$ 181,972   | \$ 37,820                    | \$ 191,036                        | \$ 453,820                     |
| 267 Unassigned            | 139,668           | -  | -                            | -                                 | 139,668                        |
|                           | <u>\$ 182,660</u> | <u>\$ 181,972</u>  | <u>\$ 37,820</u>             | <u>\$ 191,036</u>                 | <u>\$ 593,488</u>              |

City of Webster

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds  
Year Ended December 31, 2017

|  | General<br>Fund  | Liquor,<br>Lodging and<br>Dining Gross<br>Receipts Tax<br>Fund | Pool Debt<br>Service<br>Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|------------------|--|------------------------------|-----------------------------------|--------------------------------|
| <b>Revenues</b>                                      |                  |  |                              |                                   |                                |
| 310 Taxes  |                  |  |                              |                                   |                                |
| 311 General property taxes                           | \$ 474,114       | \$ -   | \$ 92,503                    | \$ -                              | \$ 566,617                     |
| 313 General sales and use taxes                      | 1,148,432        | 72,568   | -                            | -                                 | 1,221,000                      |
| 314 Gross receipts business taxes                    | 18,078           | -  | -                            | -                                 | 18,078                         |
| 315 Amusement taxes                                  | 192              | -  | -                            | -                                 | 192                            |
| 319 Penalties and interest on delinquent taxes       | 1,067            | -  | 202                          | -                                 | 1,269                          |
| Total taxes  | <u>1,641,883</u> | <u>72,568</u>  | <u>92,705</u>                | <u>-</u>                          | <u>1,807,156</u>               |
| 320 Licenses and permits                             | <u>8,098</u>     | <u>-</u>   | <u>-</u>                     | <u>-</u>                          | <u>8,098</u>                   |
| 330 Intergovernmental revenue                        |                  |  |                              |                                   |                                |
| 331 Federal grants                                   | 1,313,445        | -  | -                            | -                                 | 1,313,445                      |
| 333 Federal payments in lieu of taxes                | 896              | -  | -                            | -                                 | 896                            |
| 334 State grants                                     | 75,469           | -  | -                            | -                                 | 75,469                         |
| 335 State shared revenue                             |                  |  |                              |                                   |                                |
| 335.01 Bank franchise tax                            | 4,527            | -  | 807                          | -                                 | 5,334                          |
| 335.02 Motor vehicle commercial prorated             | 4,765            | -  | -                            | -                                 | 4,765                          |
| 335.03 Liquor tax reversion                          | 11,709           | -  | -                            | -                                 | 11,709                         |
| 335.04 Motor vehicle licenses (5%)                   | 21,744           | -  | -                            | -                                 | 21,744                         |
| 335.08 Local government highway and bridge fund      | 62,136           | -  | -                            | -                                 | 62,136                         |
| 338 County shared revenue                            |                  |  |                              |                                   |                                |
| 338.01 County road tax (25%)                         | 7,051            | -  | -                            | -                                 | 7,051                          |
| 338.03 County wheel tax                              | 7,824            | -  | -                            | -                                 | 7,824                          |
| 339 Other intergovernmental revenues                 | 1,962            | -  | 547                          | -                                 | 2,509                          |
| Total intergovernmental revenue                      | <u>1,511,528</u> | <u>-</u>   | <u>1,354</u>                 | <u>-</u>                          | <u>1,512,882</u>               |
| 340 Charges for goods and services                   |                  |  |                              |                                   |                                |
| 341 General government                               | 5,269            | -  | -                            | -                                 | 5,269                          |
| 342 Public safety                                    | 7,332            | -  | -                            | -                                 | 7,332                          |
| 346 Culture and recreation                           | 126,176          | -  | -                            | 3,986                             | 130,162                        |
| 348 Cemetery   | 20,825           | -  | -                            | -                                 | 20,825                         |
| Total charges for good and services                  | <u>159,602</u>   | <u>-</u>   | <u>-</u>                     | <u>3,986</u>                      | <u>163,588</u>                 |
| 350 Fines and forfeits                               |                  |  |                              |                                   |                                |
| 353 Parking meter fines                              | 420              | -  | -                            | -                                 | 420                            |
| Total fines and forfeits                             | <u>420</u>       | <u>-</u>   | <u>-</u>                     | <u>-</u>                          | <u>420</u>                     |
| 360 Miscellaneous revenue                            |                  |  |                              |                                   |                                |
| 361 Investment earnings                              | 340              | 233  | -                            | 2,431                             | 3,004                          |
| 362 Rentals  | 13,007           | -  | -                            | -                                 | 13,007                         |
| 363 Special assessments                              | 465              | -  | -                            | -                                 | 465                            |
| 367 Contributions and donations from private sources | 101              | -  | 50,000                       | 90,873                            | 140,974                        |
| 369 Other  | 995              | -  | -                            | -                                 | 995                            |
| Total miscellaneous revenue                          | <u>14,908</u>    | <u>233</u>   | <u>50,000</u>                | <u>93,304</u>                     | <u>158,445</u>                 |
| Total revenues                                       | <u>3,336,439</u> | <u>72,801</u>  | <u>144,059</u>               | <u>97,290</u>                     | <u>3,650,589</u>               |

City of Webster

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds  
Year Ended December 31, 2017

|   | General<br>Fund | Liquor,<br>Lodging and<br>Dining Gross<br>Receipts Tax<br>Fund | Pool Debt<br>Service<br>Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-----------------|--|------------------------------|-----------------------------------|--------------------------------|
| Expenditures  |                 |  |                              |                                   |                                |
| 410 General government                                      |                 |  |                              |                                   |                                |
| 411 Legislative   | 13,909          | -  | -                            | -                                 | 13,909                         |
| 413 Elections   | 704             | -  | -                            | -                                 | 704                            |
| 414 Financial administration                                | 172,962         | -  | -                            | -                                 | 172,962                        |
| 419 Other   | 69,174          | 2,000  | -                            | -                                 | 71,174                         |
| Total general government                                    | 256,749         | 2,000  | -                            | -                                 | 258,749                        |
| 420 Public safety   |                 |  |                              |                                   |                                |
| 421 Police  | 401,571         | -  | -                            | -                                 | 401,571                        |
| 422 Fire  | 97,438          | -  | -                            | 33,959                            | 131,397                        |
| Total public safety   | 499,009         | -  | -                            | 33,959                            | 532,968                        |
| 430 Public works  |                 |  |                              |                                   |                                |
| 431 Highways and streets                                    | 363,619         | -  | -                            | -                                 | 363,619                        |
| 435 Airport   | 155,263         | -  | -                            | -                                 | 155,263                        |
| 437 Cemeteries  | 55,961          | -  | -                            | -                                 | 55,961                         |
| 439 Transit   | -               | 3,000  | -                            | -                                 | 3,000                          |
| Total public works  | 574,843         | 3,000  | -                            | -                                 | 577,843                        |
| 450 Culture and recreation                                  |                 |  |                              |                                   |                                |
| 451 Recreation  | 264,456         | -  | 42,564                       | 37,292                            | 344,312                        |
| 452 Parks   | 78,748          | 1,568  | -                            | 725                               | 81,041                         |
| 455 Libraries   | 66,752          | -  | -                            | 3,018                             | 69,770                         |
| 456 Auditorium  | -               | 25,000   | -                            | -                                 | 25,000                         |
| Total culture and recreation                                | 409,956         | 26,568   | 42,564                       | 41,035                            | 520,123                        |
| 460 Conservation and development                            |                 |  |                              |                                   |                                |
| 466 Economic opportunity                                    | -               | 10,000   | -                            | -                                 | 10,000                         |
| Total conservation and development                          | -               | 10,000   | -                            | -                                 | 10,000                         |
| 470 Debt service  | 29,053          | -  | 1,914,198                    | -                                 | 1,943,251                      |
| 485 Capital outlay  | 1,654,278       | -  | -                            | 18,291                            | 1,672,569                      |
| Total expenditures  | 3,423,888       | 41,568   | 1,956,762                    | 93,285                            | 5,515,503                      |
| Other Financing Sources                                     |                 |  |                              |                                   |                                |
| 391.01 Transfers in   | 45,517          | -  | 16,000                       | -                                 | 61,517                         |
| 391.04 Compensation for loss<br>or damage to capital assets | 20,301          | -  | -                            | -                                 | 20,301                         |
| 391.20 Long-term debt issued                                | -               | -  | 1,800,000                    | -                                 | 1,800,000                      |
| 511 Transfers out   | (16,000)        | -  | -                            | -                                 | (16,000)                       |
| Total other financing sources                               | 49,818          | -  | 1,816,000                    | -                                 | 1,865,818                      |
| Net Change in Fund Balance                                  | (37,631)        | 31,233   | 3,297                        | 4,005                             | 904                            |
| Fund Balance - Beginning, As Previously Stated              | 361,644         | 155,855  | 35,720                       | 236,943                           | 790,162                        |
| Change in Reporting (See Note 10)                           | (141,353)       | (5,116)  | (1,197)                      | (49,912)                          | (197,578)                      |
| Net Position - Beginning, Restated                          | 220,291         | 150,739  | 34,523                       | 187,031                           | 592,584                        |
| Fund Balance - Ending                                       | \$ 182,660      | \$ 181,972   | \$ 37,820                    | \$ 191,036                        | \$ 593,488                     |

City of Webster  
Statement of Net Position—Modified Cash Basis—Proprietary Funds  
December 31, 2017

|  | Enterprise Funds  |                     |                   | Totals              |
|--|-------------------|---------------------|-------------------|---------------------|
|  | Water Fund        | Sewer Fund          | Liquor Fund       |                     |
| Assets                                     |                   |                     |                   |                     |
| Current Assets                             |                   |                     |                   |                     |
| Cash and cash equivalents                  | \$ 361,734        | \$ 1,207,540        | \$ 361,579        | \$ 1,930,853        |
| Total current assets                       | <u>361,734</u>    | <u>1,207,540</u>    | <u>361,579</u>    | <u>1,930,853</u>    |
| Noncurrent Assets                          |                   |                     |                   |                     |
| 107.1 Restricted cash and cash equivalents | <u>131,067</u>    | <u>320,797</u>      | <u>-</u>          | <u>451,864</u>      |
| Total noncurrent assets                    | <u>131,067</u>    | <u>320,797</u>      | <u>-</u>          | <u>451,864</u>      |
|  | <u>\$ 492,801</u> | <u>\$ 1,528,337</u> | <u>\$ 361,579</u> | <u>\$ 2,382,717</u> |
| Net Position                               |                   |                     |                   |                     |
| 253.20 Restricted net position for:        |                   |                     |                   |                     |
| 253.21 Revenue bond debt service           | \$ 51,867         | \$ 244,666          | \$ -              | \$ 296,533          |
| 253.22 Revenue bond retirement             | -                 | 76,131              | -                 | 76,131              |
| 253.26 Equipment repair and/or replacement | 79,200            | -                   | -                 | 79,200              |
| 253.90 Unrestricted                        | <u>361,734</u>    | <u>1,207,540</u>    | <u>361,579</u>    | <u>1,930,853</u>    |
| Total net position                         | <u>492,801</u>    | <u>1,528,337</u>    | <u>361,579</u>    | <u>2,382,717</u>    |
|  | <u>\$ 492,801</u> | <u>\$ 1,528,337</u> | <u>\$ 361,579</u> | <u>\$ 2,382,717</u> |

City of Webster

Statement of Revenues, Expenses and Changes in Fund Net Position—Modified Cash Basis—Proprietary Funds  
Year Ended December 31, 2017

|  | Enterprise Funds  |                     |                           | Totals<br>(Restated) |
|--|-------------------|---------------------|---------------------------|----------------------|
|  | Water Fund        | Sewer Fund          | Liquor Fund<br>(Restated) |                      |
| Operating Revenue                              |                   |                     |                           |                      |
| 380 Charges for goods and services             | \$ 441,330        | \$ 352,709          | \$ 1,417,944              | \$ 2,211,983         |
| 380 Debt service surcharge                     | -                 | 121,899             | -                         | 121,899              |
| Total operating revenue                        | <u>441,330</u>    | <u>474,608</u>      | <u>1,417,944</u>          | <u>2,333,882</u>     |
| Operating Expenses                             |                   |                     |                           |                      |
| 410 Personal services                          | 87,653            | 126,904             | 130,404                   | 344,961              |
| 420 Other current expense                      | 245,591           | 41,386              | 70,979                    | 357,956              |
| 426.2 Materials                                | -                 | -                   | 1,168,879                 | 1,168,879            |
| 430 Capital assets                             | 61,852            | 145,493             | 2,930                     | 210,275              |
| Total operating expenses                       | <u>395,096</u>    | <u>313,783</u>      | <u>1,373,192</u>          | <u>2,082,071</u>     |
| Operating Income                               | <u>46,234</u>     | <u>160,825</u>      | <u>44,752</u>             | <u>251,811</u>       |
| Nonoperating Revenue (Expense)                 |                   |                     |                           |                      |
| 330 Operating grants                           | -                 | 7,447               | -                         | 7,447                |
| 361 Investment earnings                        | 916               | 3,013               | 1,124                     | 5,053                |
| 440 Debt service principal                     | (46,264)          | (84,728)            | -                         | (130,992)            |
| 442 Interest expense                           | (8,703)           | (57,462)            | -                         | (66,165)             |
| Total nonoperating revenue (expense)           | <u>(54,051)</u>   | <u>(131,730)</u>    | <u>1,124</u>              | <u>(184,657)</u>     |
| Income (Loss) Before Transfers                 | (7,817)           | 29,095              | 45,876                    | 67,154               |
| 511 Transfers out                              | -                 | -                   | (45,517)                  | (45,517)             |
| Net Change in Fund Balance                     | (7,817)           | 29,095              | 359                       | 21,637               |
| Net Position - Beginning, As Previously Stated | 1,107,052         | 3,564,670           | 368,172                   | 5,039,894            |
| Correction of Error (See Note 10)              | -                 | -                   | 19,336                    | 19,336               |
| Change in Reporting (See Note 10)              | (606,434)         | (2,065,428)         | (26,288)                  | (2,698,150)          |
| Net Position - Beginning, Restated             | <u>500,618</u>    | <u>1,499,242</u>    | <u>361,220</u>            | <u>2,361,080</u>     |
| Net Position - Ending                          | <u>\$ 492,801</u> | <u>\$ 1,528,337</u> | <u>\$ 361,579</u>         | <u>\$ 2,382,717</u>  |

City of Webster  
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds  
Year Ended December 31, 2017

|  | Enterprise Funds  |                     |                   |                     |
|--|-------------------|---------------------|-------------------|---------------------|
|  | Water Fund        | Sewer Fund          | Liquor Fund       | Totals              |
| Cash Flows from Operating Activities   |                   |                     |                   |                     |
| Receipts from customers  | \$ 441,330        | \$ 474,608          | \$ 1,417,944      | \$ 2,333,882        |
| Payments to suppliers  | (245,591)         | (41,386)            | (1,239,858)       | (1,526,835)         |
| Payments to employees  | (87,653)          | (126,904)           | (130,404)         | (344,961)           |
| Net Cash from Operating Activities   | <u>108,086</u>    | <u>306,318</u>      | <u>47,682</u>     | <u>462,086</u>      |
| Cash Flows used for Noncapital and Related Financing Activities                  |                   |                     |                   |                     |
| Transfers out  | -                 | -                   | (45,517)          | (45,517)            |
| Net Cash used for Noncapital and Related Financing Activities                    | <u>-</u>          | <u>-</u>            | <u>(45,517)</u>   | <u>(45,517)</u>     |
| Cash Flows from (used for) Capital and Related Financing Activities              |                   |                     |                   |                     |
| Operating grants   | -                 | 7,447               | -                 | 7,447               |
| Purchase of capital assets   | (61,852)          | (145,493)           | (2,930)           | (210,275)           |
| Principal paid on capital debt   | (46,264)          | (84,728)            | -                 | (130,992)           |
| Interest paid on capital debt  | (8,703)           | (57,462)            | -                 | (66,165)            |
| Net Cash used for Capital and Related Financing Activities                       | <u>(116,819)</u>  | <u>(280,236)</u>    | <u>(2,930)</u>    | <u>(399,985)</u>    |
| Cash Flows from Investing Activities   |                   |                     |                   |                     |
| Interest earnings  | 916               | 3,013               | 1,124             | 5,053               |
| Net Cash from Investing Activities   | <u>916</u>        | <u>3,013</u>        | <u>1,124</u>      | <u>5,053</u>        |
| Net Change in Cash and Cash Equivalents  | (7,817)           | 29,095              | 359               | 21,637              |
| Cash and Cash Equivalents - Beginning  | 500,618           | 1,499,242           | 361,220           | 2,361,080           |
| Cash and Cash Equivalents - Ending   | <u>\$ 492,801</u> | <u>\$ 1,528,337</u> | <u>\$ 361,579</u> | <u>\$ 2,382,717</u> |
| Cash and Cash Equivalents Consist of:  |                   |                     |                   |                     |
| Cash and cash equivalents  | \$ 361,734        | \$ 1,207,540        | \$ 361,579        | \$ 1,930,853        |
| Restricted cash and cash equivalents   | 131,067           | 320,797             | -                 | 451,864             |
|  | <u>\$ 492,801</u> | <u>\$ 1,528,337</u> | <u>\$ 361,579</u> | <u>\$ 2,382,717</u> |
| Reconciliation of Operating Income to Net Cash from Operating activities         |                   |                     |                   |                     |
| Operating income   | \$ 46,234         | \$ 160,825          | \$ 44,752         | \$ 251,811          |
| Adjustments to reconcile operating income to net cash from operating activities: |                   |                     |                   |                     |
| Purchase of capital assets included in capital and related financing activities  | 61,852            | 145,493             | 2,930             | 210,275             |
| Net Cash from Operating Activities   | <u>\$ 108,086</u> | <u>\$ 306,318</u>   | <u>\$ 47,682</u>  | <u>\$ 462,086</u>   |

## **Note 1 - Summary of Significant Accounting Policies**

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

### **A. Financial Reporting Entity**

The reporting entity of the City of Webster (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal 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 City's financial statements to be misleading or incomplete.

The reporting entity is comprised of the primary government, City of Webster, and one component unit, The Housing and Redevelopment Commission.

The Housing and Redevelopment Commission of the City of Webster (commission) is a component unit of the City of Webster. The five members of the Commission are appointed by the Mayor with the approval of the governing body for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The governing board, though, retains the statutory authority to approve or deny or otherwise modify the commission's plans to construct a housing unit, or to issue debt, which gives the governing board the ability to impose its will on the commission. Due to the financial statements of this entity being excluded from the City's financial statements, the opinion of the auditor's report has been modified.

The City's activities are presented using a modified cash basis of accounting while the component unit uses generally accepted accounting principles (GAAP). Based on the variance in the basis of accounting, the City has elected to present only the primary government activities. The component unit's financial statements are available upon request from The Housing and Redevelopment Commission of the City of Webster.

### **B. Basis of Presentation**

#### **Government-Wide Financial Statements**

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

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City'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 City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 10% 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% 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 City of Webster are described below:

### **Governmental Funds**

**General Fund** – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

**Special Revenue Funds** – Special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

- **Liquor, Lodging and Dining Gross Receipts Tax Fund** – To account for an additional one percent sales tax on the gross receipts of lodging, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, constructions costs, payments for civic center, auditorium or athletic facilities buildings including the promotion of advertising of the city (SDCL 10-52A-2). This is a major fund.
- The remaining Special Revenue Funds are reported in the aggregate in the nonmajor governmental funds column on the fund financial statements: Community Development Fund, Active Living Trail Fund, Library Fines Fund, Fire Department Fund, Golf Course Caddie Fund, and Diamond Trust Fund. These are not major funds.

**Debt Service Funds** – Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

- **Pool Debt Service Fund** – To account for property taxes which may be used only for the payment of the debt principal, interest, and related costs. This is a major fund.

## **Proprietary Funds**

Enterprise Funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City reports the following enterprise funds:

- Water Fund - Financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL 9-47-1) This is a major fund.
- Sewer Fund - Financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.
- Liquor Fund – Financed by consumer charges, this fund accounts for the operation of the municipal liquor store and related equipment. This is a major fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City’s enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### **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.

#### **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 applied within the limitations of the modified cash basis of accounting.

## **Basis of Accounting**

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involved modifications to the cash basis of accounting to report in the statement of net position or balance sheet cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such report balances include restricted cash and cash equivalents and interfund advances and borrowings arising from the use of a pooled cash account.

The modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables) and certain liabilities and their related expense or expenditures (such as accounts payable and expenses for goods and services received but not yet paid, and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows of resources that do not arise from a cash transaction or event that would be reported in GAAP basis financial statements (such as donated assets) are not reported in this modified cash basis presentation, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

## **D. Deposits**

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.

## **E. Interfund Eliminations and Reclassifications**

### **Government-Wide Financial 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:

- The City did not have any interfund receivables and payables which required elimination as of December 31, 2017.
- The City did not have internal service fund activity which required elimination as of December 31, 2017.

## **F. Capital Assets**

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs.

### **G. Long-Term Liabilities**

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances are 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. Under the modified cash basis, the accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

### **H. Program Revenues**

In the government-wide statement of activities, reported program revenues derive directly from the program itself or from parties other than the City'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 as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

### **J. Cash and Cash Equivalents**

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

## **K. Equity Classifications**

### **Government-Wide Statements**

Equity is classified as net position and is comprised of three components, invested in capital assets, net of related debt; restricted net position; and unrestricted net position. Because capital assets are not reported by the City under the modified cash basis of accounting, only the following components are displayed:

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

### **Fund Financial Statements**

Governmental fund equity is classified as fund balance, and may distinguish between nonspendable, restricted, committed, assigned and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

## **L. Application of Net Position and Fund Balance**

The City uses restricted/committed amounts first when both restricted and unrestricted net position or fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

## **M. Fund Balance Classification Policies and Procedures**

The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance - Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance - Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance.
- Assigned Fund Balance - Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).
- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

The purpose of each major special revenue fund and revenue source is listed below:

| <u>Major Special Revenue Fund</u>                   | <u>Revenue Source</u> |
|---|-----------------------|
| Liquor, Lodging, and Dining Gross Receipts Tax Fund | Sales taxes           |

**N. Rounding**

Computer generated rounding variances exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

**Note 2 - Deposits and Investments**

The City 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 City’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% 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.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2017, the City maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

The actual bank balances at December 31, 2017 are as follows:

|  |                     |
|--|---------------------|
|  | <u>Bank Balance</u> |
| Insured (FDIC/NCUA)  | \$ 504,982          |
| Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution | 2,457,038           |
|  | <u>\$ 2,962,020</u> |

The City’s carrying amount of deposits at December 31, 2017 is as follows:

|                           |              |
|---------------------------|--------------|
| Cash and cash equivalents | \$ 2,976,205 |
|                           | \$ 2,976,205 |

**Investments**

In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

**Interest Rate Risk** – The City 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. As of December 31, 2017, the City does not have any investments.

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

**Assignment of Investment Income** - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City’s policy is to credit all income from investments to the fund making the investment, as required by SDCL 9-32-18.

**Note 3 - Property Taxes**

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

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

#### Note 4 - Retirement Plan

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

#### Benefits Provided

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

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

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3<sup>rd</sup> 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 3<sup>rd</sup> 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% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Member, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City’s share of contributions made to the SDRS for the years ended December 31, 2017, 2016 and 2015 were \$45,913, \$45,708, and \$41,629, respectively, equal to the required contributions each year.

**Pension Liability (Asset)**

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

|  |              |
|--|--------------|
| Proportionate share of pension liability                                 | \$ 4,255,127 |
| Less proportionate share of net position restricted for pension benefits | 4,258,446    |
| Proportionate share of net pension liability (asset)                     | \$ (3,319)   |

At December 31, 2017, the City’s proportionate share is a liability (asset) of \$(3,319) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the City’s proportion was 0.03657%, which is a decrease of 0.00072% from its proportion measured as of June 30, 2016 of 0.03729%. The City’s proportionate share net pension liability is not reported in financial statements shown under the modified cash basis of accounting.

**Actuarial Assumptions**

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

|                           |  |
|---------------------------|--|
| Inflation                 | 2.25%  |
| Salary increases          | Graded by years of service, from 6.50% at entry to 3.00% |
| Investment rate of return | 6.50% net of plan investment expense                     |

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

| Asset Class   | Target Allocation | Long-Term Expected Real Rate of Return |
|---------------|-------------------|--|
| Global Equity | 58.0%             | 4.8%                                   |
| Fixed Income  | 30.0%             | 1.8%                                   |
| Real Estate   | 10.0%             | 4.6%                                   |
| Cash          | 2.0%              | 0.7%                                   |
|               | 100.0%            |  |

### 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 employee contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

### Sensitivity of Liability (Asset) to Changes in the Discount Rate

The following presents the City's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50%, as well as what the City'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:

|   | 1% Decrease | Current Discount Rate | 1% Increase  |
|---|-------------|-----------------------|--------------|
| City's proportionate share of the net pension liability (asset) | \$ 607,863  | \$ (3,319)            | \$ (501,020) |

### Pension Plan Fiduciary Net Position

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

**Note 5 - Significant Contingencies - Litigation**

At December 31, 2017, the City was not involved in any litigation that would be material to the financial statements.

**Note 6 - Restricted Net Position**

The following table shows the net position restricted for other purposes as shown on the statement of net position:

| <u>Fund</u>  | <u>Restricted By</u> | <u>Amount</u> |
|--|----------------------|---------------|
| Cemetery   | State Law            | \$ 42,992     |
| Liquor, Lodging, and Dining<br>Gross Receipts Sales Tax Fund | State Law            | 181,972       |
| Pool Debt Service Fund                                       | Contractual          | 37,820        |
| Community Development Fund                                   | State Law            | 142,878       |
| Active Living Trail Fund                                     | State Law            | 5,082         |
| Library Fines Fund   | State Law            | 15,108        |
| Fire Department Fund   | State Law            | 8,901         |
| Golf Course Caddie Fund                                      | State Law            | 6,784         |
| Diamond Trust Fund   | State Law            | 12,283        |
| Water Fund   | Contractual          | 131,067       |
| Sewer Fund   | Contractual          | 320,797       |

**Note 7 - Risk Management**

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

**Employee Health Insurance**

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Municipality pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes a \$2,000,000 lifetime maximum payment per person.

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

**Liability Insurance**

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City’s responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage generally for general liability, official’s liability, automobile liability, law enforcement liability, and physical damage, property and, boiler and machinery. The City purchases airport bodily injury and property damage liability insurance and surety bond coverage from a commercial insurance carrier.

The agreement with the SDPAA provides that the above coverages will be provided to various limits depending on the area of liability coverage. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

|                                |      |
|--------------------------------|------|
| First Full Year                | 50%  |
| Second Full Year               | 60%  |
| Third Full Year                | 70%  |
| Fourth Full Year               | 80%  |
| Fifth Full Year                | 90%  |
| Sixth Full Year and Thereafter | 100% |

As of December 31, 2017, the City has vested balance in the cumulative reserve fund of \$44,118.

The agreement with the South Dakota Public Assurance Alliance provides for various coverage limits. The City carries various deductibles for different types of coverage. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

### **Worker's Compensation**

The City 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 City'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 City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

### **Unemployment Benefits**

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

### **Note 8 - Commitments**

During 2017, the City approved a runway construction project for the airport. The total estimated cost of the project is \$2,200,000. The project is financed by federal grants of \$1,998,000, state grants of \$111,000, and local funds of \$111,000. Expenditures to date on this project as of December 31, 2017 are \$1,422,201.

### **Note 9 - Interfund Transactions**

During 2017, the City made the following transfers:

- The General Fund transferred \$16,000 to the Pool Debt Service Fund to cover required debt payments.
- The Liquor Fund transferred \$45,517 to the General Fund to cover operations.

### **Note 10 - Change in Basis of Accounting and Correction of Error**

During 2017, the City elected, as permitted by state law, to perform its financial reporting 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, rather than on the accrual basis of accounting, as required by generally accepted accounting principles. Based on the change in basis of accounting, the City restated balances as of January 1, 2017 for net positions and fund balances as noted in the tables below.

The City also identified misstatements within the 2016 financial statements related to the understatement of net position related to the cutoff date of the monthly liquor store reports. The City restated the Business-Type Activities and Liquor Fund net positions to appropriately reflect the January 1, 2017 balances as noted in the tables below.

The effects on the January 1, 2017 balances from the change in basis of accounting and correction of error are as follows:

|   | Governmental<br>Activities | Business-Type<br>Activities | Total               |
|---|----------------------------|-----------------------------|---------------------|
| Net position at December 31, 2016, as previously stated | \$ 790,162                 | \$ 5,039,894                | \$ 5,830,056        |
| Correction of error                                     | -                          | 19,336                      | 19,336              |
| Change in reporting                                     | (197,578)                  | (2,698,150)                 | (2,895,728)         |
| Net position at January 1, 2017, as restated            | <u>\$ 592,584</u>          | <u>\$ 2,361,080</u>         | <u>\$ 2,953,664</u> |

|   | General<br>Fund   | Liquor,<br>Lodging and<br>Dining Gross<br>Receipts Tax<br>Fund | Pool Debt<br>Service<br>Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-------------------|--|------------------------------|-----------------------------------|--------------------------------|
| Fund balance at December 31, 2016, as previously stated | \$ 361,644        | \$ 155,855   | \$ 35,720                    | \$ 236,943                        | \$ 790,162                     |
| Change in reporting                                     | (141,353)         | (5,116)  | (1,197)                      | (49,912)                          | (197,578)                      |
| Fund balance at January 1, 2017, as restated            | <u>\$ 220,291</u> | <u>\$ 150,739</u>  | <u>\$ 34,523</u>             | <u>\$ 187,031</u>                 | <u>\$ 592,584</u>              |

|   | Water Fund        | Sewer Fund          | Liquor Fund       | Totals              |
|---|-------------------|---------------------|-------------------|---------------------|
| Net position at December 31, 2016, as previously stated | \$ 1,107,052      | \$ 3,564,670        | \$ 368,172        | \$ 5,039,894        |
| Correction of error                                     | -                 | -                   | 19,336            | 19,336              |
| Change in reporting                                     | (606,434)         | (2,065,428)         | (26,288)          | (2,698,150)         |
| Net position at January 1, 2017, as restated            | <u>\$ 500,618</u> | <u>\$ 1,499,242</u> | <u>\$ 361,220</u> | <u>\$ 2,361,080</u> |

### Note 11 - Subsequent Event

Subsequent to year end, the City approved a fire station renovation and addition project. The total estimated cost of the project is approximately \$1,584,000. The project is to be financed by a \$991,000 loan from United States Department of Agriculture – Rural Development, \$309,000 Community Development Block Grant, and local funds of \$284,000.

### Note 12 - Related Party Transactions

During 2017, the City purchased \$4,500 of supplies from a local store which is owned by the Mayor.



Supplementary Information  
December 31, 2017  
**City of Webster**

City of Webster  
Schedule of Employer's Share of Net Pension Liability (Asset) and Employer's Contribution  
Year Ended December 31, 2017

| Pension Plan | Fiscal Year Ending | City's Percentage of the Net Pension Liability (Asset) | City's Proportionate Share of the Net Pension Liability (Asset) (a) | City's Covered Payroll (b) | City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset) |
|--------------|--------------------|--|---|----------------------------|--|--|
| SDRS         | 6/30/2017          | 0.0366%  | \$ (3,319)  | \$ 674,029                 | -0.5%  | 100.1%   |
| SDRS         | 6/30/2016          | 0.0373%  | 125,956   | 635,955                    | 19.8%  | 96.89%   |
| SDRS         | 6/30/2015          | 0.0362%  | (153,734)   | 601,454                    | 25.6%  | 104.1%   |

| Pension Plan | Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Covered Payroll (d) | Contributions as a Percentage of Covered Payroll (b/d) |
|--------------|-------------|---------------------------------------|--|--|---------------------|--|
| SDRS         | 12/31/2017  | \$ 45,913                             | \$ 45,913  | \$ -                                   | \$ 691,754          | 6.6%   |
| SDRS         | 12/31/2016  | 43,496                                | 43,496   | -                                      | 655,750             | 6.6%   |
| SDRS         | 12/31/2015  | 41,629                                | 41,629   | -                                      | 624,769             | 6.7%   |

\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.



City of Webster  
Schedule of Changes in Notes and Bonds Payable  
Year Ended December 31, 2017

| <u>Governmental activities</u>     | Notes and<br>Bonds Payable<br>1/1/17 | Add<br>New Debt     | Less<br>Debt Retired  | Notes and<br>Bonds Payable<br>12/31/17 |
|------------------------------------|--------------------------------------|---------------------|-----------------------|--|
| Governmental Long-Term Debt        |                                      |                     |                       |  |
| Note Payable                       | \$ 86,405                            | \$ -                | \$ (25,701)           | \$ 60,704                              |
| Swimming Pool Note                 | 1,850,000                            | 1,800,000           | (1,850,000)           | 1,800,000                              |
| Enterprise Notes and Bonds Payable |                                      |                     |                       |  |
| State Revolving Fund Loan          |                                      |                     |                       |  |
| Drinking Water                     | 133,146                              | -                   | (17,805)              | 115,341                                |
| Clean Water                        | 337,200                              | -                   | (45,091)              | 292,109                                |
| Water Meters                       | 102,286                              | -                   | (16,854)              | 85,432                                 |
| USDA RD Loan - Lagoon              | 1,510,072                            | -                   | (48,141)              | 1,461,931                              |
|                                    | <u>\$ 4,019,109</u>                  | <u>\$ 1,800,000</u> | <u>\$ (2,003,592)</u> | <u>\$ 3,815,517</u>                    |

City of Webster  
Budgetary Comparison Schedule—General Fund  
Year Ended December 31, 2017

|   | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|------------------|------------------|-------------------|---|
|   | Original         | Final            |                   |   |
| <b>Revenues</b>   |                  |                  |                   |   |
| 310 Taxes   |                  |                  |                   |   |
| 311 General property taxes                              | \$ 481,000       | \$ 481,000       | \$ 474,114        | \$ (6,886)  |
| 313 General sales and use taxes                         | 900,000          | 900,000          | 1,148,432         | 248,432   |
| 314 Gross receipts business taxes                       | 16,000           | 16,000           | 18,078            | 2,078   |
| 315 Amusement   | 700              | 700              | 192               | (508)   |
| 319 Penalties and interest on<br>delinquent taxes       | 1,500            | 1,500            | 1,067             | (433)   |
| Total taxes   | <u>1,399,200</u> | <u>1,399,200</u> | <u>1,641,883</u>  | <u>242,683</u>  |
| 320 Licenses and permits                                | <u>8,000</u>     | <u>8,000</u>     | <u>8,098</u>      | <u>98</u>   |
| 330 Intergovernmental revenue                           |                  |                  |                   |   |
| 331 Federal grants                                      | -                | 1,360,037        | 1,313,445         | (46,592)  |
| 333 Federal payments in lieu of taxes                   | -                | -                | 896               | 896   |
| 334 State grants  | -                | 6,375            | 75,469            | 69,094  |
| 335 State shared revenue                                |                  |                  |                   |   |
| 335.01 Bank franchise tax                               | 7,000            | 7,000            | 4,527             | (2,473)   |
| 335.02 Motor vehicle commercial prorate                 | 5,000            | 5,000            | 4,765             | (235)   |
| 335.03 Liquor tax reversion                             | 12,000           | 12,000           | 11,709            | (291)   |
| 335.04 Motor vehicle licenses (5%)                      | 17,000           | 17,000           | 21,744            | 4,744   |
| 335.08 Local government highway and<br>bridge fund      | 66,000           | 66,000           | 62,136            | (3,864)   |
| 338 County shared revenue                               |                  |                  |                   |   |
| 338.01 County road tax (25%)                            | 4,000            | 4,000            | 7,051             | 3,051   |
| 338.03 County wheel tax                                 | 7,000            | 7,000            | 7,824             | 824   |
| 339 Other intergovernmental revenues                    | 2,000            | 2,000            | 1,962             | (38)  |
| Total intergovernmental revenue                         | <u>120,000</u>   | <u>1,486,412</u> | <u>1,511,528</u>  | <u>25,116</u>   |
| 340 Charges for good and services                       |                  |                  |                   |   |
| 341 General government                                  | 4,000            | 4,000            | 5,269             | 1,269   |
| 342 Public safety                                       | 7,000            | 7,000            | 7,332             | 332   |
| 346 Culture and recreation                              | 113,000          | 113,000          | 126,176           | 13,176  |
| 348 Cemetery  | 12,000           | 12,000           | 20,825            | 8,825   |
| Total charges for goods and services                    | <u>136,000</u>   | <u>136,000</u>   | <u>159,602</u>    | <u>23,602</u>   |
| 350 Fines and forfeits                                  |                  |                  |                   |   |
| 351 Court fines and costs                               | 1,000            | 1,000            | -                 | (1,000)   |
| 353 Parking meter fines                                 | 500              | 500              | 420               | (80)  |
| Total fines and forfeits                                | <u>1,500</u>     | <u>1,500</u>     | <u>420</u>        | <u>(1,080)</u>  |
| 360 Miscellaneous revenue                               |                  |                  |                   |   |
| 361 Investment earnings                                 | 2,000            | 2,000            | 340               | (1,660)   |
| 362 Rentals   | 14,000           | 14,000           | 13,007            | (993)   |
| 363 Special assessments                                 | 500              | 500              | 465               | (35)  |
| 367 Contributions and donations from<br>private sources | -                | -                | 101               | 101   |
| 369 Other   | -                | -                | 995               | 995   |
| Total miscellaneous revenue                             | <u>16,500</u>    | <u>16,500</u>    | <u>14,908</u>     | <u>(1,592)</u>  |
| Total revenues  | <u>1,681,200</u> | <u>3,047,612</u> | <u>3,336,439</u>  | <u>288,827</u>  |

City of Webster  
Budgetary Comparison Schedule—General Fund  
Year Ended December 31, 2017

|  | Budgeted Amounts  |                    | Actual<br>Amounts | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|-------------------|--------------------|-------------------|---|
|  | Original          | Final              |                   |   |
| Expenditures   |                   |                    |                   |   |
| 410 General government                                   |                   |                    |                   |   |
| 411 Legislative  | 13,500            | 13,950             | 13,909            | 41  |
| 411.5 Contingency  | 132,000           | 132,000            |                   |   |
| Amount transferred                                       | (132,000)         | (132,000)          | -                 | -   |
| 413 Elections  | 1,000             | 1,000              | 704               | 296   |
| 414 Financial administration                             | 155,000           | 173,100            | 172,962           | 138   |
| 419 Other  | 65,000            | 69,904             | 69,174            | 730   |
| Total general government                                 | <u>234,500</u>    | <u>257,954</u>     | <u>256,749</u>    | <u>1,205</u>  |
| 420 Public safety  |                   |                    |                   |   |
| 421 Police   | 380,000           | 451,462            | 447,088           | 4,374   |
| 422 Fire   | 35,000            | 99,540             | 97,438            | 2,102   |
| Total public safety                                      | <u>415,000</u>    | <u>551,002</u>     | <u>544,526</u>    | <u>6,476</u>  |
| 430 Public works   |                   |                    |                   |   |
| 431 Highways and streets                                 | 603,000           | 617,000            | 617,809           | (809)   |
| 435 Airport  | 20,000            | 1,457,537          | 1,457,220         | 317   |
| 437 Cemetery   | 55,000            | 68,000             | 58,461            | 9,539   |
| Total public works                                       | <u>678,000</u>    | <u>2,142,537</u>   | <u>2,133,490</u>  | <u>9,047</u>  |
| 450 Culture and recreation                               |                   |                    |                   |   |
| 451 Recreation   | 258,200           | 295,200            | 294,170           | 1,030   |
| 452 Parks  | 83,000            | 113,913            | 99,148            | 14,765  |
| 455 Library  | 60,000            | 67,600             | 66,752            | 848   |
| Total culture and recreation                             | <u>401,200</u>    | <u>476,713</u>     | <u>460,070</u>    | <u>16,643</u>   |
| 470 Debt service   | 32,000            | 32,000             | 29,053            | 2,947   |
| Total expenditures                                       | <u>1,760,700</u>  | <u>3,460,206</u>   | <u>3,423,888</u>  | <u>36,318</u>   |
| Other Financing Sources                                  |                   |                    |                   |   |
| 391.01 Transfers in                                      | 160,200           | 160,200            | 45,517            | (114,683)   |
| 391.04 Compensation for loss/damage to<br>capital assets | -                 | -                  | 20,301            | 20,301  |
| 511 Transfer out   | (10,700)          | (10,700)           | (16,000)          | (5,300)   |
| Total other financing sources                            | <u>149,500</u>    | <u>149,500</u>     | <u>49,818</u>     | <u>(99,682)</u>   |
| Net Change in Fund Balance                               | 70,000            | (263,094)          | (37,631)          | 225,463   |
| Fund Balance - Beginning, As Previously Stated           | 361,644           | 361,644            | 361,644           | -   |
| Change in Reporting (See Note 10)                        | (141,353)         | (141,353)          | (141,353)         | -   |
| Net Position - Beginning, Restated                       | 220,291           | 220,291            | 220,291           | -   |
| Fund Balance - Ending                                    | <u>\$ 290,291</u> | <u>\$ (42,803)</u> | <u>\$ 182,660</u> | <u>\$ 225,463</u>                                       |

City of Webster  
 Budgetary Comparison Schedule—Liquor, Lodging and Dining Gross Receipts Tax Fund  
 Year Ended December 31, 2017

|  | Budgeted Amounts |            | Actual Amounts<br>(Budgetary<br>Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|------------|--|---|
|  | Original         | Final      |  |   |
| Revenues                                       |                  |            |  |   |
| 310 Taxes                                      |                  |            |  |   |
| 313 General sales and use taxes                | \$ 60,000        | \$ 60,000  | \$ 72,568                              | \$ 12,568   |
| Total taxes                                    | 60,000           | 60,000     | 72,568                                 | 12,568  |
| 360 Miscellaneous revenue                      |                  |            |  |   |
| 361 Investment earnings                        | -                | -          | 233                                    | 233   |
| Total miscellaneous revenue                    | -                | -          | 233                                    | 233   |
| Total revenues                                 | 60,000           | 60,000     | 72,801                                 | 12,801  |
| Expenditures                                   |                  |            |  |   |
| 410 General government                         |                  |            |  |   |
| 419 Other                                      | 7,000            | 7,000      | 2,000                                  | 5,000   |
| 430 Public works                               |                  |            |  |   |
| 439 Transit                                    | 3,000            | 3,000      | 3,000                                  | -   |
| 450 Culture and recreation                     |                  |            |  |   |
| 452 Parks                                      | 3,500            | 3,500      | 1,568                                  | 1,932   |
| 456 Auditorium                                 | 25,000           | 25,000     | 25,000                                 | -   |
| 460 Conservation and development:              |                  |            |  |   |
| 463 Urban Redevelopment and Housing            | 21,500           | 21,500     | 10,000                                 | 11,500  |
| Total expenditures                             | 60,000           | 60,000     | 41,568                                 | 18,432  |
| Net Change in Fund Balance                     | -                | -          | 31,233                                 | 31,233  |
| Fund Balance - Beginning, As Previously Stated | 155,855          | 155,855    | 155,855                                | -   |
| Change in Reporting (See Note 10)              | (5,116)          | (5,116)    | (5,116)                                | -   |
| Net Position - Beginning, Restated             | 150,739          | 150,739    | 150,739                                | -   |
| Fund Balance - Ending                          | \$ 150,739       | \$ 150,739 | \$ 181,972                             | \$ 31,233   |

City of Webster  
 Combining Balance Sheet—Modified Cash Basis—Nonmajor Governmental Funds  
 December 31, 2017

|                           | <u>Community<br/>Development<br/>Fund</u> | <u>Active<br/>Living Trail<br/>Fund</u> | <u>Library Fines<br/>Fund</u> | <u>Fire<br/>Department<br/>Fund</u> | <u>Golf Course<br/>Caddie<br/>Fund</u> | <u>Diamond Trust<br/>Fund</u> | <u>Total Nonmajor<br/>Governmental<br/>Funds</u> |
|---------------------------|---|---|-------------------------------|-------------------------------------|--|-------------------------------|--|
| Assets                    |   |   |                               |                                     |  |                               |  |
| Cash and cash equivalents | \$ 142,878                                | \$ 5,082                                | \$ 15,108                     | \$ 8,901                            | \$ 6,784                               | \$ 12,283                     | \$ 191,036                                       |
|                           | <u>\$ 142,878</u>                         | <u>\$ 5,082</u>                         | <u>\$ 15,108</u>              | <u>\$ 8,901</u>                     | <u>\$ 6,784</u>                        | <u>\$ 12,283</u>              | <u>\$ 191,036</u>                                |
| Fund Balances             |   |   |                               |                                     |  |                               |  |
| 264 Restricted            | \$ 142,878                                | \$ 5,082                                | \$ 15,108                     | \$ 8,901                            | \$ 6,784                               | \$ 12,283                     | \$ 191,036                                       |
|                           | <u>\$ 142,878</u>                         | <u>\$ 5,082</u>                         | <u>\$ 15,108</u>              | <u>\$ 8,901</u>                     | <u>\$ 6,784</u>                        | <u>\$ 12,283</u>              | <u>\$ 191,036</u>                                |

City of Webster

Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Nonmajor Governmental Funds  
Year Ended December 31, 2017

|  | Community<br>Development<br>Fund | Active<br>Living Trail<br>Fund | Library Fines<br>Fund | Fire<br>Department<br>Fund | Golf Course<br>Caddie<br>Fund | Diamond Trust<br>Fund | Total Nonmajor<br>Governmental<br>Funds |
|--|----------------------------------|--------------------------------|-----------------------|----------------------------|-------------------------------|-----------------------|---|
| <b>Revenues</b>                                      |                                  |                                |                       |                            |                               |                       |   |
| 340 Charges for goods and services                   |                                  |                                |                       |                            |                               |                       |   |
| 346 Culture and recreation                           | \$ -                             | \$ -                           | \$ 3,986              | \$ -                       | \$ -                          | \$ -                  | \$ 3,986                                |
| Total charges for good and services                  | -                                | -                              | 3,986                 | -                          | -                             | -                     | 3,986                                   |
| 360 Miscellaneous revenue                            |                                  |                                |                       |                            |                               |                       |   |
| 361 Investment earnings                              | 2,431                            | -                              | -                     | -                          | -                             | -                     | 2,431                                   |
| 367 Contributions and donations from private sources | 5,484                            | 5,807                          | -                     | 30,122                     | 1,391                         | 48,069                | 90,873                                  |
| Total miscellaneous revenue                          | 7,915                            | 5,807                          | -                     | 30,122                     | 1,391                         | 48,069                | 93,304                                  |
| Total revenues                                       | 7,915                            | 5,807                          | 3,986                 | 30,122                     | 1,391                         | 48,069                | 97,290                                  |
| <b>Expenditures</b>                                  |                                  |                                |                       |                            |                               |                       |   |
| 420 Public safety                                    |                                  |                                |                       |                            |                               |                       |   |
| 422 Fire   | -                                | -                              | -                     | 33,959                     | -                             | -                     | 33,959                                  |
| Total public safety                                  | -                                | -                              | -                     | 33,959                     | -                             | -                     | 33,959                                  |
| 450 Culture and recreation                           |                                  |                                |                       |                            |                               |                       |   |
| 451 Recreation                                       | -                                | -                              | -                     | -                          | 6,427                         | 30,865                | 37,292                                  |
| 452 Parks  | -                                | 725                            | -                     | -                          | -                             | -                     | 725                                     |
| 455 Libraries  | -                                | -                              | 3,018                 | -                          | -                             | -                     | 3,018                                   |
| Total culture and recreation                         | -                                | 725                            | 3,018                 | -                          | 6,427                         | 30,865                | 41,035                                  |
| 485 Capital outlay                                   | -                                | -                              | -                     | -                          | -                             | 18,291                | 18,291                                  |
| Total expenditures                                   | -                                | 725                            | 3,018                 | 33,959                     | 6,427                         | 49,156                | 93,285                                  |
| Net Change in Fund Balance                           | 7,915                            | 5,082                          | 968                   | (3,837)                    | (5,036)                       | (1,087)               | 4,005                                   |
| Fund Balance - Beginning, As Previously Stated       | 185,824                          | -                              | 14,140                | 12,738                     | 11,820                        | 12,421                | 236,943                                 |
| Change in Reporting (See Note 10)                    | (50,861)                         | -                              | -                     | -                          | -                             | 949                   | (49,912)                                |
| Net Position - Beginning, Restated                   | 134,963                          | -                              | 14,140                | 12,738                     | 11,820                        | 13,370                | 187,031                                 |
| Fund Balance - Ending                                | <u>\$ 142,878</u>                | <u>\$ 5,082</u>                | <u>\$ 15,108</u>      | <u>\$ 8,901</u>            | <u>\$ 6,784</u>               | <u>\$ 12,283</u>      | <u>\$ 191,036</u>                       |

### **Note 1 - Budgets and Budgetary Accounting**

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

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

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

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with a modified cash basis of accounting.

### **Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences**

The financial statements prepared on the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances; however, in the budgetary comparison schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

**Note 3 - Pension Schedules**

There are no factors that affect trends in the amounts reported, such as change of benefit terms and assumptions. With only three years reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the SDRS audited financial statements.





**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***

The City Council  
City of Webster  
Webster, South Dakota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Webster (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated September 20, 2018. In our report, we issued an adverse opinion on the aggregate discretely presented component unit because the statements did not include the City’s legally separate component unit. The statements were prepared on the modified cash basis of accounting, a basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses and significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City’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 findings as 2017-A and 2017-B to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-C.

### **City of Webster's Responses to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota  
September 20, 2018



## **Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance**

To the City Council  
City of Webster  
Webster, South Dakota

### **Report on Compliance for the Major Federal Program**

We have audited the City of Webster’s (the City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the City’s major federal program for the year ended December 31, 2017. The City’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

#### **Management’s Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### **Auditor’s Responsibility**

Our responsibility is to express an opinion on the compliance for the City’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City’s compliance.

#### **Opinion on the Major Federal Program**

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

## Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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.

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota  
September 20, 2018

Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2017

| Federal Grantor/Pass-Through Grantor Program Title                                | Pass-Through<br>Identification<br>Number | CFDA<br>Number | Expenditures        |
|---|--|----------------|---------------------|
| US Department of Transportation   |  |                |                     |
| Direct Federal Funding  |  |                |                     |
| Airport Improvement Program (3-46-0059-09-2017)                                   | N/A                                      | 20.106         | \$ 1,412,535        |
| Airport Improvement Program (3-46-0059-08-2014)                                   | N/A                                      | 20.106         | 8,475               |
| Total US Department of Transportation   |  |                | <u>1,421,010</u>    |
| US Department of Homeland Security  |  |                |                     |
| Passed through SD Department of Public Safety - Office of<br>Emergency Management |  |                |                     |
| Homeland Security Grant Program   | 2016-SS-00029-S01                        | 97.067         | 22,964              |
| Total US Department of Homeland Security  |  |                | <u>22,964</u>       |
| US Department of Agriculture:   |  |                |                     |
| Indirect Federal Funding  |  |                |                     |
| SD Department of Agriculture  |  |                |                     |
| Cooperative Forestry Assistance Grant   | 2016-UCF-018                             | 10.664         | 2,025               |
| Total US Department of Agriculture  |  |                | <u>2,025</u>        |
| Total Federal Financial Assistance  |  |                | <u>\$ 1,445,999</u> |

**Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2017. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position and fund balance, or cash flows of the City.

**Note B – Summary of Significant Accounting Policies**

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

**Note C — Indirect Cost Rate**

The City does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

**Section I – Summary of Auditor’s Results**

**FINANCIAL STATEMENTS**

|  |               |
|--|---------------|
| Type of auditor's report issued  | Unmodified*   |
| Internal control over financial reporting:                                   |               |
| Material weaknesses identified   | Yes           |
| Significant deficiencies identified not considered to be material weaknesses | None reported |
| Noncompliance material to financial statements noted?                        | No            |

**FEDERAL AWARDS**

|   |               |
|---|---------------|
| Internal control over major programs:   |               |
| Material weakness(es) identified?   | No            |
| Significant deficiencies identified not considered to be material weaknesses                                    | None reported |
| Type of auditor's report issued on compliance for major programs  | Unmodified    |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516 | No            |

**Identification of major programs:**

| <u>Name of Federal Program</u>   | <u>CFDA Number</u> |
|--|--------------------|
| Airport Improvement Program  | 20.106             |
| Dollar threshold used to distinguish between type A and type B programs: | \$ 750,000         |
| Auditee qualified as low-risk auditee?                                   | No                 |

\* Unmodified except Adverse for aggregate discretely presented component units

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**Section II – Findings Related to the Financial Statements**

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**2017-A Lack of Segregation of Duties**

**Material Weakness**

*Criteria:* A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. It also allows for adequate review of manual adjusting journal entries posted by individual separate from who originated the entry.

*Condition:* City of Webster has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, payroll, and review of manual entries functions because of a lack of segregation of duties.

*Cause:* The City has an insufficient number of staff to adequately separate duties and has determined it would not be cost effective to hire additional staff.

*Effect:* This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

*Recommendation:* Although it is recognized that number of office staff may not be large enough to permit adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the City Council exercise adequate oversight of the accounting function.

*Views of Responsible Officials:* Management agrees with the finding.

**2017-B - Preparation of Financial Statements, Footnotes, Schedule of Expenditures of Federal Awards, and Propensity for Audit Adjustments, Including a Restatement for Correction of Error**

**Material Weakness**

*Criteria:* The City's internal control structure should be designed to provide for the preparation of the financial statements, footnotes, and schedule of expenditures of federal awards, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with the modified cash basis of accounting.

*Condition:* City of Webster requested the external auditors to prepare the financial statements, related notes, and schedule of expenditures of federal awards for the year ended December 31, 2017. As a part of the financial statement preparation process, we proposed both material and non-material audit adjustments, including a restatement of beginning net position related to liquor net position, that were not identified as a result of the City's existing internal controls and, therefore, would result in a material misstatement of the City's financial statements if not recorded.

*Cause:* The City does not have adequate staff trained to prepare financial statements, the related footnotes, and schedule of expenditures of federal awards and causes the need for auditors to at times propose material journal entries.

*Effect:* This condition may affect the City’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The need for proposed audit adjustments and correction of beginning net position indicates that the City’s interim financial information might not be materially correct, which may affect management decisions made during the course of the year

*Recommendation:* This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

*Views of Responsible Officials:* Management agrees with the finding.

### **Finding 2017-C – Compliance with South Dakota Codified Law (SDCL)**

#### **Compliance**

*Criteria:* SDCL 9-22-6.1 requires that budgeted contingency amounts be limited to 5 percent of the municipality’s total governmental funds budget. Also, SDCL 9-22-21 requires that the City’s annual report be given to the board at the first meeting in March, or within thirty days thereafter, if an extension was obtained from the Department of Legislative Audit. After being presented to the board, the annual report is to be filed with the Department of Legislative Audit and published in the official newspaper within thirty days.

*Condition:* The City’s budgeted contingency amount exceeded the 5 percent of the total governmental funds budget. It was also noted that the annual report was not filed with the Department of Legislative Audit or published in the official newspaper within the required time frame.

*Cause:* As it relates to SDCL 9-22-6.1 the City interpreted the law to be 5 percent of the total municipal budget which would include proprietary funds. As it relates to SDCL 9-22-21 the City switched their basis of accounting during 2017 and wanted to ensure they had the correct amounts prior to submitting the annual report to the Department of Legislative Audit and publishing it in the newspaper.

*Effect:* Noncompliance with SDCL 9-22-6.1 and 9-22-21 violates state statute.

*Recommendation:* We recommend the City use only the total of the governmental funds budget when budgeting for a contingency amount. We also recommend the City review and adjust balances timely to ensure that the annual report is filed within the required time frame or request an extension from the Department of Legislative Audit.

*Views of Responsible Officials:* Management agrees with the finding.



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**Section III – Federal Award Findings and Questioned Costs**

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None reported

# City of Webster

*Heart of the South Dakota Lake Region*

P.O. Box 539  
Webster, South Dakota 57274

Telephone  
(605) 345-3241

City of Webster

Corrective Action Plan

December 31, 2017

The City of Webster respectfully submits the following corrective action plan for the year ended December 31, 2017.

The City of Webster is an equal opportunity provider.

## Summary Schedule of Prior Audit Findings

### Finding 2016-001

Finding Summary: This comment is due to the size of the City of Webster, which precludes staffing at a level sufficient to provide an ideal environment for internal controls.

Status: Ongoing. It is not cost effective due to the size of the City and the volume of transactions to have an internal control system designed with additional staff to facilitate the adequate separation of duties in the revenue, expenditures, payroll function, and review of manual journal entries. Management and the City Council are aware of the condition and accept the relevant risks that are presented by this finding. We are aware of this problem and are attempting to provide compensating controls.

### Finding 2016-002

Finding Summary: This comment is due to the highway and street department function exceeding the budget for professional services and payrolls costs. No amendment was made to increase the budgeted amount.

Status: Corrected.

### Finding 2016-003

Finding Summary: This comment is due to the expenditures from the Fire Department's checking account not complying with South Dakota State Statutes.

Status: Corrected.

## **Corrective Action Plan**

### **Finding 2017-A**

**Finding Summary:** This comment is due to the size of the City of Webster, which precludes staffing at a level sufficient to provide an ideal environment for internal controls.

**Responsible Individuals:** Mike Grosek, Mayor

**Corrective Action Plan:** It is not cost effective due to the size of the City and the volume of transactions to have an internal control system designed with additional staff to facilitate the adequate separation of duties in the revenue, expenditures, payroll function, and review of manual journal entries. Management and the City Council are aware of the condition and accept the relevant risks that are presented by this finding. We are aware of this problem and are attempting to provide compensating controls.

**Anticipated Completion Date:** Ongoing

### **Finding 2017-B**

**Finding Summary:** Eide Bailly LLP prepared our draft financial statement and accompanying notes to the financial statements. They also proposed material audit adjustments that would not have been identified as a result of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

**Responsible Individuals:** Mike Grosek, Mayor

**Corrective Action Plan:** It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We requested that our auditors, Eide Bailly LLP, prepare the financial statements and the accompanying notes to the financial statements as part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the material adjustments proposed during the audit.

**Anticipated Completion Date:** Ongoing

**Finding 2017-C**

Finding Summary: This comment is due to the budgeted contingency amounts exceeding 5 percent of the municipality's total governmental funds budget and the staff needing additional time to complete the annual report due to the City changing their basis of accounting during 2017.

Responsible Individuals: Mike Grosek, Mayor

Corrective Action Plan: Relating to the budgeted contingency amounts, the staff thought the budget was limited to 5 percent of the total budget and did not realize that the budget be limited to 5 percent of the municipality's total governmental funds budget. The staff will pay closer attention when preparing the contingency fund budget so as not to exceed the maximum amount allowed. Relating to the annual report timelines, the staff will pay closer attention to the required filing dates.

Anticipated Completion Date: December 31, 2018