



Financial Statements
December 31, 2016
City of Pierre

Independent Auditor’s Report.....	1
Financial Statements	
Statement of Net Position–Exhibit I	4
Statement of Activities–Exhibit II	5
Balance Sheet–Governmental Funds–Exhibit III.....	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	7
Statement of Revenues, Expenditures and Changes in Fund Balances–Exhibit IV.....	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government- Wide Statement of Activities	10
Balance Sheet–Proprietary Funds–Exhibit V	11
Statement of Revenues, Expenses and Changes in Net Position–Proprietary Funds–Exhibit VI.....	13
Statement of Cash Flows–Proprietary Funds–Exhibit VII.....	14
Statement of Net Position–Fiduciary Funds–Exhibit VIII.....	16
Notes to Financial Statements.....	17
Required Supplementary Information	
Schedule of Funding Progress.....	47
Schedule of City’s Share of Net Pension Liability (Asset).....	48
Schedule of City’s Pension Contributions	49
Budgetary Comparison Schedule–General Fund	50
Budgetary Comparison Schedule–Special Sales Tax Fund	52
Notes to Required Supplementary Information	53
Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds	54
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	55
Combining Balance Sheet – Nonmajor Enterprise Funds.....	57
Combining Statement of Revenues, Expenses, and Changes in Net Position – Nonmajor Enterprise Funds	58
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	59
Statement of Cash Flows – Discretely Presented Component Unit.....	60
Schedule of Expenditures of Passenger Facility Charges	62
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63
Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance.....	65
Schedule of Expenditures of Federal Awards.....	67
Notes to Schedule of Expenditures of Federal Awards	68
Schedule of Findings and Questioned Costs.....	69



Independent Auditor's Report

The City Commission
City of Pierre
Pierre, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pierre, South Dakota as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We did not audit the financial statements of The Housing and Redevelopment Commission of the City of Pierre, South Dakota (the Commission), a discretely presented component unit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 did not audit the financial statements of The Housing and Redevelopment Commission of the City of Pierre, South Dakota, a discretely presented component unit, which statements reflect total assets and deferred outflows of \$1,254,603 as of June 30, 2016, net position of \$1,171,795 as of June 30, 2016, and total revenues of \$971,852 for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pierre, South Dakota, as of December 31, 2016, and the respective changes in financial position and, where, applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement

As discussed in Note 21 to the financial statements, a certain error resulting in understatement of amounts previously reported for accounts payable and expenditures as of December 31, 2015, were discovered by management of the City during the current year. Accordingly, amounts reported for general fund beginning fund balance and government-wide governmental activities beginning net position have been restated to correct the error. Our opinions are not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of funding in progress, schedule of net pension liability (asset), schedule of pension contributions, and budgetary comparison information on pages 47 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pierre, South Dakota's financial statements. The combining and individual nonmajor fund financial statements, and the schedule of expenditures of passenger facility charges 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of passenger facility charges, and the 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 basic 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. In our opinion, the combining and individual nonmajor fund financial statements, the schedule of expenditures of passenger facility charges, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2017 on our consideration of City of Pierre, South Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned in the lower-left area of the page.

Aberdeen, South Dakota
September 29, 2017

City of Pierre
Statement of Net Position—Exhibit I
December 31, 2016

	Primary Government		Total	Component Unit
	Governmental Activities	Business-Type Activities		Housing and Redevelopment Commission
Assets				
Cash and cash equivalents	\$ 7,716,722	\$ 5,578,413	\$ 13,295,135	\$ 537,991
Investments	-	2,616,025	2,616,025	-
Receivables	1,610,619	2,542,832	4,153,451	14,388
Internal balances	584,514	(584,514)	-	-
Inventories	237,730	1,216,917	1,454,647	2,191
Other assets	192,704	-	192,704	31,418
Net pension asset	-	-	-	30,355
Restricted assets:				
Cash and cash equivalents	86,290	1,518,231	1,604,521	-
Investments	-	1,705,465	1,705,465	-
Deposits	247,374	-	247,374	-
Capital assets:				
Land and construction in process	14,309,191	5,752,821	20,062,012	80,645
Other capital assets, net of depreciation	43,692,730	79,390,366	123,083,096	500,791
	<u>68,677,874</u>	<u>99,736,556</u>	<u>168,414,430</u>	<u>1,197,779</u>
Deferred Outflows of Resources				
Pension related deferred outflows	2,445,688	992,683	3,438,371	56,824
Total deferred outflows of resources	<u>2,445,688</u>	<u>992,683</u>	<u>3,438,371</u>	<u>56,824</u>
	<u>\$ 71,123,562</u>	<u>\$ 100,729,239</u>	<u>\$ 171,852,801</u>	<u>\$ 1,254,603</u>
Liabilities				
Accounts payable	\$ 320,558	\$ 1,579,440	\$ 1,899,998	\$ 14,519
Accrued interest	42,742	78,848	121,590	-
Other current liabilities	126,480	665,396	791,876	16,285
Noncurrent liabilities:				
Net pension liability	1,097,381	445,416	1,542,797	-
Landfill closure and post closure costs	-	610,680	610,680	-
Due within one year	2,085,055	1,655,900	3,740,955	3,911
Due in more than one year	10,935,488	15,814,796	26,750,284	3,304
Total liabilities	<u>14,607,704</u>	<u>20,850,476</u>	<u>35,458,180</u>	<u>38,019</u>
Deferred Inflows of Resources				
Pension related deferred inflows	23,656	9,602	33,258	44,789
Total deferred inflows of resources	<u>23,656</u>	<u>9,602</u>	<u>33,258</u>	<u>44,789</u>
Net Position				
Net investment in capital assets	46,313,048	68,068,223	114,381,271	581,436
Restricted for:				
SDRS pension purposes	1,324,651	537,665	1,862,316	42,390
Debt service	-	2,461,680	2,461,680	-
Cemetery	54,464	-	54,464	-
Other purposes				
Public assurance alliance	247,374	-	247,374	-
Special sales tax	1,608,227	-	1,608,227	-
Storm drainage	284,244	-	284,244	-
Library	90,513	-	90,513	-
Surface Transportation Program	3,776,283	-	3,776,283	-
911 purposes	240,346	-	240,346	-
Unrestricted	<u>2,553,052</u>	<u>8,801,593</u>	<u>11,354,645</u>	<u>547,969</u>
Total net position	<u>56,492,202</u>	<u>79,869,161</u>	<u>136,361,363</u>	<u>1,171,795</u>
	<u>\$ 71,123,562</u>	<u>\$ 100,729,239</u>	<u>\$ 171,852,801</u>	<u>\$ 1,254,603</u>

City of Pierre
Statement of Activities–Exhibit II
Year Ended December 31, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit Housing and Redevelopment Commission
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Primary Government								
Governmental activities:								
General government	\$ 4,339,986	\$ 3,059,477	\$ 51,469	\$ 950	\$ (1,228,090)	\$ -	\$ (1,228,090)	\$ -
Public safety	4,157,685	637,110	139,093	125,013	(3,256,469)	-	(3,256,469)	-
Public works	3,415,697	996,953	444,184	1,313,181	(661,379)	-	(661,379)	-
Health and welfare	161,359	9,667	-	-	(151,692)	-	(151,692)	-
Culture and recreation	3,907,260	686,546	10,536	285,000	(2,925,178)	-	(2,925,178)	-
Conservation and development	668,127	-	-	-	(668,127)	-	(668,127)	-
Intergovernmental	516,293	-	-	-	(516,293)	-	(516,293)	-
*Interest on long-term debt	329,730	-	-	-	(329,730)	-	(329,730)	-
Total governmental activities	17,496,137	5,389,753	645,282	1,724,144	(9,736,958)	-	(9,736,958)	-
Business-type activities:								
Water	2,526,085	3,095,784	-	11,699	-	581,398	581,398	-
Electric	13,725,838	17,141,482	337,049	147,077	-	3,899,770	3,899,770	-
Waste water	2,944,177	3,283,847	-	12,352	-	352,022	352,022	-
Airport	2,186,723	271,832	-	1,241,323	-	(673,568)	(673,568)	-
Garbage	139,883	80,155	-	1,702	-	(58,026)	(58,026)	-
Landfill	1,580,001	1,341,697	-	18,806	-	(219,498)	(219,498)	-
Total business-type activities	23,102,707	25,214,797	337,049	1,432,959	-	3,882,098	3,882,098	-
Total primary government	\$ 40,598,844	\$ 30,604,550	\$ 982,331	\$ 3,157,103	(9,736,958)	3,882,098	(5,854,860)	-
Component Unit								
Housing and Redevelopment Commission	\$ 1,016,933	\$ 169,902	\$ 776,751	\$ 21,049				(49,231)
General Revenues								
Taxes:								
Property taxes					3,541,175	-	3,541,175	-
Sales taxes					8,666,622	-	8,666,622	-
State shared revenue					182,340	-	182,340	-
County shared revenue					177,149	-	177,149	-
Unrestricted investment earnings					16,111	68,644	84,755	2,005
Other general revenues					171,970	-	171,970	2,145
Capital Contributions					29,483	(29,483)	-	-
Transfers					167,142	(167,142)	-	-
Gain on Disposal of Fixed Assets					24,307	376,234	400,541	-
Total general revenues, transfers, and gain on disposal of fixed assets					12,976,299	248,253	13,224,552	4,150
Change in Net Position					3,239,341	4,130,351	7,369,692	(45,081)
Net Position - Beginning, as previously stated					53,392,861	75,738,810	129,131,671	1,216,876
Restatement (see Note 21)					(140,000)	-	(140,000)	-
Net Position - Beginning, as restated					53,252,861	75,738,810	128,991,671	1,216,876
Net Position - Ending					\$ 56,492,202	\$ 79,869,161	\$ 136,361,363	\$ 1,171,795

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

City of Pierre
Balance Sheet—Governmental Funds—Exhibit III
December 31, 2016

	General Fund	Capital Improvement Fund	Special Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 4,572,815	\$ 859,752	\$ 1,535,338	\$ 584,315	\$ 7,552,220
Taxes receivable, delinquent	46,765	-	-	-	46,765
Accounts receivable, net	82,140	102,568	-	70,806	255,514
Unbilled accounts receivable	-	-	-	21,375	21,375
Due from other government	597,571	517,220	72,887	99,287	1,286,965
Due from other funds	647,266	-	-	-	647,266
Inventory of supplies	123,986	-	-	113,744	237,730
Deposits	247,374	-	-	-	247,374
Prepaid expenses	192,704	-	-	-	192,704
Restricted cash and cash equivalents	-	-	-	86,290	86,290
	<u>\$ 6,510,621</u>	<u>\$ 1,479,540</u>	<u>\$ 1,608,225</u>	<u>\$ 975,817</u>	<u>\$ 10,574,203</u>
Liabilities, Deferred Inflows of Resources and Fund balances					
Liabilities					
Accounts payable	\$ 194,692	\$ 52,080	\$ -	\$ 48,098	\$ 294,870
Due to other funds	62,752	-	-	-	62,752
Revenue collected in advance	120,800	-	-	680	121,480
Total liabilities	<u>378,244</u>	<u>52,080</u>	<u>-</u>	<u>48,778</u>	<u>479,102</u>
Deferred Inflows of Resources					
Unavailable revenues	<u>171,744</u>	<u>182,985</u>	<u>26,923</u>	<u>67,354</u>	<u>449,006</u>
Fund Balances					
Nonspendable	564,064	-	-	163,744	727,808
Restricted	3,776,283	-	1,581,302	438,471	5,796,056
Committed	-	1,244,475	-	258,078	1,502,553
Assigned	248,494	-	-	-	248,494
Unassigned	1,371,792	-	-	(608)	1,371,184
Total fund balances	<u>5,960,633</u>	<u>1,244,475</u>	<u>1,581,302</u>	<u>859,685</u>	<u>9,646,095</u>
	<u>\$ 6,510,621</u>	<u>\$ 1,479,540</u>	<u>\$ 1,608,225</u>	<u>\$ 975,817</u>	<u>\$ 10,574,203</u>

City of Pierre
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 Year Ended December 31, 2016

	Total
Total Fund Balances - Governmental Funds	\$ 9,646,095
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Net pension liability reported in governmental activities is not due and payable in the current period and, therefore, is not reported in the funds.	(1,097,381)
Pension related deferred outflows are not available financial resources and, therefore, are not reported in the funds.	2,445,688
Pension related deferred inflows are not due and payable in the current period and, therefore, are not reported in the funds.	(23,656)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	58,001,921
Long-term liabilities, including bonds payable, capital leases payable, accrued leave payable and accrued other post-employment benefits are not due and payable in the current period and, therefore, are not reported in the funds.	(13,020,543)
Unpaid bond principal matured as of year end	<div style="border-bottom: 1px solid black;">31,826</div>
	(12,988,717)
Receipts collected after year-end, but not available soon enough to pay for current period expenditures are deferred in the funds.	449,006
Payables for interest are recognized as expenses on the economic full accrual economic resources measurement focus presented in the government-wide financial statements but are not recognized generally until paid, which is recognized when due on the modified accrual current financial resources measurement focus presented in the fund financial statements.	(42,742)
Internal service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.	<div style="border-bottom: 1px solid black;">101,988</div>
Net Position - Governmental Funds	\$ 56,492,202

City of Pierre
Statement of Revenues, Expenditures and Changes in Fund Balances—Exhibit IV
Year Ended December 31, 2016

	General Fund	Capital Improvement Fund	Special Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
General property taxes	\$ 2,961,718	\$ -	\$ -	\$ 341,994	\$ 3,303,712
General sales and use taxes	4,032,395	4,032,395	545,461	246,133	8,856,384
911 Telephone surcharge	-	-	-	254,847	254,847
Penalties and interest on delinquent taxes	10,542	-	-	-	10,542
Licenses and permits	257,849	-	-	-	257,849
Intergovernmental revenue:					
Federal grants	351,034	190,000	-	285,002	826,036
State grants	862,235	545,625	-	22,842	1,430,702
State shared revenues:					
Bank franchise tax	93,347	-	-	-	93,347
Liquor tax reversion	88,993	-	-	-	88,993
Motor vehicle licenses (5%)	118,708	-	-	-	118,708
Local government highway and bridge fund	325,476	-	-	-	325,476
County shared revenues:					
County road tax (25%)	6,004	-	-	-	6,004
Other	11,590	-	-	159,555	171,145
Charges for goods and services:					
General government	465,722	-	-	18,427	484,149
Public safety	53,693	-	-	583,417	637,110
Highways and streets	-	459,687	-	488,749	948,436
Health	9,667	-	-	-	9,667
Culture and recreation	679,611	-	-	6,935	686,546
Cemetery	48,517	-	-	-	48,517
Fines and forfeits:					
Court fines and costs	6,767	-	-	-	6,767
Library	-	-	-	2,252	2,252
Parking meter fines	4,790	-	-	-	4,790
Miscellaneous revenues:					
Investment earnings	2,524	1,444	8,140	3,644	15,752
Rentals	20,404	-	-	-	20,404
Special assessments	-	137,794	-	-	137,794
Contributions from private sources	3,999	6,200	-	2,455	12,654
Other	157,504	-	-	1,579	159,083
Total revenues	10,573,089	5,373,145	553,601	2,417,831	18,917,666

City of Pierre
Statement of Revenues, Expenditures and Changes in Fund Balances—Exhibit IV
Year Ended December 31, 2016

	General Fund	Capital Improvement Fund	Special Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
Expenditures					
General government:					
Legislative	80,092	-	-	-	80,092
Elections	23,324	-	-	-	23,324
Financial administration	845,793	-	-	-	845,793
Other	1,027,768	-	-	148,264	1,176,032
Public safety:					
Police	2,319,056	-	-	1,005,910	3,324,966
Fire	364,066	-	-	-	364,066
Public works:					
Highways and streets	1,461,349	194,732	-	79,723	1,735,804
Cemeteries	202,464	-	-	-	202,464
Transit	119,768	-	-	-	119,768
Health and welfare:					
Health	72,162	-	-	-	72,162
Ambulance	-	66,000	-	18,536	84,536
Culture and recreation:					
Recreation	394,792	-	-	-	394,792
Parks	1,876,128	40,500	-	-	1,916,628
Libraries	671,748	-	-	2,330	674,078
Conservation and development:					
Economic development	451,590	-	70,661	145,876	668,127
Debt service	-	830,863	4,652,509	258,557	5,741,929
Intergovernmental	516,293	-	-	-	516,293
Capital outlay	1,014,532	3,976,377	-	805,736	5,796,645
Total expenditures	<u>11,440,925</u>	<u>5,108,472</u>	<u>4,723,170</u>	<u>2,464,932</u>	<u>23,737,499</u>
Excess of Revenue over (under) Expenditures	<u>(867,836)</u>	<u>264,673</u>	<u>(4,169,569)</u>	<u>(47,101)</u>	<u>(4,819,833)</u>
Other Financing Sources (Uses)					
Transfers in	2,459,673	255,666	83,437	186,155	2,984,931
Sale of City property	124,528	-	-	-	124,528
Long-term debt issued	-	2,325,301	4,485,360	-	6,810,661
Transfers out	<u>(388,091)</u>	<u>(1,940,981)</u>	<u>(108,500)</u>	<u>(380,217)</u>	<u>(2,817,789)</u>
Total other financing sources (uses)	<u>2,196,110</u>	<u>639,986</u>	<u>4,460,297</u>	<u>(194,062)</u>	<u>7,102,331</u>
Net Change in Fund Balances	1,328,274	904,659	290,728	(241,163)	2,282,498
Fund Balance - Beginning, as previously stated	4,772,359	339,816	1,290,574	1,100,848	7,503,597
Restatement (see Note 21)	<u>(140,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(140,000)</u>
Fund Balance - Beginning, as restated	<u>4,632,359</u>	<u>339,816</u>	<u>1,290,574</u>	<u>1,100,848</u>	<u>7,363,597</u>
Fund Balance - Ending	<u>\$ 5,960,633</u>	<u>\$ 1,244,475</u>	<u>\$ 1,581,302</u>	<u>\$ 859,685</u>	<u>\$ 9,646,095</u>

City of Pierre

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-
Wide Statement of Activities
Year Ended December 31, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ 2,282,498
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	3,245,853
The transfer of capital assets from enterprise funds to governmental activities is not reported in the governmental funds, but is reported as a capital contribution on the government-wide statements.	29,483
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	5,422,278
Bond principal matured but not paid as of year end is recorded as an expenditure in the governmental funds, but does not reduce long-term liabilities in the statement of net position.	(9,030)
In the statement of activities gains and losses on disposal of capital assets are reported, whereas in the fund financial statements, the proceeds from the disposal of capital assets are reflected, regardless of whether a gain or loss is realized.	(100,221)
Accrued interest reported in the statement of activities does not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(1,049)
Changes in pension related deferred outflows/inflows are direct components of the pension liability and are not reflected in the governmental funds.	(441,859)
Property tax revenues, special assessments, grants, and other revenue are reported in the period to be financed by the property tax levy, special assessments, and grants for both the governmental funds and the governmental activities, but in the funds statement, any amounts that are not "available" are offset with deferred inflows.	(585,558)
The receipt of donated capital assets is not reported on the fund statements, but is reported as a program revenue on the government-wide statements.	2,000
Governmental funds do not reflect the change in accrued leave or other post-employment benefits, but the statement of activities reflects the change in these liabilities through expenditures.	(110,243)
The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government wide statements.	(6,810,661)
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net income of the internal service funds is reported with governmental activities.	315,850
Change in Net Position of Governmental Activities	\$ 3,239,341

City of Pierre
Balance Sheet—Proprietary Funds—Exhibit V
December 31, 2016

	Enterprise Funds					Totals	Internal Service Funds
	Water Fund	Electric Fund	Waste Water Fund	Airport Fund	Other Enterprise Funds		
Assets							
Current Assets							
Cash and cash equivalents	\$ 1,847,011	\$ 3,316,377	\$ -	\$ -	\$ 415,025	\$ 5,578,413	\$ 164,502
Investments	-	2,616,025	-	-	-	2,616,025	-
Accounts receivable, net	63,665	626,384	86,413	35,889	100,425	912,776	-
Unbilled accounts receivable	128,583	943,278	179,251	-	5,904	1,257,016	-
Notes receivable	-	12,831	-	-	-	12,831	-
Due from other fund	-	1,302,985	-	-	-	1,302,985	-
Due from federal/state government	-	-	-	360,209	-	360,209	-
Inventory of supplies	327,028	709,247	-	26,028	134,513	1,196,816	-
Inventory of stores purchased for resale	-	-	-	-	20,101	20,101	-
Total current assets	<u>2,366,287</u>	<u>9,527,127</u>	<u>265,664</u>	<u>422,126</u>	<u>675,968</u>	<u>13,257,172</u>	<u>164,502</u>
Noncurrent Assets							
Restricted cash and cash equivalents	60,568	5	695,642	-	762,016	1,518,231	-
Restricted investments	-	1,154,058	551,407	-	-	1,705,465	-
Capital assets:							
Land	181,258	31,675	49,434	235,888	3,986,551	4,484,806	-
Buildings and infrastructure	15,115,044	1,330,133	16,614,768	38,520,053	2,981,826	74,561,824	-
Improvements	-	30,036,891	8,645,457	-	264,926	38,947,274	-
Machinery and equipment	3,118,728	2,319,552	1,975,103	3,741,721	3,145,606	14,300,710	-
Construction in progress	-	39,157	1,031,735	197,123	-	1,268,015	-
Less accumulated depreciation	<u>(6,756,115)</u>	<u>(8,142,329)</u>	<u>(15,151,880)</u>	<u>(15,636,218)</u>	<u>(2,732,900)</u>	<u>(48,419,442)</u>	<u>-</u>
Total noncurrent assets	<u>11,719,483</u>	<u>26,769,142</u>	<u>14,411,666</u>	<u>27,058,567</u>	<u>8,408,025</u>	<u>88,366,883</u>	<u>-</u>
Deferred Outflows of Resources							
Pension related deferred outflows	<u>201,848</u>	<u>307,272</u>	<u>192,664</u>	<u>89,434</u>	<u>201,465</u>	<u>992,683</u>	<u>-</u>
Total deferred outflows of resources	<u>201,848</u>	<u>307,272</u>	<u>192,664</u>	<u>89,434</u>	<u>201,465</u>	<u>992,683</u>	<u>-</u>
	<u>\$ 14,287,618</u>	<u>\$ 36,603,541</u>	<u>\$ 14,869,994</u>	<u>\$ 27,570,127</u>	<u>\$ 9,285,458</u>	<u>\$ 102,616,738</u>	<u>\$ 164,502</u>

City of Pierre
Balance Sheet—Proprietary Funds—Exhibit V
December 31, 2016

	Enterprise Funds					Totals	Internal Service Funds
	Water Fund	Electric Fund	Waste Water Fund	Airport Fund	Other Enterprise Funds		
Liabilities							
Current Liabilities							
Accounts payable	\$ 49,451	\$ 1,051,383	\$ 166,199	\$ 134,310	\$ 22,136	\$ 1,423,479	\$ 57,514
Incurred but not reported claims	-	-	-	-	-	-	5,000
Contracts payable	-	-	52,537	103,424	-	155,961	-
Accrued interest payable	902	31,001	46,945	-	-	78,848	-
Accrued taxes payable	-	62,748	-	-	-	62,748	-
Accrued leave payable	39,829	135,174	79,274	21,926	119,529	395,732	-
Customer deposits	-	571,657	-	25	-	571,682	-
Revenue collected in advance	3,797	23,363	3,610	-	196	30,966	-
Due to other funds	-	-	1,154,395	729,486	3,618	1,887,499	-
Revenue bond payable current	222,256	350,000	687,912	-	-	1,260,168	-
Total current liabilities	<u>316,235</u>	<u>2,225,326</u>	<u>2,190,872</u>	<u>989,171</u>	<u>145,479</u>	<u>5,867,083</u>	<u>62,514</u>
Noncurrent Liabilities							
Revenue bonds payable	432,431	11,865,000	3,517,365	-	-	15,814,796	-
Accrued landfill closure and postclosure costs	-	-	-	-	610,680	610,680	-
Net pension liability	90,569	137,873	86,448	40,129	90,397	445,416	-
Total noncurrent liabilities	<u>523,000</u>	<u>12,002,873</u>	<u>3,603,813</u>	<u>40,129</u>	<u>701,077</u>	<u>16,870,892</u>	<u>-</u>
Deferred Inflows of Resources							
Pension related deferred inflows	1,952	2,972	1,864	865	1,949	9,602	-
Total deferred inflows of resources	<u>1,952</u>	<u>2,972</u>	<u>1,864</u>	<u>865</u>	<u>1,949</u>	<u>9,602</u>	<u>-</u>
Net Position							
Net investment in capital assets	11,004,228	13,400,079	8,959,340	27,058,567	7,646,009	68,068,223	-
Restricted for:							
Bond debt service	60,568	1,154,063	1,247,049	-	-	2,461,680	-
SDRS pension purposes	109,327	166,427	104,352	48,440	109,119	537,665	-
Unrestricted	2,272,308	7,651,801	(1,237,296)	(567,045)	681,825	8,801,593	101,988
Total net position	<u>13,446,431</u>	<u>22,372,370</u>	<u>9,073,445</u>	<u>26,539,962</u>	<u>8,436,953</u>	<u>79,869,161</u>	<u>101,988</u>
	<u>\$ 14,287,618</u>	<u>\$ 36,603,541</u>	<u>\$ 14,869,994</u>	<u>\$ 27,570,127</u>	<u>\$ 9,285,458</u>	<u>\$ 102,616,738</u>	<u>\$ 164,502</u>

City of Pierre
Statement of Revenues, Expenses and Changes in Net Position—Proprietary Funds—Exhibit VI
Year Ended December 31, 2016

	Enterprise Funds					Totals	Internal Service Funds
	Water Fund	Electric Fund	Waste Water Fund	Airport Fund	Other Enterprise Funds		
Operating Revenue							
Charges for goods and services	\$ 3,070,863	\$ 15,878,125	\$ 3,210,452	\$ 92,146	\$ 1,420,918	\$ 23,672,504	\$ 2,180,079
Revenue dedicated to servicing debt	-	-	60,289	-	-	60,289	-
Miscellaneous	24,921	1,248,237	10,622	120	834	1,284,734	-
Total operating revenue	<u>3,095,784</u>	<u>17,126,362</u>	<u>3,281,363</u>	<u>92,266</u>	<u>1,421,752</u>	<u>25,017,527</u>	<u>2,180,079</u>
Operating Expenses							
Personal services	757,366	1,062,079	556,235	415,513	768,168	3,559,361	1,266,867
Other current expenses	930,396	1,883,305	952,630	289,253	472,728	4,528,312	597,721
Materials (cost of goods sold)	268,075	8,912,264	571,310	59,467	159,158	9,970,274	-
Depreciation	543,312	1,066,615	745,538	1,422,490	319,830	4,097,785	-
Total operating expenses	<u>2,499,149</u>	<u>12,924,263</u>	<u>2,825,713</u>	<u>2,186,723</u>	<u>1,719,884</u>	<u>22,155,732</u>	<u>1,864,588</u>
Operating Income (Loss)	<u>596,635</u>	<u>4,202,099</u>	<u>455,650</u>	<u>(2,094,457)</u>	<u>(298,132)</u>	<u>2,861,795</u>	<u>315,491</u>
Nonoperating Revenue (Expense)							
Capital grants	6,999	144,498	2,631	1,237,597	7,321	1,399,046	-
Investment earnings	7,633	42,156	7,445	-	11,410	68,644	359
Rental revenue	-	15,120	2,484	179,566	100	197,270	-
Interest expense	(26,936)	(801,575)	(118,464)	-	-	(946,975)	-
Recovery zone federal subsidy	-	337,049	-	-	-	337,049	-
Insurance proceeds	4,700	2,579	9,721	3,726	13,187	33,913	-
Gain (loss) on disposition of assets	359,040	3,000	-	-	14,194	376,234	-
Total nonoperating revenue (expense)	<u>351,436</u>	<u>(257,173)</u>	<u>(96,183)</u>	<u>1,420,889</u>	<u>46,212</u>	<u>1,465,181</u>	<u>359</u>
Income (Loss) Before Contributions and Transfers	948,071	3,944,926	359,467	(673,568)	(251,920)	4,326,976	315,850
Capital contributions (transfers)	-	(29,483)	-	-	-	(29,483)	-
Transfers in	-	-	-	287,580	709,848	997,428	-
Transfers out	-	(1,164,570)	-	-	-	(1,164,570)	-
Change in Net Position	948,071	2,750,873	359,467	(385,988)	457,928	4,130,351	315,850
Net Position - Beginning	12,498,360	19,621,497	8,713,978	26,925,950	7,979,025	75,738,810	(213,862)
Net Position - Ending	<u>\$ 13,446,431</u>	<u>\$ 22,372,370</u>	<u>\$ 9,073,445</u>	<u>\$ 26,539,962</u>	<u>\$ 8,436,953</u>	<u>\$ 79,869,161</u>	<u>\$ 101,988</u>

City of Pierre
Statement of Cash Flows—Proprietary Funds—Exhibit VII
Year Ended December 31, 2016

	Enterprise Funds				Totals	Internal Service Funds	
	Water Fund	Electric Fund	Waste Water Fund	Airport Fund			Other Enterprise Funds
Cash Flows from (used for) Operating Activities							
Receipts from customers	\$ 3,130,952	\$ 16,914,999	\$ 3,415,354	\$ 53,708	\$ 1,467,485	\$ 24,982,498	\$ 2,200,215
Payments to suppliers	(1,255,891)	(10,633,533)	(1,415,164)	(234,529)	(601,443)	(14,140,560)	(780,788)
Payments to employees	(741,671)	(1,010,875)	(560,187)	(395,304)	(715,865)	(3,423,902)	(1,266,867)
Net Cash from (used for) Operating Activities	<u>1,133,390</u>	<u>5,270,591</u>	<u>1,440,003</u>	<u>(576,125)</u>	<u>150,177</u>	<u>7,418,036</u>	<u>152,560</u>
Cash Flows from (used for) Noncapital Financing Activities							
Due to/due from other funds	-	(1,248,147)	911,531	173,957	989	(161,670)	-
Transfers from other funds	-	-	-	287,580	709,848	997,428	-
Transfers to other funds	-	(1,164,570)	-	-	-	(1,164,570)	-
Net Cash from (used for) Noncapital Financing Activities	<u>-</u>	<u>(2,412,717)</u>	<u>911,531</u>	<u>461,537</u>	<u>710,837</u>	<u>(328,812)</u>	<u>-</u>
Cash Flows from (used for) Capital and Related Financing Activities							
Capital grants	6,999	144,498	2,631	1,237,597	7,321	1,399,046	-
Proceeds from debt issuance	-	-	980,277	-	-	980,277	-
Proceeds from sale of capital assets	359,040	3,000	-	-	77,255	439,295	-
Recovery zone federal subsidy	-	337,049	-	-	-	337,049	-
Other receipts	4,700	17,699	12,205	183,292	13,287	231,183	-
Purchase of capital assets	(898,218)	(1,645,805)	(1,603,567)	(1,306,301)	(934,576)	(6,388,467)	-
Debt principal paid	(214,644)	(340,000)	(1,621,512)	-	-	(2,176,156)	-
Debt interest paid	(27,631)	(804,077)	(118,932)	-	-	(950,640)	-
Net Cash from (used for) Capital and Related Financing Activities	<u>(769,754)</u>	<u>(2,287,636)</u>	<u>(2,348,898)</u>	<u>114,588</u>	<u>(836,713)</u>	<u>(6,128,413)</u>	<u>-</u>
Cash Flows from (used for) Investing Activities							
Cash (invested in) provided by restricted/reserve accounts	-	1,062,950	(10,081)	-	(309,248)	743,621	-
Cash received for interest	7,633	42,156	7,445	-	11,410	68,644	359
Net Cash from (used for) Investing Activities	<u>7,633</u>	<u>1,105,106</u>	<u>(2,636)</u>	<u>-</u>	<u>(297,838)</u>	<u>812,265</u>	<u>359</u>

City of Pierre
Statement of Cash Flows—Proprietary Funds—Exhibit VII
Year Ended December 31, 2016

	Enterprise Funds					Totals	Internal Service Funds
	Water Fund	Electric Fund	Waste Water Fund	Airport Fund	Other Enterprise Funds		
Net Change in Cash and Cash Equivalents	371,269	1,675,344	-	-	(273,537)	1,773,076	152,919
Balances - Beginning	1,475,742	4,257,058	-	-	688,562	6,421,362	11,583
Balances - Ending	<u>\$ 1,847,011</u>	<u>\$ 5,932,402</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 415,025</u>	<u>\$ 8,194,438</u>	<u>\$ 164,502</u>
Reconciliation of Operating Income (Loss) to net cash from (used for) operating activities:							
Operating income (loss)	\$ 596,635	\$ 4,202,099	\$ 455,650	\$ (2,094,457)	\$ (298,132)	\$ 2,861,795	\$ 315,491
Adjustments to reconcile operating income to net cash from (used for) operating activities:							
Depreciation expense	543,312	1,066,615	745,538	1,422,490	319,830	4,097,785	-
Change in assets and liabilities:							
Receivables	35,168	(261,957)	133,991	(38,558)	45,733	(85,623)	20,136
Inventories	(84,435)	11,986	-	1,974	59,809	(10,666)	-
Accounts and other payables	27,015	150,050	108,776	112,217	(29,366)	368,692	(183,067)
Customer deposits	-	50,594	-	-	-	50,594	-
Accrued leave payable	366	16,353	3,502	(656)	17,577	37,142	-
Pension related deferred inflows/outflows and asset/liability	15,329	34,851	(7,454)	20,865	34,726	98,317	-
Net Cash from (used for) Operating Activities	<u>\$ 1,133,390</u>	<u>\$ 5,270,591</u>	<u>\$ 1,440,003</u>	<u>\$ (576,125)</u>	<u>\$ 150,177</u>	<u>\$ 7,418,036</u>	<u>\$ 152,560</u>
Noncash Investing, Capital and Financing Activities:							
Fixed asset additions included in payables at year end	\$ -	\$ -	\$ 52,537	\$ 103,424	\$ -	\$ 155,961	\$ -
Donation of fixed assets to other funds	-	29,483	-	-	-	29,483	-

City of Pierre
Statement of Net Position—Fiduciary Funds—Exhibit VIII
December 31, 2016

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 15,923</u>
	<u>\$ 15,923</u>
Liabilities	
Accounts payable and other payables	\$ 2,512
Amounts held for others	<u>13,411</u>
	<u>\$ 15,923</u>

Note 1 - Summary of Significant Accounting Policies

A. Financial Reporting Entity

The reporting entity of the City of Pierre (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, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent of the City.

Financial statements of the Housing and Redevelopment Commission of the City of Pierre, SD are discretely presented in the accompanying financial statements under "component units." This financial information is as of and for the year ended June 30, 2016. The financial statements have been audited by other auditors. During the City's fiscal year ended December 31, 2016, the Commission incurred \$40,165, of utilities and internal service charges from different departments of the City of Pierre.

The component unit is a governmental unit formed to provide low income housing to residents of the City of Pierre.

The criteria for including the component unit in the financial reporting entity is that of control over the appointment of members of the governing board of the component unit. The City Commission appoints the board members of the component unit, thus having control over it. The City Commission has the statutory authority to approve or deny any proposed Commission housing Projects (SDCL 11-7-49 through 49.1, 11-7-53 and 11-7-78) and to approve or disapprove the Housing Commission's intent to issue long-term debt, by disapproving a proposed project to be so financed. (SDCL 11-7-53.2)

The component unit is reported using the accrual basis for accounting.

Separate financial statements for the component unit can be obtained from the City of Pierre Housing and Redevelopment Commission of Pierre, PO Box 937, Pierre South Dakota 57501.

The City participates in a cooperative unit for Exposition Building (Hughes County, Stanley County, and the City of Fort Pierre (see Note 17)). Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

B. Basis of Presentation

Government-Wide Statements

The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. In order to minimize the grossing-up effect on asset and liabilities within the governmental and business-type funds activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities which are presented as Internal Balances. These statements distinguish between the governmental and business-type activities of the City and between the City and its discretely presented component unit. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Discretely presented component units are legally separate organizations that meet certain criteria, as described in Note 1.A above and may be classified as either governmental or business-type activities. See the discussion of the individual component unit in Note 1 above.

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

The funds of the financial reporting entity 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.

Special Sales Tax Fund – A fund established by ordinance to account for a portion of the City’s gross receipts tax. Proceeds from this tax are used for the purpose of land acquisition, architectural fees, construction costs, payment for civic center, auditorium or athletic facility buildings, including the maintenance, staffing and operations of such facilities, and the promotion and advertising of the municipality, its facilities, attractions and activities. This is a major fund.

The remaining Special Revenue Funds are reported in the aggregate in the Other Governmental Funds Column on the fund financial statements: Storm Drainage Fund, E911 Fund, Library Fund, Police Pistol Range Fund, Cable Access Fund, and Occupancy Tax Fund. These are not major funds.

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

Capital Improvement Fund – A fund established by ordinance to account for a portion of the City’s general sales tax. Proceeds from this tax are to be used for capital outlay expenditures and for retiring capital improvement indebtedness for both Governmental and Business-Type Activity debt. This is a major fund.

Permanent Funds – Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principle, may be used for purposes that support the City’s programs – that is for the benefit of the City and its citizenry.

Cemetery Perpetual Care Fund – To account for the payments received for perpetual care of cemeteries which is permanently set aside and for which only the income from the trust fund investments is used for the care and maintenance of the cemetery (SDCL 9-32-18). This is not a major fund.

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.

TIF Funds – To account for the property taxes which may be used only for the payment of the applicable TIF bonds. The City has three of these debt service funds (TIF #4, #5, #6, and #7). These are not major funds.

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.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise Funds

The City reports the following major enterprise funds:

Water Fund – Financed primarily by user charges this fund accounts for the construction and operation of the City waterworks system and related facilities (SDCL 9-47-1).

Electric Fund – To account for the construction and operation of the municipal electrical system and related facilities (SDCL 9-39-1 and 9-39-96).

Wastewater Fund – To account for the construction and operation of the municipal sewer system and related facilities (SDCL 9-48-2).

Airport Fund – To account for the acquisition, construction and operation of a municipal airport (SDCL 50-7-2).

The City reports the following non-major enterprise funds:

Garbage Fund – To account for the collection and disposal of solid waste from the City (SDCL 9-32-11 and 34A-6).

Landfill Fund – To account for the construction and operation of landfill operation for the City.

Internal Services Funds - Internal Services Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary government and its component units or to other governments, on a cost-reimbursement basis. The Health Insurance Fund is the only internal service fund maintained by the City. Internal service funds are never considered to be major funds.

Fiduciary Funds

Agency Funds – Agency funds are used to account for resources held by the City in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The majority of the Agency Funds account for the activity of the "Payroll Clearing Fund" and "Medical Reimbursement Clearing Fund." Agency funds are never considered to be major funds.

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

Government-Wide Financial Statements

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting

Government-Wide Financial Statements

In the government-wide statement of net position and statement of activities, governmental, business-type and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2016 are sales tax, real estate taxes, state shared revenues and miscellaneous other revenues.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

D. 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:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain “centralized expenses” including employee health insurance, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged, in this manner, expense reductions occur in the Internal Service Fund so that expenses are reported only in the function to which they relate.
3. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement.

Fund Financial Statements

Noncurrent portions of long-term interfund receivables (reported in “Advance to” asset accounts) are equally offset by nonspendable fund balance which indicates that they do not constitute “available spendable resources” since they are not a component of net current assets. Current portions of interfund receivables (reported in “Due from” asset accounts) are considered “available spendable resources.”

E. Deposits and Investments

For the purpose of financial reporting and the statement of cash flows, “cash and cash equivalents” includes all demand and savings accounts, all certificates of deposit since any early redemption penalty is considered to be insignificant and essentially accessible on demand, and other short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist primarily of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investments authorized by South Dakota Codified Laws (SDCL) 4-5-6.

F. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems and lighting systems, acquired prior to January 1, 1980, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 1980 are recorded at cost, and classified as “Improvements other than Buildings.”

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with US GAAP, while for capital assets used in business-type activities/proprietary fund’s operations, construction period interest is capitalized in accordance with US GAAP.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in government-wide or fund financial statements.

Government-Wide Statements: All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend to useful life of a capital asset are also capitalized.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide statement of activities, with net capital assets reflected in the statement of net position. Accumulated depreciation is reported on the government-wide statement of net position and on each proprietary fund’s statement of net position/balance sheet. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land and land rights	***	***	***
Buildings	\$ 5,000	Straight-line	40-99 years
Improvements other than buildings	5,000	Straight-line	10-25 years
Machinery and equipment	5,000	Straight-line	3-25 years
Infrastructure	5,000	Straight-line	25-50 years
Utilities, property and improvements	5,000	Straight-line	10-50 years

***Land, an inexhaustible capital asset, is all capitalized and is not depreciated.

Fund Financial Statements: In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

G. Long-term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences, revenue bonds payable and capital leases.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principle and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

H. Program Revenues

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. Deferred Inflows and Deferred Outflows of Recourses

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

J. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's statement of activities, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

K. Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's unrestricted equity in the cash management pool is considered to be cash equivalents for the purpose of the statement of cash flows, excluding funds that are held in reserve or restricted.

L. Restricted Assets

Certain debt proceeds of the City's governmental and enterprise funds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. Also certain resources have been set aside to fund capital asset construction and future landfill closure and post-closure costs.

M. Equity Classifications

Government-Wide Statements

Equity is classified as net position and is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisitions, construction or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints places on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between “Nonspendable,” “Restricted,” “Committed,” “Assigned,” and “Unassigned” components. Proprietary fund equity is classified the same as in the government-wide financial statements.

N. Application of Net Position

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

O. Fund Balance Classification Policies and Procedures

The City follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. 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. Nonspendable assets of the City also include the vested balance in the reserve fund of the South Dakota Public Assurance Alliance (see Note 3).
- 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 Commission). 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.
- Assigned Fund Balance – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Commission or by an official or body to which the City Commission delegates the authority.
- Unassigned Fund Balance – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City Commission establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Commission through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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

In June 2016, the City approved Resolution #2584, which was a resolution establishing a policy in which the City will attempt to maintain an individual fund undesignated reserve balance of 16% of annual estimated revenues. This estimate will be updated annually for current budget figures and the Commission will review the undesignated fund balance as it relates to this policy annually as part of the annual budget process or annual financial reporting process.

A schedule of fund balances reported on the balance sheet of the governmental funds is provided as follows:

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Special Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances					
Nonspendable:					
Public assurance alliance reserve	\$ 247,374	\$ -	\$ -	\$ -	\$ 247,374
Inventory	123,986	-	-	113,744	237,730
Prepaid expenses	192,704	-	-	-	192,704
Cemetery	-	-	-	50,000	50,000
Restricted for:					
Public works	3,776,283	-	-	-	3,776,283
Special sales tax	-	-	1,581,302	-	1,581,302
Storm drainage	-	-	-	170,502	170,502
Library	-	-	-	90,512	90,512
911	-	-	-	172,993	172,993
Cemetery	-	-	-	4,464	4,464
Committed to:					
Capital improvements	-	1,244,475	-	-	1,244,475
Culture and recreation	-	-	-	94,052	94,052
Occupancy tax	-	-	-	164,026	164,026
Assigned to:					
Applied to next year's budget	210,274	-	-	-	210,274
Capital accumulations	38,220	-	-	-	38,220
Unassigned	1,371,792	-	-	(608)	1,371,184
Total fund balances	<u>\$ 5,960,633</u>	<u>\$ 1,244,475</u>	<u>\$ 1,581,302</u>	<u>\$ 859,685</u>	<u>\$ 9,646,095</u>

P. 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.

Q. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. Municipal contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

R. Subsequent Events

Subsequent to the year ended December 31, 2016, the City Commission approved several significant projects as follows:

- Approved an Electric Infrastructure Project with an estimated project cost of approximately \$10,000,000, to be financed with issued bonds. Current contracted commitments related to project construction of approximately \$3,100,000.
- Approved a Wastewater Treatment Plant Improvement Project with an estimated project cost of approximately \$3,800,000, to be financed with loan proceeds from SD DENR. Current contracted commitments related to project construction of approximately \$2,400,000.
- Approved a Sanitary Sewer Extension Project with an estimated project cost of approximately \$1,450,000, to be financed with loan proceeds from SD DENR. Current contracted commitments related to project construction of approximately \$830,000.
- Approved purchase of property to be used as new City Hall building and necessary renovations with an estimated project cost of approximately \$3,800,000, financed with existing reserves. Current contracted commitments related to acquisition of the building and engineering are approximately \$3,133,007.

Note 2 - Deposits and Investments, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk

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 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.

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

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investments. The City's policy is to credit all income from deposits and investments to the fund making the investment.

The actual bank balances at December 31, 2016 were as follows:

Primary Government	Bank Balance
Insured (FDIC/NCUA)	\$ 2,651,489
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	15,179,180
Total deposits	\$ 17,830,669

The carrying amount of deposits on the December 31, 2016 statement of net position was \$17,820,398.

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; or (b) repurchase agreements fully collateralized by securities described in (a); or (c) in shares of an open-end, no-load fund administered by an investment company whose only investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated as its fiscal agent.

The amount reported as deposits and investments includes \$762,016 of the Landfill Fund which is being held in trust for the purpose of paying closure and postclosure costs relating to the City operated landfill. These assets are restricted as to use, and are not available to the City without prior approval of the State of South Dakota Department of Environment and Natural Resources. The amount reported as deposits and investments also includes \$2,461,680 of funds restricted for debt service.

Fair Value Measurement – The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements, all of which are considered to be level 2 investments, as of December 31, 2016:

Investment	Credit Rating	Maturities	Fair Value
Federated Treasury Obligation Service Fund SS - Money Market	Not Rated	N/A	\$ 691,063
U.S. Treasury Note	AAA	9/30/2019	162,058
U.S. Treasury Note	AAA	11/20/2017	551,407
Total investments			\$ 1,404,528

The Level 2 investments are valued by the Trustee's 3rd party pricing service using valuation techniques that reflect market participants' assumptions based on market information, dealer quotes and trades for similar assets, benchmark yield curves, and other market corroborated inputs.

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

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the 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, 2016, the City's deposits in financial institutions were properly collateralized.

Custodial Credit Risk (Component Unit) – The Commission does not have a deposit policy for custodial risk. As of June 30, 2016, the Commission's deposits were fully insured or collateralized and were not exposed to custodial risk.

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.

Concentration of Credit Risk – The City places no limit on the amount that may be invested in any one issuer.

Note 3 - Receivables and Payables

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year.

Note 4 - Due from Other Governments

- General Fund – \$517,538 due from state government for 1% city sales tax; \$58,503 due from state government for local government highway/bridge funds; \$21,530 due from state government for liquor tax reversion funds
- Capital Improvement Fund – \$517,220 due from state government for 1% city sales tax.
- Special Sales Tax Fund – \$72,887 due from state government for 1% city sales tax.
- Airport Fund – \$336,997 due from federal government for grant and \$23,212 due from state government for grants.
- E-911 Fund – \$84,556 due from state government for state radio charges.
- Occupancy Tax Fund – \$14,731 due from state government for hotel occupancy tax.

Note 5 - Inventory

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory in the storm drainage fund and the proprietary funds is recorded as an asset when acquired. The consumption of inventories is charged to expense as it is consumed. Inventories are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-Wide Financial Statements

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories are off-set by nonspendable fund balance which indicates that they do not constitute “available spendable resources” even though they are a component of net current position.

Note 6 - Unavailable Revenue

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported unavailable revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. The City has two types of unavailable revenue, reported in the governmental funds balance sheet. The governmental funds report unavailable delinquent property tax revenues as well as sales tax revenues not considered available as of year-end.

Note 7 - 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 the following 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 Municipality.

Note 8 - Changes in Capital Assets

A summary of changes in capital assets for the year ended December 31, 2016 follows:

Primary Government	Balance 01/01/16	Increases	Decreases	Balance 12/31/16
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 14,103,344	\$ 173,662	\$ -	\$ 14,277,006
Construction in progress	1,084,074	1,607,697	(2,659,586)	32,185
Total capital assets, not being depreciated	15,187,418	1,781,359	(2,659,586)	14,309,191
Capital assets, being depreciated:				
Buildings	18,939,527	2,011,890	-	20,951,417
Improvements other than buildings	45,831,501	3,713,966	(1,285,252)	48,260,215
Machinery and equipment	11,440,284	1,099,334	(536,125)	12,003,493
Total capital assets, being depreciated	76,211,312	6,825,190	(1,821,377)	81,215,125
Less accumulated depreciation for:				
Buildings	9,134,156	574,709	-	9,708,865
Improvements	19,709,344	1,338,789	(1,287,111)	19,761,022
Machinery and equipment	7,730,423	637,295	(315,210)	8,052,508
Total accumulated depreciation	36,573,923	2,550,793	(1,602,321)	37,522,395
Total capital assets, being depreciated, net	39,637,389	4,274,397	(219,056)	43,692,730
Governmental activity capital assets, net	\$ 54,824,807	\$ 6,055,756	\$ (2,878,642)	\$ 58,001,921
Depreciation expense was charged to functions as follows:				
Governmental activities:				
General government				\$ 120,613
Public safety				283,072
Public works				1,313,475
Health and welfare				4,661
Culture and recreation				828,972
Total depreciation expense - governmental activities				\$ 2,550,793

City of Pierre
Notes to Financial Statements
December 31, 2016

<u>Primary Government</u>	<u>Balance 01/01/16</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/16</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 4,484,806	\$ -	\$ -	\$ 4,484,806
Construction in progress	3,266,366	3,010,713	(5,009,064)	1,268,015
Total capital assets, not being depreciated	<u>7,751,172</u>	<u>3,010,713</u>	<u>(5,009,064)</u>	<u>5,752,821</u>
Capital assets, being depreciated:				
Buildings	43,073,163	248,692	-	43,321,855
Improvements other than buildings	64,582,682	6,129,745	(525,184)	70,187,243
Machinery and equipment	12,903,993	1,873,172	(476,455)	14,300,710
Total capital assets, being depreciated	<u>120,559,838</u>	<u>8,251,609</u>	<u>(1,001,639)</u>	<u>127,809,808</u>
Less accumulated depreciation for:				
Buildings	16,815,495	1,402,092	-	18,217,587
Improvements	21,764,018	1,770,348	(522,416)	23,011,950
Machinery and equipment	6,797,291	927,677	(535,063)	7,189,905
Total accumulated depreciation	<u>45,376,804</u>	<u>4,100,117</u>	<u>(1,057,479)</u>	<u>48,419,442</u>
Total capital assets, being depreciated, net	<u>75,183,034</u>	<u>4,151,492</u>	<u>55,840</u>	<u>79,390,366</u>
Business-type activity capital assets, net	<u>\$ 82,934,206</u>	<u>\$ 7,162,205</u>	<u>\$ (4,953,224)</u>	<u>\$ 85,143,187</u>

Depreciation expense was charged to functions as follows:

Business-type activities:	
Water	\$ 543,312
Electric	1,066,615
Waste water	745,538
Airport	1,424,822
Garbage	12,394
Landfill	307,436
Total depreciation expense - business-type activities	<u>\$ 4,100,117</u>

The City has active construction projects as of December 31, 2016. At year end, the City had commitments with contractors and ongoing projects as follows:

	<u>Project Authorization</u>	<u>Expended Through 12/31/2016</u>	<u>Committed</u>
Airport ARFF Building	\$ 2,269,322	\$ 197,122	\$ 2,072,200
Electrical Infrastructure Phase 2	11,000,000	39,157	10,960,843
NE/Hilger's Gulch Sanitary Sewer	1,450,000	205,766	1,244,234
Wastewater Plant Improvements	3,821,100	794,405	3,026,695
Country Drive Loop	615,717	31,565	584,152
Church Street Box Replacement	181,061	16,855	164,206
Aquatic Center Boiler Replacement	300,000	15,330	284,670
	<u>\$ 19,637,200</u>	<u>\$ 1,300,200</u>	<u>\$ 18,337,000</u>

Note 9 - Changes in Component Unit Capital Assets

A summary of changes in component unit capital assets for the year ended June 30, 2016 is as follows:

Primary Government	Balance 07/01/15	Increases	Decreases	Balance 06/30/16
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 80,645	\$ -	\$ -	\$ 80,645
Total capital assets, not being depreciated	80,645	-	-	80,645
Capital assets, being depreciated:				
Buildings and improvements	2,571,735	25,962	-	2,597,697
Furniture and equipment	219,992	18,994	-	238,986
Total capital assets, being depreciated	2,791,727	44,956	-	2,836,683
Less accumulated depreciation for:				
Buildings and improvements	2,080,484	69,617	-	2,150,101
Furniture and equipment	173,640	12,151	-	185,791
Total accumulated depreciation	2,254,124	81,768	-	2,335,892
Total capital assets, being depreciated, net	537,603	(36,812)	-	500,791
Governmental activity capital assets, net	<u>\$ 618,248</u>	<u>\$ (36,812)</u>	<u>\$ -</u>	<u>\$ 581,436</u>

Note 10 - Long-Term Debt

A summary of changes in long-term debt follows:

Primary Government	January 1, 2016	Increases	Decreases	December 31, 2016	Due Within One Year	Interest Paid
Governmental activities:						
Bonds payable:						
Revenue	\$ 10,300,492	\$ 6,810,661	\$ (5,422,279)	\$ 11,688,874	\$ 1,204,983	\$ 318,550
Total debt	10,300,492	6,810,661	(5,422,279)	11,688,874	1,204,983	318,550
Accrued compensated absences	846,618	33,454	-	880,072	880,072	-
OPEB	374,808	76,789	-	451,597	-	-
Total government activities	11,521,918	6,920,904	(5,422,279)	13,020,543	2,085,055	318,550
Business-type activities:						
Bonds payable:						
Revenue	18,270,843	980,277	(2,176,156)	17,074,964	1,260,168	950,640
Accrued compensated absences	358,590	37,142	-	395,732	395,732	-
Total business-type activities	18,629,433	1,017,419	(2,176,156)	17,470,696	1,655,900	950,640
Total primary government	<u>\$ 30,151,351</u>	<u>\$ 7,938,323</u>	<u>\$ (7,598,435)</u>	<u>\$ 30,491,239</u>	<u>\$ 3,740,955</u>	<u>\$ 1,269,190</u>
Component Unit						
Accrued compensated absences	<u>\$ 7,919</u>	<u>\$ 3,081</u>	<u>\$ (3,785)</u>	<u>\$ 7,215</u>	<u>\$ 3,911</u>	<u>\$ -</u>

Debt payable at December 31, 2016 is comprised of the following:

Government Activity Debt

Revenue Bonds

2010 Tax Increment Revenue Bond for TIF District No. 6 Loan, payable by a Debt Service Fund. Terms call for semi-annual payments of approximately \$80,000 at 5.5% interest, matures 2026.	\$ 1,208,919
2009 Tax Increment Revenue Bond for TIF District No. 5 Loan, payable by a Debt Service Fund. Terms are for semi-annual payments of approximately \$37,000 at 4.8% interest, matures 2023.	363,000
2008 Tax Increment Revenue Bond for TIF District No. 4 Loan, payable by a debt service fund. Terms are for semi-annual payments at 4.5% interest, matures 2024.	110,742
State Revolving Fund - Solid Waste Landfill and Baler, matures December 31, 2023, 3% interest rate, payments to be financed from the Capital Improvement Fund.	251,573
2009 Regional Landfill Assistance Loan, payable by capital improvement fund, due in semi-annual installments of \$23,814, including 2.5% interest, matures June 1, 2017.	23,520
State Revolving Loan Fund for landfill remediation. Terms are quarterly payments of \$10,685, including 3.25% interest until April 15, 2031; payment to be financed by the Capital Improvement Fund.	492,619
State Revolving Fund Loan for the development of a landfill, matures June 30, 2025, 3.5% interest rate, payment to be financed from the Capital Improvement Fund.	581,616
State Revolving Fund Loan for landfill containment/replacement, terms are one payment of interest only of \$4,823 and 13 semi-annual payments of \$35,318, including 2.25% interest until December 1, 2019. Payment to be financed by Capital Improvement Fund.	223,998
2014 Refunding Certificates of Participation, interest rates of 2.5%, matures July 1, 2018, annual principal and interest payments of \$455,728 to be financed by the Capital Improvement Fund.	878,382
2015 Sales Tax Revenue Bond, terms are quarterly payments of \$22,883 including 2.25% interest until November 15, 2025; payment to be financed by the Capital Improvement Fund.	743,845
2016 Solid Waste Revenue Bond for landfill bailer replacement, interest rate of 2.25%, payable in semiannual payments of principal and interest in the amount of \$21,938, maturing December of 2026; secured by pledge of sales tax revenues.	390,938
2016 Sales Tax Revenue Bond, annual payments of principal and interest ranging from \$461,096 to \$498,931 with interest rates ranging from 2.25% to 3.90%, maturing December 2036; payment to be financed by sales tax revenues.	6,419,722
Total revenue debt	11,688,874

Compensated Absences	
The liability for compensated absences represents leave benefits earned as of December 31, 2016:	
Annual leave	471,678
Sick leave	407,183
Comp leave	1,211
Total	880,072
Other post employment benefits	451,597
Total governmental activity debt	13,020,543
Business-Activity Debt	
Revenue Bonds	
Drinking Water State Revolving Fund Loan (1), matures January 1, 2018, 3.5% interest rate, payment to be financed from the Water Fund.	103,138
Drinking Water State Revolving Fund Loan (2), matures September 30, 2020, 3.5% interest rate, payment to be financed from the Water Fund.	551,549
Waste Water Revenue Refunding Bonds, Series 2010B, matures January 1, 2021, 2%-2.9% interest rate, payment to be financed from the Waste Water Fund.	3,225,000
2013 Sales Tax Revenue Bonds, terms are monthly payments of \$64,677 including 3.3% interest until November 1, 2023; payment to be financed from the Waste Water Fund. Amount pledged by Sales Tax Revenue.	980,277
Electric Revenue Bonds, Series 2010C, (Recovery Zone Economic Development Bonds). Proceeds used for a new electric substation, matures December 15, 2040, 3% to 7.5% interest rates with a 45% federal credit, payments to be made by the Electric Fund.	12,215,000
Total revenue bonds	17,074,964
Compensated Absences	
Compensated absences of enterprise:	
Employees:	
Annual leave	230,023
Sick leave	165,311
Comp leave	398
Total compensated absences	395,732
Total business-type activity debt	17,470,696
Grand total, primary government	\$ 30,491,239
Component Unit compensated absences	\$ 7,215

The annual requirements to amortize all debt outstanding as of December 31, 2016 excluding compensated absences and other post-employment benefits are as follows:

Governmental Activities

<u>Year Ending December 31</u>	<u>Revenue</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,204,983	\$ 315,281
2018	1,143,593	276,670
2019	718,687	245,848
2020	705,606	225,473
2021	692,086	205,538
2022-2026	3,294,876	844,190
2027-2031	1,970,908	496,013
2032-2036	1,958,135	206,595
	<u>\$ 11,688,874</u>	<u>\$ 2,815,608</u>

Business-Type Activities

<u>Year Ending December 31</u>	<u>Revenue</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,260,168	\$ 911,136
2018	1,231,139	873,884
2019	1,236,205	836,592
2020	868,066	800,464
2021	1,322,867	763,015
2022-2026	2,312,679	3,447,823
2027-2031	2,712,500	2,760,676
2032-2036	3,277,864	1,780,932
2037-2040	2,853,476	544,125
	<u>\$ 17,074,964</u>	<u>\$ 12,718,647</u>

Current Refunding

In November 2016, the City issued \$7,400,000 of Sales Tax Revenue Bonds and issuance costs of \$40,500, with an interest rate of 2.25% initially and resetting each 5 years and maturing in December of 2036. \$5,465,637 of the proceeds of this issue were used to current refund the Series 2013 Sales Tax Revenue Bonds, with an interest rate of 3.30%, and a maturity in November of 2023. The intent of this refunding was to extend the maturity of the previous bonds. The cash flows required to service the new debt are approximately \$630,000 more than those required to service the refunded debt, mainly caused by the extension of the maturity date with the refunding bonds. The current refunding results in an economic loss of approximately \$179,000.

Note 11 - Interfund Balances and Transfers

Individual fund receivable/payable balances at December 31, 2016 are as follows:

	Interfund Receivables	Interfund Payables
Major Funds:		
General fund	\$ 647,266	\$ 62,752
Electric fund	1,302,985	-
Waste water fund	-	1,154,395
Airport fund	-	729,486
Non-major Funds:		
Garbage fund	-	3,618
	\$ 1,950,251	\$ 1,950,251

The reasons for the interfund balances at December 31, 2016 is that the general fund and the electric fund subsidized the negative cash balances in the waste water, airport, and garbage funds, and the electric fund is owed amounts from the general fund for accrued taxes. The City expects all interfund balances to be repaid within one year.

Transfers for 2016 were as follows:

Fund	Transfers In	Transfers Out
General	\$ 2,459,673	\$ 388,091
Special revenue funds:		
Capital improvement	255,666	1,940,981
Special sales tax	83,437	108,500
Occupancy tax	-	250,000
Cable access	-	43,000
Special recreation	-	3,780
Police pistol	1,800	-
TIF 7	-	83,437
E-911	184,355	-
Enterprise funds:		
Electric	-	1,164,570
Airport	287,580	-
Garbage	61,886	-
Landfill	647,962	-
	\$ 3,982,359	\$ 3,982,359

The reasons for the 2016 transfers were as follows:

To subsidize operations	\$ 3,732,359
To subsidize Hyde Stadium project	250,000

Note 12 - 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 survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained 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%, index with the CPI
 - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% — 2.1% COLA

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, 2016, 2015 and 2014 were \$528,468, \$508,955 and \$479,412, respectively, equal to the required contributions each year.

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2016, SDRS is 96.89% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of SDRS, for the City as of this measurement period and reported by the City as of December 31, 2016 are as follows:

Proportionate share of pension liability	\$ 49,561,218
Less proportionate share of net pension restricted for pension benefits	48,018,421
Proportionate share of net pension liability	\$ 1,542,797

At December 31, 2016, the City reported a liability of \$1,542,797 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability 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, 2016, the City's proportion was 0.45673270% which was a 0.0018245% increase from the prior year proportion measured.

For the year ended December 31, 2016, the City recognized pension expense of \$540,179. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 537,082	\$ -
Changes in assumption	924,063	-
Net difference between projected and actual earnings on pension plan investments	1,716,114	-
Changes in proportion and difference between the contributions and proportionate share of contributions	-	33,258
Contributions subsequent to the measurement date	261,112	-
	\$ 3,438,371	\$ 33,258

There is \$261,112 reported as deferred outflow of resources related to pensions resulting from the City's contributions subsequent to the measurement date that will be recognized as an increase of pension expense in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended December 31:	Amount
2017	\$ 844,468
2018	505,737
2019	1,079,864
2020	713,932
	\$ 3,144,001

Actuarial Assumptions

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

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Investment rate of return	7.25% through 2017 and 7.50% thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in 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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	58.0%	4.5%
Fixed income	30.0%	1.8%
Real estate	10.0%	4.6%
Cash	2.0%	0.7%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension asset was 7.25% through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Liability to Changes in the Discount Rate

The following presents the City's proportionate share of net pension liability as of December 31, 2016 calculated using the discount rate of 7.25% through 2017 and 7.50% thereafter, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25/6.50%) or one percentage point higher (8.25/8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 8,633,478	\$ 1,542,797	\$ (4,240,413)

Pension Plan Fiduciary Net Position

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

Note 13 - Risk Management

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

Employee Health Insurance

The City has established a group health self-insurance fund to pay for medical claims of city employees and their covered dependents. Payments to the fund are actuarially determined and are to cover individual claims up to \$40,000 and any administrative costs relative to the processing of the claims. Medical claims exceeding this amount are covered through a private insurance carrier, up to a specific annual maximum of \$2,000,000 per member. An estimated liability for claims incurred but not paid is accrued based upon the past experience of the plan.

Changes in the amount of claims liabilities in the last three years were as follows:

	Balance at January 1	Claims and Changes in Estimates	Claim Payments	Balance at December 31
2016	\$ 245,582	\$ 1,228,780	\$ 1,415,672	\$ 58,690
2015	185,874	1,556,329	1,496,621	245,582
2014	230,579	1,247,222	1,291,927	185,874

Workmen's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a 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 never exceeded the liability coverage.

Liability

The City joined the South Dakota Public Assurance Alliance, 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 for automobile and general liability.

The agreement with the South Dakota Public Assurance Alliance provided that the above coverages will be provided to a \$3,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The City carries a \$1,000 deductible for the automobile coverage and \$1,000 deductible for the general liability.

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:

End of City's first full year	50%
End of City's second full year	60%
End of City's third full year	70%
End of City's fourth full year	80%
End of City's fifth full year	90%
End of City's sixth full year and thereafter	100%

As of December 31, 2016, the City has vested balance in the cumulative reserve fund of \$247,374.

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 for the past several 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.

Component Unit

The Commission 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. The Commission managed its risks by purchasing liability insurance from a commercial carrier for risks related to torts, theft or damage of property, and errors and omissions; health insurance from a commercial insurance carrier; and liability insurance for workmen's compensation. The Commission 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 14 - Closure and Post-Closure Care Cost

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. The \$610,680 reported as landfill closure and postclosure care liability at December 31, 2016, represents the cumulative amount reported to date based on the use of 100% of the estimated capacity of the old landfill which was closed in 2003 and 5.3% of the new landfill which opened in 2003. The City will recognize the remaining estimated cost of closure and postclosure care of approximately \$6.86 million for the operating landfill as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2016. The closure and postclosure costs have been calculated using a closure period when the largest amount of landfill would be open and require the most costly closure activity. This conservative approach assumes a closure date of 2072. The ultimate capacity of the landfill is expected to be reached sometime after 2150. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by State and Federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The City is in compliance with these requirements, and at December 31, 2016, the City had contributed \$762,016 to this trust. The City expects that any future inflation costs will be paid from earnings on these investments and future contributions. However, if investment earnings are inadequate or additional closure or postclosure care requirements are determined (due to changes in technology or applicable laws or regulations); these costs may need to be covered by charges to future users of the solid waste system or from future non-ad valorem assessments.

Note 15 - Post Employment Benefits

Plan Description

The City's Postemployment Health Care Plan is a single-employer defined benefit healthcare plan which provides medical benefits to eligible retirees and their spouses. The Plan is authorized by SDCL 9-14-35 and SDCL 6-1-16 and is administered by the City. The Plan does not issue a stand-alone financial report.

Funding Policy

The contributions of plan members and the City are established by City policy. The required contribution is based on projected “pay-as-you-go” financial requirements, with an additional amount to prefund benefits as determined annually by the City. For 2016, the required contribution to the Plan was \$148,510. Contributions made in 2016 were \$71,721, thus the City accrued a liability of \$451,597, as of December 31, 2016.

Annual OPEB cost and Net OPEB Obligation

The City’s annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability over a period not to exceed thirty years.

The following table shows the City’s annual OPEB cost for the year, the amount actually contributed to the Plan and changes in the City’s net OPEB obligation to the Plan:

	2016	2015	2014
Annual required contribution (ARC)	\$ 154,772	\$ 154,772	\$ 154,772
Interest on net OPEB obligation	14,992	11,501	8,125
Adjustment to ARC	(21,254)	(16,305)	(11,519)
Annual OPEB cost (expense)	148,510	149,968	151,378
Annual contribution made	(71,721)	(52,849)	(76,817)
Increase in net OPEB obligation	76,789	97,119	74,561
Net OPEB obligation, beginning of year	374,808	277,689	203,128
Net OPEB obligation, end of year	\$ 451,597	\$ 374,808	\$ 277,689
Percentage of annual OPEB cost contributed	48%	35%	51%

Funded Status

The Plan is on a “pay-as-you-go” basis; therefore it is not funded as of December 31, 2016.

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2014 actuarial valuation was compiled using the “projected unit credit” actuarial cost method. The assumptions included a 4.0% rate of return (net of administrative expenses) and an annual health-care cost trend of 7.5% initially, grading to 5% over 10 years. The amortization period of the unfunded liability is 30 years.

Note 16 - Significant Commitments

The City has long-term contracts for the purchase of electrical energy with the Western Area Power Administration and the Missouri Basin Municipal Power Agency. These contracts expire December 31, 2020 and January 1, 2030, respectively. According to the terms of the contracts, the City is obligated to purchase all of its electrical energy from these two sources. No minimum purchase requirements have been established in the contracts.

Note 17 - Exposition Building

The City participates in a joint venture, known as Exposition Building, which is a joint operation between the City of Pierre, Fort Pierre, Stanley and Hughes Counties for the construction and operation of a multiple use exposition building located at the Stanley County Fairgrounds in Fort Pierre, South Dakota. The primary use of the facility during winter months will be for hockey and multiple uses during other times of the year. Construction was completed in 1999. Interest in the facility is as follows:

City of Pierre	35%
City of Fort Pierre	15%
Hughes County	35%
Stanley County	15%

The City’s interest in the facility as of December 31, 2016 is reported as a capital asset. Hughes County is acting in the capacity of fiscal agent. Financial information for the joint operation is available from the Hughes County Finance Officer.

The joint operations governing board is composed of four representatives, one from each participating entity. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget. Each member contributes to the annual operating budget of the Exposition Building. At December 31, 2016, this joint operation had total cash of \$138,944, of which the City deposits 35%, or \$48,630.

Note 18 - Pledged Revenues

The City has pledged future water customers’ revenues, net of specified operating expenses, to repay \$654,687 in water system revenue bonds issued in 2002 and 2006. Proceeds from the bonds provided financing for the construction of water system infrastructure.

The bonds are payable solely from water customer net revenues and are payable through 2020. Annual principal and interest payments on the bonds are expected to require less than 70% of net revenues. The total principal and interest remaining to be paid on the bonds is \$696,804. Principal and interest paid for the current year and total customer net revenue were \$242,274 and \$1,449,171, respectively.

The City has also pledged future electric customers' revenues, net of specified operating expenses, to repay \$12,215,000 in electric fund revenue bonds issued in 2010. Proceeds from the bonds provided financing for the construction of electrical infrastructure.

The bonds are payable solely from electric customer net revenues and are payable through 2040. Annual principal and interest payments on the bonds are expected to require less than 75% of net revenues. The total principal and interest remaining to be paid on the bonds is \$24,364,483. Principal and interest paid for the current year and total customer net revenue were \$1,144,078 and \$4,934,095, respectively.

The City has also pledged future sewer customers' revenues, net of specified operating expenses, to repay \$4,205,277 in waste water fund revenue bonds issued in 2010. The bonds were used to refinance bonds issued in 1996 and 2009. Proceeds from the refinanced bonds provided financing for the construction of sewer infrastructure.

The bonds are payable solely from waste water customer net revenues and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 75% of net revenues. The total principal and interest remaining to be paid on the bonds is \$4,714,283. Principal and interest paid for the current year and total customer net revenue were \$759,699 and \$722,651, respectively.

Note 19 - Significant Contingencies – Litigation

The City has been recently named as defendant in two legal cases. Both cases are in their early stages and the plaintiffs have not quantified their damage claims; therefore, the ultimate outcome of the litigation cannot presently be determined. The City disputes liability and intends to vigorously defend its positions. The South Dakota Public Assurance Alliance (see Note 13) has retained outside counsel in both cases to defend the City. The City anticipates that the claims will be covered to the extent provided by the risk pool. Adjustments, if any, that might result from the resolution of these matters have not been reflected in the financial statements.

Note 20 - Tax Abatements Related to Tax Increment Financing (TIF) Districts

The City has three active TIF districts in which the City has entered into an agreement with the developer (sponsor) of the TIF district. Under each agreement, property tax increments received by the City are paid to the project sponsor as a grant to cover eligible project expenses approved by resolution by the City Commission, as allowed by South Dakota Codified Law Section 11-9. The project sponsor bears the risk that increments collected over the life of the TIF district will be less than sufficient to cover all eligible project expenses and the City bears no responsibility to make up any shortfall. When all approved project costs are paid or the TIF is dissolved in accordance with state statutes, all property tax revenue will be distributed to the appropriate taxing entities. Increments totaling \$258,557 were received by the City and paid to project sponsors during 2016.

Note 21 - Restatement

The City has determined that a certain transaction was recorded incorrectly in 2015. A payment of \$140,000 for general government expenditures paid out of the general fund in 2016 was excluded from accounts payable as of December 31, 2015 when the expenditure was incurred during 2015. To correct the error, the beginning fund balance of the general fund of \$4,772,359, and the beginning net position of the government-wide governmental activities of \$53,392, 861, as originally reported, have been decreased to \$4,632,359 and \$53,252,861, respectively.



Required Supplementary Information
December 31, 2016
City of Pierre

OPEB Health Insurance Plan

Status of Funding Progress	Valuation Date	
	January 1, 2014	January 1, 2011
Actuarial Accrued Liability	\$ 1,396,307	\$ 1,132,200
Actuarial Value of Plan Assets	-	-
Actuarial Accrued Liability (AAL)	1,396,307	1,132,200
Ratio	0%	0%
Payroll (Active Plan Members)	6,728,752	6,069,643
Percentage of Covered Payroll	20.8%	18.7%

This fund has only been evaluated three times as of January 1, 2014.

City of Pierre
 Schedule of City's Share of Net Pension Liability (Asset)
 Year Ended December 31, 2016

Pension Plan	Fiscal Year Ending *	City's Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered- Employee Payroll (b)	City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered- Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
SDRS	6/30/2016	0.4567%	\$ 1,542,797	\$ 8,170,878	18.88%	96.89%
SDRS	6/30/2015	0.4549%	(1,929,396)	7,814,078	24.7%	104.10%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension asset which is 6/30.

City of Pierre
 Schedule of City's Pension Contributions
 Year Ended December 31, 2016

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
SDRS	12/31/2016	\$ 528,468	\$ 528,468	-	\$ 8,295,292	6.4%
SDRS	12/31/2015	508,955	508,955	-	7,988,543	6.4%

City of Pierre
 Budgetary Comparison Schedule—General Fund
 Year Ended December 31, 2016

	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes				
General property taxes	\$ 2,977,378	\$ 2,977,378	\$ 2,961,718	\$ (15,660)
General sales and use taxes	4,138,410	4,138,410	4,032,395	(106,015)
Penalties and interest on delinquent taxes	1,000	1,000	10,542	9,542
Licenses and permits	245,785	245,785	257,849	12,064
Intergovernmental revenue				
Federal grants	200,000	227,722	351,034	123,312
State grants	300,000	530,580	862,235	331,655
State shared revenue	575,994	575,994	626,524	50,530
County shared revenue	22,000	22,000	17,594	(4,406)
Charge for goods and services				
General government	1,520,232	1,520,232	2,027,202	506,970
Public safety	15,010	15,010	53,693	38,683
Health	8,000	8,000	9,667	1,667
Culture and recreation	751,500	751,500	679,611	(71,889)
Cemetery	40,000	40,000	48,517	8,517
Fines and forfeits				
Court fines and costs	5,000	5,000	6,767	1,767
Parking meter fines	8,000	8,000	4,790	(3,210)
Miscellaneous revenue				
Investment earnings	5,000	5,000	2,524	(2,476)
Rentals	16,500	16,500	20,404	3,904
Contributions from private sources	9,000	9,000	3,999	(5,001)
Other	105,000	108,500	157,504	49,004
Total revenues	10,943,809	11,205,611	12,134,569	928,958

City of Pierre
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2016

	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
General government				
Legislative	92,836	115,686	106,908	8,778
Contingency	250,000	-		
Amount transferred		77,739	-	77,739
Elections	5,100	24,100	23,324	776
Financial administration	1,841,214	1,890,014	1,862,613	27,401
Other	1,783,568	1,783,568	1,563,462	220,106
Public safety				
Police	2,657,034	2,657,034	2,416,898	240,136
Fire	420,177	427,049	389,061	37,988
Public works				
Highways and streets	1,974,880	1,989,880	1,783,788	206,092
Cemeteries	256,014	256,014	202,464	53,550
Transit	119,768	119,768	119,768	-
Health and welfare				
Health	76,077	86,077	84,387	1,690
Culture and recreation				
Recreation	491,107	506,207	466,072	40,135
Parks	2,178,169	2,356,159	2,257,187	98,972
Libraries	825,323	784,323	758,590	25,733
Conservation and development				
Economic development and assistance	452,800	495,280	451,590	43,690
Intergovernmental	500,000	500,000	516,293	(16,293)
Total expenditures	<u>13,924,066</u>	<u>14,068,897</u>	<u>13,002,405</u>	<u>1,066,492</u>
Excess of Revenue over (under) Expenditures	<u>(2,980,257)</u>	<u>(2,863,286)</u>	<u>(867,836)</u>	<u>1,995,450</u>
Other Financing Sources (Uses)				
Transfers in	3,558,198	3,558,198	2,459,673	(1,098,525)
Sale of City property	210,000	210,000	124,528	(85,472)
Transfers out	(969,771)	(971,571)	(388,091)	583,480
Total other financing sources (uses)	<u>2,798,427</u>	<u>2,796,627</u>	<u>2,196,110</u>	<u>(600,517)</u>
Net Change in Fund Balances	(181,830)	(66,659)	1,328,274	1,394,933
Fund Balance - Beginning, as previously stated	4,772,359	4,772,359	4,772,359	-
Restatement (see Note 21)	<u>(140,000)</u>	<u>(140,000)</u>	<u>(140,000)</u>	-
Fund Balance - Beginning, as restated	<u>4,632,359</u>	<u>4,632,359</u>	<u>4,632,359</u>	-
Fund Balance - Ending	<u>\$ 4,450,529</u>	<u>\$ 4,565,700</u>	<u>\$ 5,960,633</u>	<u>\$ 1,394,933</u>

City of Pierre
 Budgetary Comparison Schedule—Special Sales Tax Fund
 Year Ended December 31, 2016

	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes				
General sales and use taxes	\$ 560,000	\$ 560,000	\$ 545,461	\$ (14,539)
Miscellaneous revenue				
Investment earnings	1,000	1,000	8,140	7,140
Total revenues	<u>561,000</u>	<u>561,000</u>	<u>553,601</u>	<u>(7,399)</u>
Expenditures				
Conservation and development				
Economic development	-	70,661	70,661	-
Debt service	536,500	536,500	167,149	369,351
Total expenditures	<u>536,500</u>	<u>607,161</u>	<u>237,810</u>	<u>369,351</u>
Excess of Revenue over (under) Expenditures	<u>24,500</u>	<u>(46,161)</u>	<u>315,791</u>	<u>361,952</u>
Other Financing Sources (Uses)				
Transfers in	84,000	84,000	83,437	(563)
Transfers out	(108,500)	(108,500)	(108,500)	-
Total other financing sources (uses)	<u>(108,500)</u>	<u>(108,500)</u>	<u>(108,500)</u>	<u>-</u>
Net Change in Fund Balances	(84,000)	(154,661)	207,291	361,952
Fund Balance - Beginning	<u>1,290,574</u>	<u>1,290,574</u>	<u>1,290,574</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,206,574</u>	<u>\$ 1,135,913</u>	<u>\$ 1,497,865</u>	<u>\$ 361,952</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 governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution to the governing board.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
7. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

Note 2 - Budgets and Budgetary Accounting

The City is reporting financial position, results of operations, and changes in fund balances in conformity with GAAP while the Statements of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual are presented on the budgetary basis to provide meaningful comparison of actual results with the budget. The major differences between the budgetary basis and the GAAP basis is that all capital outlay expenditures are recorded with other functional expenses for budget purposes rather than as a separate line item for GAAP purposes and intergovernmental expenditures are eliminated for GAAP purposes but are included in budgetary basis. Also certain grants that the State of South Dakota administers on the City's behalf whereby the State pays vendors directly are excluded from these schedules as the City does not budget for those expenses as they do not pay the vendors directly in these instances. Lastly, the City does not budget for the issuance of new long-term debt for the repayment of existing long term-debt as part of a refunding transaction.

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 one year 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.



Supplementary Information
December 31, 2016
City of Pierre

City of Pierre
Combining Balance Sheet – Nonmajor Governmental Funds
December 31, 2016

	E-911 Fund	Library Trust Fund	Police Pistol Fund	Public/Education Government Channel Fund	Perpetual Care Fund	Storm Drainage Fund	TIF Fund	Occupancy Tax Fund	Total Nonmajor Governmental Funds
Assets									
Cash and cash equivalents	\$ 127,397	\$ 90,512	\$ (448)	\$ 82,258	\$ -	\$ 132,206	\$ -	\$ 152,390	\$ 584,315
115 Accounts receivable, net	33,551	-	-	16,331	-	20,924	-	-	70,806
117 Unbilled accounts receivable	-	-	-	-	-	21,375	-	-	21,375
132 Due from federal/state/county government	84,556	-	-	-	-	-	-	14,731	99,287
141 Inventory	-	-	-	-	-	113,744	-	-	113,744
107.1 Restricted cash and cash equivalents	-	-	-	-	54,464	-	31,826	-	86,290
	<u>\$ 245,504</u>	<u>\$ 90,512</u>	<u>\$ (448)</u>	<u>\$ 98,589</u>	<u>\$ 54,464</u>	<u>\$ 288,249</u>	<u>\$ 31,826</u>	<u>\$ 167,121</u>	<u>\$ 975,817</u>
Liabilities, Deferred Inflows of Resources and Fund balances									
Liabilities									
202 Accounts payable	\$ 5,157	\$ -	\$ 160	\$ 4,538	\$ -	\$ 3,323	\$ 31,826	\$ 3,094	\$ 48,098
223 Revenue collected in advance	-	-	-	-	-	680	-	-	680
Total liabilities	<u>5,157</u>	<u>-</u>	<u>160</u>	<u>4,538</u>	<u>-</u>	<u>4,003</u>	<u>31,826</u>	<u>3,094</u>	<u>48,778</u>
Deferred Inflows of Resources									
247 Unavailable revenues	<u>67,354</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,354</u>
Fund Balances									
263 Nonspendable	-	-	-	-	50,000	113,744	-	-	163,744
264 Restricted	172,993	90,512	-	-	4,464	170,502	-	-	438,471
265 Committed	-	-	-	94,051	-	-	-	164,027	258,078
267 Unassigned	-	-	(608)	-	-	-	-	-	(608)
Total fund balances	<u>172,993</u>	<u>90,512</u>	<u>(608)</u>	<u>94,051</u>	<u>54,464</u>	<u>284,246</u>	<u>-</u>	<u>164,027</u>	<u>859,685</u>
	<u>\$ 245,504</u>	<u>\$ 90,512</u>	<u>\$ (448)</u>	<u>\$ 98,589</u>	<u>\$ 54,464</u>	<u>\$ 288,249</u>	<u>\$ 31,826</u>	<u>\$ 167,121</u>	<u>\$ 975,817</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds
Year Ended December 31, 2016

	E-911 Fund	Library Trust Fund	Police Pistol Fund	Public/Education Government Channel Fund	Special Recreation Fund	Perpetual Care Fund	Storm Drainage Fund	TIF Fund	Occupancy Tax Fund	Total Nonmajor Governmental Funds
Revenues										
310 Taxes:										
311 General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 341,994	\$ -	\$ 341,994
313 General sales and use taxes	-	-	-	-	-	-	-	-	246,133	246,133
316 911 Telephone surcharge	254,847	-	-	-	-	-	-	-	-	254,847
330 Intergovernmental revenue:										
331 Federal grants	113,684	-	-	-	-	-	171,318	-	-	285,002
334 State grants	-	-	-	-	-	-	22,842	-	-	22,842
338 County shared revenue	-	-	-	-	-	-	-	-	-	-
338.99 Other	-	-	-	159,555	-	-	-	-	-	159,555
340 Charges for goods and services:										
341 General government	-	-	-	18,427	-	-	-	-	-	18,427
342 Public safety	581,617	-	1,800	-	-	-	-	-	-	583,417
343 Highways and streets	-	-	-	-	-	-	488,749	-	-	488,749
346 Culture and recreation	-	6,935	-	-	-	-	-	-	-	6,935
350 Fines and forfeits:										
354 Library	-	2,252	-	-	-	-	-	-	-	2,252
360 Miscellaneous revenue:										
361 Investment earnings	415	35	-	605	-	-	1,309	-	1,280	3,644
367 Contributions and donations from private sources	-	2,455	-	-	-	-	-	-	-	2,455
369 Other	1,579	-	-	-	-	-	-	-	-	1,579
Total revenues	952,142	11,677	1,800	178,587	-	-	684,218	341,994	247,413	2,417,831

City of Pierre

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds
Year Ended December 31, 2016

	E-911 Fund	Library Trust Fund	Police Pistol Fund	Public/Education Government Channel Fund	Special Recreation Fund	Perpetual Care Fund	Storm Drainage Fund	TIF Fund	Occupancy Tax Fund	Total Nonmajor Governmental Funds
Expenditures										
410 General government:										
419 Other	-	-	-	148,264	-	-	-	-	-	148,264
420 Public safety:										
421 Police	1,003,014	-	2,896	-	-	-	-	-	-	1,005,910
430 Public works:										
431 Highways and streets	-	-	-	-	-	-	79,723	-	-	79,723
440 Health and welfare:										
446 Ambulance services	18,536	-	-	-	-	-	-	-	-	18,536
450 Culture and recreation:										
455 Libraries	-	2,330	-	-	-	-	-	-	-	2,330
460 Conservation and development:										
465 Economic development and assistance (industrial development)	-	-	-	-	-	-	-	-	145,876	145,876
470 Debt service	-	-	-	-	-	-	-	258,557	-	258,557
485 Capital outlay	113,684	-	-	24,070	-	-	667,982	-	-	805,736
Total expenditures	<u>1,135,234</u>	<u>2,330</u>	<u>2,896</u>	<u>172,334</u>	<u>-</u>	<u>-</u>	<u>747,705</u>	<u>258,557</u>	<u>145,876</u>	<u>2,464,932</u>
Excess of revenue over (under) expenditures	<u>(183,092)</u>	<u>9,347</u>	<u>(1,096)</u>	<u>6,253</u>	<u>-</u>	<u>-</u>	<u>(63,487)</u>	<u>83,437</u>	<u>101,537</u>	<u>(47,101)</u>
Other Financing Sources (Uses)										
391.01 Transfers in	184,355	-	1,800	-	-	-	-	-	-	186,155
511 Transfers out	-	-	-	(43,000)	(3,780)	-	-	(83,437)	(250,000)	(380,217)
391.20 Long-term debt issued	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>184,355</u>	<u>-</u>	<u>1,800</u>	<u>(43,000)</u>	<u>(3,780)</u>	<u>-</u>	<u>-</u>	<u>(83,437)</u>	<u>(250,000)</u>	<u>(194,062)</u>
Net Change in Fund Balances	1,263	9,347	704	(36,747)	(3,780)	-	(63,487)	-	(148,463)	(241,163)
Fund Balance - Beginning	<u>171,730</u>	<u>81,165</u>	<u>(1,312)</u>	<u>130,798</u>	<u>3,780</u>	<u>54,464</u>	<u>347,733</u>	<u>-</u>	<u>312,490</u>	<u>1,100,848</u>
Fund Balance - Ending	<u>\$ 172,993</u>	<u>\$ 90,512</u>	<u>\$ (608)</u>	<u>\$ 94,051</u>	<u>\$ -</u>	<u>\$ 54,464</u>	<u>\$ 284,246</u>	<u>\$ -</u>	<u>\$ 164,027</u>	<u>\$ 859,685</u>

City of Pierre
Combining Balance Sheet – Nonmajor Enterprise Funds
December 31, 2016

	Enterprise Funds		Total Nonmajor Enterprise Funds
	Garbage Fund	Landfill Fund	
Assets			
Current Assets			
Cash and cash equivalents	\$ -	\$ 415,025	\$ 415,025
115 Accounts receivable, net	-	100,425	100,425
Unbilled accounts receivable	-	5,904	5,904
Inventory of supplies	-	134,513	134,513
Inventory of stores purchased for resale	20,101	-	20,101
Total current assets	<u>20,101</u>	<u>655,867</u>	<u>675,968</u>
Noncurrent Assets			
Restricted cash and cash equivalents	-	762,016	762,016
Capital assets:			
160 Land	-	3,986,551	3,986,551
162 Buildings and infrastructure	-	2,981,826	2,981,826
164 Improvements other than buildings	-	264,926	264,926
166 Machinery and equipment	123,940	3,021,666	3,145,606
Less accumulated depreciation	(91,452)	(2,641,448)	(2,732,900)
Total noncurrent assets	<u>32,488</u>	<u>8,375,537</u>	<u>8,408,025</u>
Deferred Outflows of Resources			
Pension related deferred outflows	30,080	171,385	201,465
	<u>\$ 82,669</u>	<u>\$ 9,202,789</u>	<u>\$ 9,285,458</u>
Liabilities			
Current Liabilities			
202 Accounts payable	\$ 292	\$ 21,844	\$ 22,136
Due to other funds	3,618	-	3,618
Revenue collected in advance	-	196	196
Total current liabilities	<u>3,910</u>	<u>22,040</u>	<u>25,950</u>
Noncurrent Liabilities			
233 Accrued leave payable	19,984	99,545	119,529
235 Accrued landfill closure and postclosure care costs	-	610,680	610,680
238 Net pension liability	13,497	76,900	90,397
Total noncurrent liabilities	<u>33,481</u>	<u>787,125</u>	<u>820,606</u>
Deferred Inflows of Resources			
248 Pension related deferred inflows	291	1,658	1,949
Total deferred inflows of resources	<u>291</u>	<u>1,658</u>	<u>1,949</u>
Net Position			
253.10 Net investment in capital assets	32,488	7,613,521	7,646,009
253.20 Restricted for:			
253.29 SDRS pension purposes	16,292	92,827	109,119
253.90 Unrestricted net position	(3,793)	685,618	681,825
Total net position	<u>44,987</u>	<u>8,391,966</u>	<u>8,436,953</u>
	<u>\$ 82,669</u>	<u>\$ 9,202,789</u>	<u>\$ 9,285,458</u>

City of Pierre

Combining Statement of Revenues, Expenses, and Changes in Net Position – Nonmajor Enterprise Funds
Year Ended December 31, 2016

	Enterprise Funds		
	Garbage Fund	Landfill Fund	Total Nonmajor Enterprise Funds
Operating Revenue			
380 Charges for goods and services	\$ 80,114	\$ 1,340,804	\$ 1,420,918
369 Miscellaneous	41	793	834
Total operating revenue	<u>80,155</u>	<u>1,341,597</u>	<u>1,421,752</u>
Operating Expenses			
410 Personal services	68,710	699,458	768,168
420 Other current expenses	49,458	423,270	472,728
426.2 Materials (cost of goods sold)	9,321	149,837	159,158
457 Depreciation	12,394	307,436	319,830
Total operating expenses	<u>139,883</u>	<u>1,580,001</u>	<u>1,719,884</u>
Operating Loss	<u>(59,728)</u>	<u>(238,404)</u>	<u>(298,132)</u>
Nonoperating Revenue			
330 Capital grants	1,702	5,619	7,321
361 Investment earnings	-	11,410	11,410
362 Rental revenue	-	100	100
366 Gain on disposition of assets	-	14,194	14,194
369.01 Insurance proceeds	-	13,187	13,187
Total nonoperating revenue	<u>1,702</u>	<u>44,510</u>	<u>46,212</u>
Net Position Before Transfers	(58,026)	(193,894)	(251,920)
391.1 Transfers in	<u>61,886</u>	<u>647,962</u>	<u>709,848</u>
Change in Net Position	3,860	454,068	457,928
Net Position - Beginning	<u>41,127</u>	<u>7,937,898</u>	<u>7,979,025</u>
Net Position - Ending	<u>\$ 44,987</u>	<u>\$ 8,391,966</u>	<u>\$ 8,436,953</u>

City of Pierre
Combining Statement of Cash Flows – Nonmajor Enterprise Funds
Year Ended December 31, 2016

	Enterprise Funds		
	Garbage Fund	Landfill Fund	Total Nonmajor Enterprise Funds
Cash Flows from (used for) Operating Activities			
Receipt from customers	\$ 80,185	\$ 1,387,300	\$ 1,467,485
Payments to suppliers	(73,550)	(527,893)	(601,443)
Payments to employees	(71,212)	(644,653)	(715,865)
Net Cash from (used for) Operating Activities	<u>(64,577)</u>	<u>214,754</u>	<u>150,177</u>
Cash Flows from Noncapital Financing Activities			
Due from other funds	989	-	989
Transfers from other funds	61,886	647,962	709,848
Net Cash from Noncapital Financing Activities	<u>62,875</u>	<u>647,962</u>	<u>710,837</u>
Cash Flows from (used for) Capital and Related Financing Activities			
Capital grants	1,702	5,619	7,321
Other receipts	-	13,287	13,287
Proceeds from sale of capital assets	-	77,255	77,255
Purchase of capital assets	-	(934,576)	(934,576)
Net Cash from (used for) Capital and Related Financing Activities	<u>1,702</u>	<u>(838,415)</u>	<u>(836,713)</u>
Cash Flows from Investing Activities			
Cash invested in reserve account	-	(309,248)	(309,248)
Cash received for interest	-	11,410	11,410
Net Cash used in Investing Activities	<u>-</u>	<u>(297,838)</u>	<u>(297,838)</u>
Net Change in Cash and Cash Equivalents	<u>-</u>	<u>(273,537)</u>	<u>(273,537)</u>
Balance - Beginning	<u>-</u>	<u>688,562</u>	<u>688,562</u>
Balance - Ending	<u>\$ -</u>	<u>\$ 415,025</u>	<u>\$ 415,025</u>
Reconciliation of Operating Loss to			
Net Cash from (used for) Operating Activities:			
Operating loss	\$ (59,728)	\$ (238,404)	\$ (298,132)
Adjustments to reconcile operating loss to			
net cash from (used for) operating activities:			
Depreciation expense	12,394	307,436	319,830
Changes in assets and liabilities:			
Receivables	30	45,703	45,733
Inventories	(14,758)	74,567	59,809
Accounts and other payables	(13)	(51,194)	(51,207)
Closure/postclosure liability	-	21,841	21,841
Accrued leave payable	766	16,811	17,577
Pension related deferred inflows/outflows and asset/liability	(3,268)	37,994	34,726
Net Cash from (used for) Operating Activities	<u>\$ (64,577)</u>	<u>\$ 214,754</u>	<u>\$ 150,177</u>

City of Pierre
Statement of Cash Flows – Discretely Presented Component Unit
Year Ended June 30, 2016

	<u>Housing and Redevelopment Commission</u>
Operating Activities	
Receipts from tenant payments	\$ 169,500
Payments to tenants through escrow	(100)
Payments to employees	(186,973)
Payments to others for goods and services	(203,991)
Housing assistance payments	<u>(544,927)</u>
Net Cash used for Operating Activities	<u>(766,491)</u>
Noncapital Financing Activities	
Operating grants received	769,668
Other revenue received	<u>2,145</u>
Net Cash from Noncapital Financing Activities	<u>771,813</u>
Capital and Related Financing Activities	
Capital grants received	32,955
Acquisition of capital assets	<u>(44,956)</u>
Net Cash used for Capital and Related Financing Activities	<u>(12,001)</u>
Investing Activities	
Interest received	<u>1,927</u>
Net Cash from Investing Activities	<u>1,927</u>
Net Change in Cash and Cash Equivalents	(4,752)
Cash and Cash Equivalents Beginning of Year	<u>542,743</u>
Cash and Cash Equivalents End of Year	<u><u>\$ 537,991</u></u>

City of Pierre
Statement of Cash Flows – Discretely Presented Component Unit
Year Ended June 30, 2016

	<u>Housing and Redevelopment Commission</u>
Reconciliation of Operating Loss to	
Net Cash used for Operating Activities:	
Operating loss	\$ (847,031)
Adjustments to reconcile operating loss to	
net cash used for operating activities:	
Depreciation	81,768
Change in assets and liabilities:	
Accounts receivable - tenants	(726)
Accounts receivable - fraud recovery	(223)
Prepaid expenses	(3,678)
Inventories	1,059
Pension related assets	(4,076)
Accounts payable	4,012
Accrued expenses	828
Accrued compensated absences	(704)
Prepaid rents	546
Other current liabilities	1,834
Tenant security deposits	(100)
	<u>(100)</u>
Net Cash used for Operating Activities	\$ (766,491)

City of Pierre
Schedule of Expenditures of Passenger Facility Charges
Year Ended December 31, 2016

	Net Collected
First Quarter, 2016	\$ 3,589
Second Quarter, 2016	3,053
Third Quarter, 2016	6,579
Fourth Quarter, 2016	10,637
 Total PFC Collections for 2016	 23,858
Total PFC Collections for 2015	28,799
Total PFC Collections for 2014	38,605
Total PFC Collections for 2013	59,251
Total PFC Collections for 2012	50,094
Total PFC Collections for 2011	64,728
Total PFC Collections for 2010	59,124
Total PFC Collections for 2009	43,809
Total PFC Collections for 2008	53,314
Total PFC Collections for 2007	46,383
Total PFC Collections for 2006	57,317
Total PFC Collections for 2005	67,975
Total PFC Collections for 2004	72,726
Total PFC Collections for 2003	51,697
 Total PFC Collections for 2003 - 2016	 \$ 717,680
Total Allowable PFC	\$ 788,346
Net Collections to Date	(717,680)
 Remaining Amount to Collect	 \$ 70,666



**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 Commission
City of Pierre
Pierre, 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, each major fund, and the aggregate remaining fund information of City of Pierre (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Pierre’s basic financial statements, and have issued our report thereon dated September 29, 2017. Our report includes a reference to other auditors who audited the financial statements of the Housing and Redevelopment Commission of the City of Pierre, as described in our report on City of Pierre's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 or significant deficiencies may exist that were not 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 and significant deficiencies.

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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2016-A, 2016-B, and 2016-C 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2016-D to be a significant deficiency.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Pierre's Responses to Findings

City of Pierre's responses to the findings identified in our audit are described in the 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Aberdeen, South Dakota
September 29, 2017



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

The City Commission
City of Pierre
Pierre, South Dakota

Report on Compliance for the Major Federal Program

We have audited the City of Pierre’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, 2016. 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.

City of Pierre’s basic financial statements include the operations of the Housing and Redevelopment Commission of the City of Pierre, a discretely presented component unit, which received \$797,800 in federal awards during the year ended June 30, 2016 which is not included in the City of Pierre’s schedule of federal expenditures for the year ended December 31, 2016. Our audit, described below, did not include the operations of the Housing and Redevelopment Commission of the City of Pierre because the Commission engaged other auditors to perform an audit in accordance with the Uniform Guidance.

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 of Pierre’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, 2016.

Report on Internal Control over Compliance

Management of the City of Pierre 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 of Pierre's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 and; therefore, material weaknesses and significant deficiencies may exist that were not identified. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-001 to be a material weakness.

The City's response to the internal control over compliance finding identified in our audit is described in the schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



Aberdeen, South Dakota
September 29, 2017

City of Pierre
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
Department of Homeland Security Indirect Federal Funding:			
SD Department of Public Safety Office of Emergency Management Disaster Grants - Public Assistance (Note D) (Presidentially Declared Disasters)	97.036	*****	\$ 302,910
SD Department of Public Safety Office of Emergency Management -- Hazard Mitigation Grant	97.039	*****	140,823
SD Department of Public Safety Office of Emergency Homeland Security Grant Program	97.067	*****	<u>121,148</u>
Total Department of Homeland Security			<u>564,881</u>
Department of Transportation Direct Federal Funding:			
Airport Improvement Program (3-46-0044-34, 35, 36, 37)	20.106	N/A	1,178,144
Federal Highway Administration			
<i>Highway Planning and Construction Cluster</i> Indirect Federal Funding:			
SD Department of Transportation Highway Planning and Construction	20.205	*****	2,706
<i>Highway Planning and Construction Cluster</i> Indirect Federal Funding:			
SD Department of Game Fish and Parks Recreational Trials Program	20.219	*****	<u>200,000</u>
Total Highway Planning and Construction Cluster			<u>202,706</u>
<i>Highway Safety Cluster</i> Indirect Federal Funding:			
SD Department of Public Safety State and Community Highway Safety	20.600	*****	3,619
<i>Highway Safety Cluster</i> Indirect Federal Funding:			
SD Department of Public Safety National Priority Safety Programs	20.616	*****	<u>2,124</u>
Total Highway Safety Cluster			<u>5,743</u>
Indirect Federal Funding:			
SD Department of Public Safety Alcohol Open Container Requirements	20.607	*****	<u>12,202</u>
Total Department of Transportation			<u>1,398,795</u>
Department of the Interior Direct Federal Funding:			
Historic Preservation Fund Grants-In-Aid	15.904	N/A	10,536
Department of Housing and Urban Development Direct Federal Funding:			
Community Development Housing US-2009-N-00	14.251	N/A	190,000
General Services Administration Indirect Federal Funding:			
SD Federal Property Agency: Donation of Federal Surplus Personal Property (Note C)	39.003	*****	<u>1,864</u>
Total Expenditures of Federal Awards			<u>\$ 2,166,076</u>

***** "No" Pass-Through Entity Identifying Number Given

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Pierre, and is presented on the modified accrual (government funds) / full accrual (proprietary funds) basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. City of Pierre received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient, if any, is treated as an expenditure when it is paid to the subrecipient. During the year ended December 31, 2016, there were no amounts passed through to subrecipients.

Note B – Significant Accounting Policies

Both governmental fund types and proprietary fund types account for the City of Pierre's federal grant activity. For governmental fund types, expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. For proprietary fund types, expenditures in the schedule of expenditures of federal awards are recognized on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E – Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Pierre's summary of significant accounting policies is presented in Note 1 in the City of Pierre's basic financial statements.

The City of Pierre has not elected to use the 10% de minimis cost rate.

Note C – Federal Surplus Property

The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the City of Pierre.

Note D – SD Department of Public Safety Office of Emergency Management Disaster Grants – Public Assistance (Presidentially Declared Disasters) – CFDA 97.036

In accordance with the compliance supplement, eligible expenditures that have been incurred and approved by FEMA are recorded as federal expenditures on the Schedule of Expenditures of Federal Awards for the year ended December 31, 2016. The amount of federal expenditures included on the Schedule of Expenditures of Federal Awards for the year ended December 31, 2016 that were incurred in a prior year was \$302,910.

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	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	Yes
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:	Yes

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

Section II – Financial Statement Findings

2016-A - Preparation of Financial Statements, Related Footnotes, and the Schedule of Expenditures of Federal Awards

Material Weakness

Criteria: An organization's internal control structure should be designed to provide for the preparation of complete and accurate financial statements and footnotes in accordance with generally accepted accounting principles.

Condition: During the course of the audit engagement, the City of Pierre requested assistance from the auditors to draft the financial statements, the accompanying notes to those financial statements and a final schedule of expenditures of federal awards.

Cause: The City of Pierre does not have an internal control system designed to provide for the correct and complete preparation of the financial statements including required footnotes, disclosures and the schedule of expenditures of federal awards.

Effect: The preparation of financial statements as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by City personnel.

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.

Views of Responsible Officials: Management agrees with the finding.

2016-B - Material Audit Adjustments (Including Restatement for Correction of Error)

Material Weakness

Condition: During the course of our engagement, we proposed material audit adjustments to the City's recorded account balances, including correcting a prior period error, which if not recorded, would have resulted in a material misstatement of the City's financial statements.

Criteria: A system of internal accounting control contemplates accurate recording, reconciliation, and presentation of amounts and disclosures in the financial statements being audited, in accordance with generally accepted accounting principles.

Cause: The City does not have an adequate internal accounting control system to identify all relevant and material adjustments necessary to ensure that financial statements are in accordance with generally accepted accounting principles.

Effect: The lack of internal accounting control could result in the City's interim financial information being materially misstated.

Recommendation: We recommend continued training specific to governmental accounting principles so that staff is able to ensure financial statements are materially correct. In addition, a thorough review and reconciliation of the transactions and balances in each fund should take place prior to the beginning of the audit to ensure that generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.

2016-C – Lack of Segregation of Duties

Material Weakness

Condition: City of Pierre has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in recording, reviewing and approving journal entries. This condition also includes not having someone outside of human resources reviewing payroll reports prior to disbursement.

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no individual handles a transaction from its inception to its completion without proper review or approval from another individual.

Cause: The City has insufficient number of staff to adequately separate duties. It was also noted that for some journal entries tested that there was only one individual performing these adjusting journal entries without review from another individual and a lack of review of payroll reports from an individual outside of the human resources department prior to submission to the bank.

Effect: This condition, including the lack of a review and approval process for recorded journal entries and lack of review of payroll reports, increases the risk that fraud or errors might occur in the financial reporting process.

Recommendation: We recommend that an individual outside of the person recording adjusting journal entries, review these items to ensure proper recording and detection of any errors or fraudulent activity; and a finance office employee independent of the payroll process and without the ability to make changes in the payroll system review payroll information before submitting these items for processing.

Views of Responsible Officials: Management agrees with the finding.

2016-D - Compliance with South Dakota Codified Law (SDCL)

Significant Deficiency

Condition: During the course of performing our audit, we noted the City was not in compliance with the SDCL section relating to obtaining two-thirds vote of the governing body when performing transfers between funds.

Criteria: SDCL 9-21-26.1 requires the municipality to obtain two-thirds vote of the governing body when transferring surplus money of one fund to another.

Cause: Management did not exercise sufficient oversight with respect to ensuring compliance with applicable SDCL provisions.

Effect: Non-compliance with the aforementioned SDCL provisions could result in unauthorized spending and insufficient reporting to constituents.

Recommendation: We recommend the City review their procedures in relation to the approval of interfund transfers to ensure that all transfers are approved by the Commission prior to their posting in the accounting system.

Views of Responsible Officials: Management agrees with the findings.

Section III – Federal Award Findings and Questioned Costs

**2016-001 U.S. Department of Transportation Federal Aviation Administration
CFDA # 20.106, 3-46-0044-35-2015
Airport Improvement Program**

**Procurement, Suspension, and Debarment
Material Weakness in Internal Control over Compliance**

Criteria: Uniform Guidance and 2 CFR sections 200.318 through 200.326 set forth the procurement standards non-federal entities other than states must follow when operating federal programs and the procurement procedures required depending on the amount of the transaction. Additionally, 2 CFR section 180.995 specifies the required procedures to verify an entity the non-federal entity enters into a covered transaction with is not suspended or debarred.

Condition: In our testing of procurement, suspension, and debarment controls, it was identified that the City did not have a written policy on procurement that satisfied the requirements of 2 CFR sections 200.318 through 200.326 and there was no observable control documentation to directly indicate that a cost or price analysis was performed in connection with one covered transaction. Additionally, for the same covered transaction, controls were not in place to ensure that the City performed one of the three prescribed methods under 2 CFR 180.995 to verify an entity was not suspended or debarred.

Cause: Management did not have a sufficient level of understanding of all of the specific requirements under the Uniform Guidance and applicable CFR sections and controls were not adequately designed to ensure compliance with all of these requirements.

Effect: A lack of documented policies and established controls increase the overall risk that employees are not aware of the specific requirements with contracting and awarding contracts to lower tier entities and increase the risk that a covered transaction is entered into with an entity that is suspended or debarred.

Questioned Costs: None reported

Context: Sampling was not used. There were two covered transactions in the population.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend that management establish a written policy that addresses all of the procurement, suspension and debarment requirements of the State of South Dakota and those requirements for federal program procurements as identified in 2 CFR sections 200.318 through 200.326, as well as 2 CFR section 180.995, and maintain adequate supporting documentation and records to document history of procurement and the procedures performed to comply with these CFR sections.

Views of Responsible Officials: Management agrees with the finding



Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
Fiscal Year Ending December 31, 2016

Prepared by Management of
City of Pierre

Summary Schedule of Prior Audit Findings

Finding 2015-A

Initial Fiscal Year Finding Occurred: 2012

Finding Summary: Eide Bailly LLP prepared our financial statements, accompanying notes to the financial statements, and schedule of federal awards.

Status: Ongoing. Due to cost considerations, the City of Pierre will continue to have Eide Bailly LLP prepare our draft financial statements and accompanying notes to the financial statements.

Finding 2015-B

Initial Fiscal Year Finding Occurred: 2012

Finding Summary: Eide Bailly LLP proposed material audit adjustments to the City's recorded account balances, including restatement of beginning net position.

Status: Management is working on a stronger internal control system that will identify all relevant and material adjustments necessary to ensure that financial statements are in accordance with generally accepted accounting principles.

Finding 2015-C

Initial Fiscal Year Finding Occurred: 2012

Finding Summary: The City of Pierre has limited number of office personnel and, accordingly, has insufficient number of staff to adequately separate duties, including having an individual outside the accounting personnel reviewing the bank statements and cancelled checks, as well as having someone outside of human resources submitting payroll reports prior to review by finance.

Status: Management has resolved the finding related to having someone outside of finance review bank statements and is working on a control system to have finance review payroll reports prior to disbursing payroll.

Finding 2015-D

Initial Fiscal Year Finding Occurred: 2012

Finding Summary: The City of Pierre was not in compliance with certain SDCL sections relating to (a) making a report of all outstanding checks over one year old by November 1st, (b) publishing the annual financial report, and (c) obtaining two-thirds vote of the governing body when performing transfers between funds.

Status: Management has resolved the finding related to making a report of all outstanding checks over one year old by November 1st and publishing the annual financial report. Management continues to work on compliance with the transfers between funds, as these are approved by the governing body, however not explicitly enough to comply with this statute.

Finding 2015-E

Initial Fiscal Year Finding Occurred: 2014

Finding Summary: Eide Bailly LLP discovered, during information technology assessment, certain missing controls that could pose a potential threat to safeguarding financial statement information and the access to the financial statement information through the accounting software.

Status: Management has resolved this finding and is committed to strong internal and external controls to safeguard the City's accounting software and financial statement information.

Finding 2015-001

Federal Agency Name: Department of Homeland Security

Program Name: Indirect Federal Funding passed through SD Department of Public Safety Office of Emergency Management Disaster Grants – Public Assistance (Presidentially Declared Disasters)

CFDA # 97.036

Initial Fiscal Year Finding Occurred: 2015

Finding Summary: Eide Bailly LLP determined a lack on internal monitoring of information prepared on project worksheets before submitting to FEMA.

Status: This finding has been resolved and management is committed to a strong internal control monitoring system for federal programs.

Corrective Action Plan

Finding 2016-A

Finding Summary: Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements.

Responsible Individuals: Twila Hight, Finance Officer

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, prepared the financial statements and the accompanying notes to the financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes.

Anticipated Completion Date: Ongoing

Finding 2016-B

Finding Summary: Eide Bailly LLP proposed material audit adjustments to the City's recorded account balances, including correcting a prior period error.

Responsible Individuals: Twila Hight, Finance Officer

Corrective Action Plan: Management is working on a stronger internal control system that will identify all relevant and material adjustments necessary to ensure that financial statements are in accordance with generally accepted accounting principles.

Anticipated Completion Date: 2017

Finding 2016-C

Finding Summary: The City of Pierre has limited number of office personnel and, accordingly, has insufficient number of staff to adequately separate duties, including having someone outside of human resources reviewing payroll reports prior to disbursement.

Responsible Individuals: Kristi Honeywell, City Administrator

Corrective Action Plan: Management has implemented a process of review of payroll reports by finance before disbursement of payroll.

Anticipated Completion Date: 2017

Finding 2016-D

Finding Summary: The City of Pierre was not in compliance with certain SDCL sections relating to obtaining two-thirds vote of the governing body when performing transfers between funds.

Responsible Individuals: Twila Hight, Finance Officer

Corrective Action Plan: Management has implemented an explicit policy of having all transfers approved by the Commission prior to posting in the accounting system.

Anticipated Completion Date: 2017

Finding 2016-001

Federal Agency Name: U.S. Department of Transportation Federal Aviation Administration

Program Name: Airport Improvement Program

CFDA # 20.106, 3-46-0044-35-2015

Finding Summary: Eide Bailly LLP determined, in the testing of Uniform Guidance, that the City of Pierre did not have a written policy on procurement that satisfied the requirements of 2 CFR Sections 200-318 through 200.326 and there was no observable control documentation to directly indicate that a cost or price analysis was performed in connection with one covered transaction. Additionally, for the same covered transaction, controls were not in place to ensure that the City performed one of the three prescribed methods under 2 CFR 180.995 to verify an entity was not suspended or debarred.

Responsible Individuals: Kristi Honeywell, City Administrator

Corrective Action Plan: Management agrees with this finding and will establish a written policy that addresses all of the procurement, suspension and debarment requirements of the State of South Dakota and those requirements for federal program procurements as identified in 2 CFR sections 200.318 through 200.326, as well as 2 CFR section 180.995, and maintain adequate supporting documentation and records to document history of procurement and the procedures performed to comply with these CFR sections.

Anticipated Completion Date: 2017