

**MUNICIPALITY OF HARRISBURG
HARRISBURG, SOUTH DAKOTA**

AUDIT REPORT

FOR THE YEAR JANUARY 1, 2015 TO DECEMBER 31, 2015

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF HARRISBURG

MUNICIPAL OFFICIALS
DECEMBER 31, 2015

MAYOR:

Julie Burke-Van Luvanee

GOVERNING BOARD:

Ryan Berg
Ryan Olson
Allison Sanderson
Ryan Wolbrink

CITY ADMINISTRATOR:

Andrew Pietrus

FINANCE OFFICER:

Mary McClung

ATTORNEY:

Nathan Schoen

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

Governing Board
Municipality of Harrisburg
Harrisburg, 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 the Municipality of Harrisburg, South Dakota (Municipality), as of December 31, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated October 3, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2015-001 to be a material weakness.

Compliance and Other Matters

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

Municipality's Response to Findings

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

Purpose of this Report

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



Schoenfish & Co., Inc.
Certified Public Accountants
October 3, 2016

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDINGS:

Finding Number 2014-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for the revenue function resulting in decrease reliability of reported financial data and an increased potential for the loss of public assets. This comment has not been corrected and is restated as current audit finding number 2015-001.

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT OTHER AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2015-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties existed for the revenues. This is a continuing audit comment since 2003.

Criteria:

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

Condition:

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

Effect:

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

Recommendation:

1. We recommend that the Municipality of Harrisburg officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The Municipality of Harrisburg Mayor, Julie Burke-Van Luvanee, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Harrisburg, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are developing policies and attempting to provide compensating controls.

CLOSING CONFERENCE

The contents of this report were discussed with the officials during the course of the audit and with one Councilman, the City Administrator, and Finance Officer on October 17, 2016.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Harrisburg
Harrisburg, 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 Municipality of Harrisburg, South Dakota, (Municipality) as of December 31, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Harrisburg as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Standard. As described in Note 10 to the financial statements, the Municipality adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 10 to the financial statements, the Municipality has retroactively restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Budgetary Comparison Schedules, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of the Municipality's Contributions on pages 8 through 18, 51 through 52, 54, and 55, respectively, 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's financial statements. The combining financial statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards

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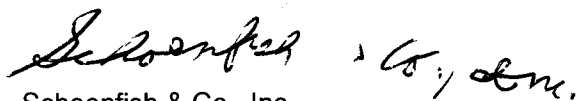
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generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2016 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
Certified Public Accountants
October 3, 2016

Schoenfish & Co., Inc.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Harrisburg's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended on December 31, 2015. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the City's total revenues generated from charges for services, taxes and other revenues of the governmental and business-type programs were \$1,013,401 more than the \$4,006,701 governmental and business-type program expenditures.
- The total cost of the City's programs increased in general government, public safety, public works, and culture and recreation and saw a slight decrease in health and welfare and conservation and development. No new programs were added this year.
- The governmental funds reported an increase of \$1,095,452 in the current year due to higher than expected collections of sales and use taxes, licenses and permits, liquor tax reversions and lower than expected expenditures in several general fund programs. The business type activities reported a decrease of \$82,051 in the current year primarily due to the transfer of funds for engineering of the Columbia Basin Sanitary and Storm Drainage project.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has two proprietary funds – the Water Fund and the Sewer Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

Major Features of the City of Harrisburg’s Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water and sewer systems
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City’s net position and how they have changed. Net position – the difference between the City’s assets plus deferred outflows of resources and liabilities plus deferred inflows of resources – is one way to measure the City’s financial health or position.

- Increases or decreases in the City’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City’s property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

- **Governmental Activities** -- This category includes the most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
- **Business-type Activities** -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water and sewer systems are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

- **Governmental Funds** – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position increased by 3.29% between fiscal year 2014 and 2015 increasing by \$1,013,401 (See Table A-1)

	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
Current and Other Assets	4,537,279	4,888,675	4,086,075	4,675,476	8,623,354	9,564,151
Net Pension Asset		70,681		31,209	0	101,890
Capital Assets	5,974,444	6,608,453	23,923,357	23,094,625	29,897,801	29,703,078
Total Assets	10,511,723	11,567,809	28,009,432	27,801,310	38,521,155	39,369,119
Deferred Outflows of Resources		123,157		47,649	0	170,806
Long-Term Debt Outstanding	1,780,885	1,689,060	5,745,438	5,596,500	7,526,323	7,285,560
Other Liabilities	43,137	37,141	296,089	293,146	339,226	330,287
Total Liabilities	1,824,022	1,726,201	6,041,527	5,889,646	7,865,549	7,615,847
Deferred Outflows of Resources		107,914		47,649	0	155,563
Net Position:						
Net Investment in Capital Assets	4,200,409	4,930,739	18,180,985	17,504,115	22,381,394	22,434,854
Restricted for:						
Debt Service Purposes			103,926	154,446	103,926	154,446
SDRS Pension Purposes		85,925		37,940		123,865
Other Purposes	1,163,405	1,305,317	127,551	135,763	1,290,956	1,441,080
Unrestricted	3,323,887	3,534,870	3,555,443	4,086,131	6,879,330	7,621,001
Total Net Position	8,687,701	9,856,851	21,967,905	21,918,395	30,655,606	31,775,246
Beginning Net Position	8,221,192	8,687,701	20,707,285	21,967,905	28,928,477	30,655,606
Prior Period Adjustment for Deposits			(17,949)		(17,949)	0
Prior Period Adjustment for GASB 68		73,698		32,541	0	106,239
Restated Net Position	8,221,192	8,761,399	20,689,336	22,000,446	28,910,528	30,761,845
Change in Net Position	466,509	1,095,452	1,278,569	(82,051)	1,745,078	1,013,401
Percentage of Increase in Net Position	5.67%	12.50%	6.18%	-0.37%	6.04%	3.29%

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the city, consisting of installment note payable, water revenue bonds payable, and sales tax bonds payable and sewer revenue bonds payable have been

reported in this manner on the Statement of Net Position. The difference between the city's assets and liabilities is its net position.

The Municipality's net position reflect its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The increase in net position invested in capital assets, net of related debt relates primarily to the Municipality's purchase of vehicles and equipment for use by the various programs, continuing construction on the Columbia Basin storm sewer and sanitary sewer projects, completion of the construction of city hall and the acceptance of a sanitary sewer lift station installed by a private developer.

The Municipality's restricted net position represent resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statute, federal regulations, or debt covenants. There was an increase in restricted net position primarily due to collections of dedicated storm drainage assessments and dedicated water and sewer surcharges in excess of outlays of these resources toward their intended purposes.

The remaining balance of net position is unrestricted and may be used to meet the Municipality's ongoing obligations to citizens and creditors.

At the end of the current year, the Municipality is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

Changes in Net Position

The City's total revenues (excluding special items) totaled \$5,020,102 (See Table A-2.) Approximately 83 percent of the City's revenue came from charges for services and taxes, with 41 cents of every dollar raised coming from charges for services (primarily water and sewer operations) and 42 cents of every dollar raised coming from some type of tax. (See Figure A-3).

The total cost of all programs and services saw an increase in general government, public safety, public works, culture and recreation, and water services and a decrease in health and welfare, conservation and development, and sewer services. The City's expenses cover a range of services, with approximately 66% related to public work services (road maintenance, water system services and sewer system services). (See Figure A-4)

Figure A-3, City of Harrisburg, Sources of Revenues for Fiscal Year 2015

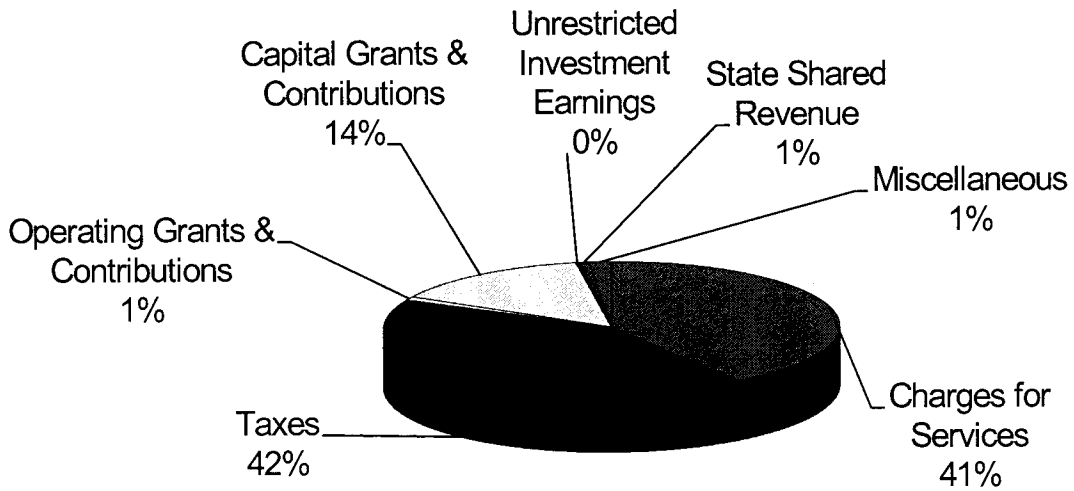
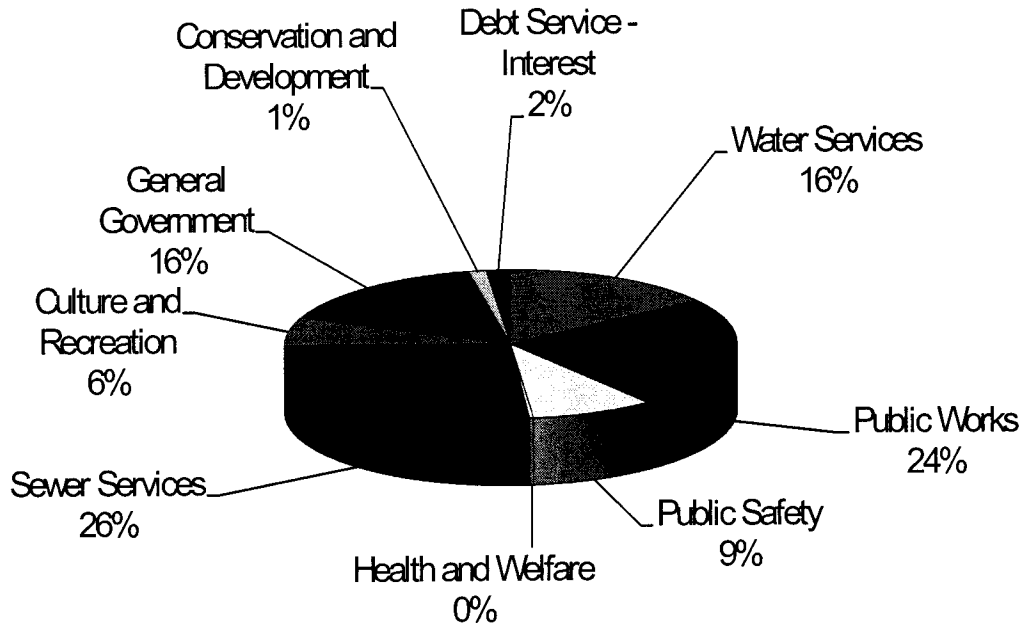


Figure A-4, City of Harrisburg, Functional Expenses for Fiscal Year 2015



	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2015	2014	2015	2015	2015
Revenues						
Program Revenues						
Charges for Services	137,385	164,168	1,767,969	1,873,400	1,905,353	2,037,568
Operating Grants	58,243	43,812			58,243	43,812
Capital Grants and Contributions	328,733	667,869	1,109,757	56,248	1,438,490	724,117
General Revenues						
Taxes	1,898,402	2,088,819			1,898,402	2,088,819
Revenue State Sources	14,886	31,785			14,886	31,785
Unrestricted Investment Earnings	6,732	7,247	6,513	7,714	13,244	14,961
Miscellaneous	48,914	48,013	34,502	31,027	83,416	79,040
Total Revenues	2,493,294	3,051,713	2,918,741	1,968,389	5,412,035	5,020,102
Expenses						
General Government	446,462	636,933			446,462	636,933
Public Safety	321,687	347,582			321,687	347,582
Public Works	863,328	972,086			863,328	972,086
Health and Welfare	13,843	12,021			13,843	12,021
Culture and Recreation	230,034	248,561			230,034	248,561
Conservation and Development	97,320	52,087			97,320	52,087
Interest on Long -term Debt	54,113	67,444			54,113	67,444
Water Services			628,741	619,533	628,741	619,533
Sewer Services			1,011,431	1,050,454	1,011,431	1,050,454
Total Expenses	2,026,785	2,336,714	1,640,172	1,669,987	3,666,957	4,006,701
Excess (Deficiency) Before Transfers						
Transfers		380,453		(380,453)	-	-
Increase (Decrease) in Net Position	466,509	1,095,452	1,278,569	(82,051)	1,745,077	1,013,401
Prior Period Adjustments:						
Adjustments for Trust Deposits			(17,949)		(17,949)	-
Adjustments for GASB 68 Implementation		73,698		32,541	-	106,239
Ending Net Position	8,687,701	9,856,851	21,967,905	21,918,395	30,655,606	31,775,246

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains four governmental funds – General Fund, Liquor, Lodging and Dining Sales Tax Special Revenue Fund, Storm Drainage Special Revenue Fund and Tax Increment Financing Debt Service Fund and two business type funds – Water and Sewer Funds. The Governmental Activities increased by \$1,095,452 due to higher than expected collections of sales and use taxes and licenses and permits and lower than expected expenses in several General Fund programs. The Water Fund had an increase in net position of \$278,500. The Sewer Fund had a decrease in net position of \$360,551. The Water Fund increase was partially due to an increase in actual number of users and usage. The Sewer Fund decrease was due primarily to the transfer of funds for the engineering costs of the Columbia Basin Storm Sewer project.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget six separate times. These amendments fell into one category:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.

The following were the significant budget changes during the year.

- \$140,832 for Planner professional services and fees associated with the Special Census being conducted. Funds used from unobligated general fund balance.
- \$5,164 for Library additional supplies and materials and improvements other than buildings for engineering services. Funds used from unobligated general fund balance (donations).
- \$85,000 for Parks land purchase. Funds used from unobligated general fund balance.
- \$375,000 for Street improvements other than buildings to cover the costs associated with the Harvest Acres top lift, Ellis Larson Park parking lot, Greyhawk Addition Street improvements and maintenance facility entrance improvements. Funds used from unobligated general fund balance.
- 10,500 for City Administrator computer software (city website). Funds used from unobligated general fund balance.
- \$2,088 for Plan travel and conference. Funds used from South Dakota Building Officials Reimbursement
- \$65,000 for additional engineering professional services and fees. Funds used from unobligated general fund balance.
- \$13,000 for professional services and fees for Police. Funds used from unobligated general fund balance.
- \$2,600 for building inspection salaries and wages, OASI, and books. Funds used from unobligated general fund balance.
- \$12,000 for Street lighting utilities. Funds used from unobligated general fund balance.
- \$2,929 for West Nile Prevention supplies and materials. Funds used from South Dakota State Mosquito Grant and unobligated general fund balance.
- \$3,630 for Economic Development Promotion salaries and wages, OASI, publishing and rentals. Funds used from unobligated general fund balance.

	<u>Original</u>	<u>Final</u>
Revenue	2,015,187	2,019,126
Expenses	<u>1,965,187</u>	<u>2,682,931</u>
Variance	50,000	(663,805)

CAPITAL ASSET ADMINISTRATION

By the end of 2015, the City had invested \$29,703,078 in a broad range of capital assets including, land, buildings, infrastructure and various machinery and equipment, intangible assets and construction in progress. (See Table A-3.)

Table A-3
City of Harrisburg - Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2014	2015	2014	2015	2014	2015
Land	\$ 388,066	\$ 700,438	\$ 75,435	\$ 75,435	\$ 463,501	\$ 775,873
Buildings	\$ 1,272,728	\$ 1,248,800			\$ 1,272,728	\$ 1,248,800
Improvements Other Than Buildings	\$ 2,506,769	\$ 4,212,416	\$ 20,979,783	\$ 21,398,119	\$ 23,486,552	\$ 25,610,535
Machinery and Equipment	\$ 342,681	\$ 320,852	\$ 342,924	\$ 295,550	\$ 685,605	\$ 616,402
Intangible Assets		\$ 18,097	\$ 1,343,919	\$ 1,311,163	\$ 1,343,919	\$ 1,329,260
Construction in Progress	\$ 1,464,200	\$ 107,850	\$ 1,181,297	\$ 14,358	\$ 2,645,497	\$ 122,208
Total Capital Assets (Net)	\$ 5,974,444	\$ 6,608,453	\$ 23,923,357	\$ 23,094,625	\$ 29,897,801	\$ 29,703,078

This year's major capital asset additions included:

- Central Park land purchase
- 300 East Elm Street lot and garage
- Annual Chipseal on streets
- Greyhawk Street Improvements
- Harvest Acres Street Improvements
- Handicapped Porta Potty to be used in city parks
- Desk, hutch and laminate top for library
- Library Books
- Sound System for baseball field
- 2 computers for city finance officers
- City website
- Poweredge server for city hall
- Security system for city hall
- Pirahna 3000 PSI 500' sewer hose
- Aladdin Pressure washer
- Case 321 FHS high speed compact loader
- Lincoln Spool gun
- Transducer control panel
- Uita loc self-retracting lifeline

LONG-TERM DEBT

At year-end the City had \$2,589,567 in Water Revenue Bonds, \$327,273 in a note payable for the construction of water main, street improvements and a private rail spur, \$3,000,943 in Clean Water Revenue Bond for wastewater improvements, \$1,350,441 in a Clean Water Revenue Bond for storm drainage improvements and \$17,336 payable to employees for accrued vacation leave.

Table A-4
City of Harrisburg - Outstanding Debt and Obligations

	Governmental		Business-type		TOTAL	
	Activities		Activities		2014	2015
	2014	2015	2014	2015		
Note Payable	\$ 497,275	\$ 327,273			\$ 497,275	\$ 327,273
Compensated Absences	6,850	11,346	\$ 3,066	\$ 5,990	9,916	17,336
Storm Drainage Revenue Bonds	1,276,760	1,350,441			1,276,760	1,350,441
Drinking Water Revenue Bonds			2,747,525	2,589,567	2,747,525	2,589,567
Wastewater Revenue Bonds			2,994,846	3,000,943	2,994,846	3,000,943
Total Outstanding Debt and Obligations	\$ 1,780,885	\$ 1,689,060	\$ 5,745,437	\$ 5,596,500	\$ 7,526,322	\$ 7,285,560

The City has outstanding \$222,313 in Water Revenue Bonds. The bonds are secured and paid for from the Water Fund. The City does not anticipate the use of any tax dollars to pay for these bonds. These bonds were used to build the existing water tower in the Industrial Park and will be fully paid off on January 1, 2022.

The City has outstanding \$932,291 in Water Revenue Bonds. The bonds are secured and paid for from the Water Fund. The City does not anticipate the use of any tax dollars to pay for these bonds. These bonds were used for the prepayment to Lewis & Clark Regional Water System and costs associated with the upsizing of pipe for the connection to Lewis & Clark, repayment began in 2009 and will be fully paid off October 15, 2028.

The City has outstanding \$1,434,963 in Water Revenue Bonds. The bonds are secured and paid for from the Water Fund. The city does not anticipate the use of any tax dollars to pay for these bonds. These bonds were used to build the existing composite water tower by the Harrisburg High School and for the water main loop in the Harrisburg Homesites Addition repayment began in 2011 and will be fully paid off January 15, 2031.

The City has outstanding \$2,343,929 in Clean Water Revenue Bonds. The bonds were secured and paid for from city sales tax dollars which was approved by the voters. These bonds were used to construct the force main to the City of Sioux Falls; repayment began in 2012 and will be fully paid off January 1, 2042. In 2013 the city set up a wastewater surcharge and converted the existing sales tax loan to bonds that are now secured and paid for from the Wastewater Fund.

The City has outstanding \$657,015 in Clean Water Revenue Bonds. The bonds were secured and paid for from Sewer Fund. These bonds were used to improve the Columbia Street sanitary sewer system. Repayment began in 2014 and will be fully paid off in 2034.

The City has outstanding \$1,350,441 in Clean Water (Storm Drainage) Revenue Bonds. The bonds were secured and paid for from Storm Sewer Maintenance Fund. These bonds were used to improve the Columbia Street storm sewer system. Repayment began in 2014 and will be fully paid off in 2033.

The City has outstanding \$327,273 in a note payable to a developer for costs they incurred for the construction of a rail spur, water main and street improvements. This note is being repaid with incremental property taxes collected on affected properties via a tax increment financing district.

The Municipality is liable for the accrued vacation leave payable to all full-time employees who have been employed for more than one year. The increase is due to an increase in the amount of leave accumulated and outstanding at the end of the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position has shown a slight change. The City experienced an increase in total property valuation of \$13,013,241 from the prior year. The increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes by approximately \$64,709. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3% or an amount based on the Consumer Price Index (CPI) whichever is lower and for next year it is 0%. The property tax levy request increased due to our growth and CPI by 7.283%.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The city experienced an increase in sales tax revenue of \$114,554 or almost 12.925% over the prior year. The City's adopted General Fund budget for the next fiscal year increased to \$2,165,820 using nothing from the unassigned fund balance.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Harrisburg's Finance Office, PO Box 26, Harrisburg, SD 57032.

MUNICIPALITY OF HARRISBURG
STATEMENT OF NET POSITION
December 31, 2015

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	4,339,989.23	4,263,128.05	8,603,117.28
Accounts Receivable, Net	535,930.21	122,139.24	658,069.45
Restricted Assets:			
Cash and Cash Equivalents		290,208.98	290,208.98
Deposits	12,755.54		12,755.54
Net Pension Asset	70,681.17	31,208.94	101,890.11
Capital Assets:			
Land and Construction Work in Progress	808,287.56	89,792.17	898,079.73
Other Capital Assets, Net of Depreciation	5,800,165.74	23,004,833.22	28,804,998.96
TOTAL ASSETS	11,567,809.45	27,801,310.60	39,369,120.05
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	123,157.37	54,379.55	177,536.92
TOTAL DEFERRED OUTFLOWS OF RESOURCES	123,157.37	54,379.55	177,536.92
LIABILITIES :			
Accounts Payable	12,959.77	6,918.98	19,878.75
Other Current Liabilities	24,181.67	286,226.69	310,408.36
Noncurrent Liabilities:			
Due Within One Year	130,491.02	247,355.33	377,846.35
Due in More than One Year	1,558,569.03	5,349,144.77	6,907,713.80
TOTAL LIABILITIES	1,726,201.49	5,889,645.77	7,615,847.26
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows	107,913.82	47,648.83	155,562.65
TOTAL DEFERRED INFLOWS OF RESOURCES	107,913.82	47,648.83	155,562.65
NET POSITION:			
Net Investment in Capital Assets	4,930,739.47	17,504,114.77	22,434,854.24
Restricted for:			
Debt Service Purposes		154,445.88	154,445.88
City Promotion/Parks	75,943.37		75,943.37
Storm Sewer Maintenance	1,216,618.35		1,216,618.35
SDRS Pension Purposes	85,925.12	37,939.66	123,864.78
Equipment Repair and Replacement		135,763.10	135,763.10
Cumulative Insurance Reserve	12,755.54		12,755.54
Unrestricted (Deficit)	3,534,869.66	4,086,132.14	7,621,001.80
TOTAL NET POSITION	9,856,851.51	21,918,395.55	31,775,247.06

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

MUNICIPALITY OF HARRISBURG
STATEMENT OF ACTIVITIES
 For the Year Ended December 31, 2015

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	636,932.94	31,446.40			(605,486.54)		(605,486.54)
Public Safety	347,581.74	114,682.70			(232,899.04)		(232,899.04)
Public Works	972,085.69	445.00	43,811.57	383,146.62	(544,682.50)		(544,682.50)
Health and Welfare	12,021.14				(12,021.14)		(12,021.14)
Culture and Recreation	248,561.43	17,593.86		284,722.57	53,755.00		53,755.00
Conservation and Development	52,087.20				(52,087.20)		(52,087.20)
*Interest on Long-term Debt	67,444.39				(67,444.39)		(67,444.39)
Total Governmental Activities	2,336,714.53	164,167.96	43,811.57	667,869.19	(1,460,865.81)		(1,460,865.81)
Business-type Activities:							
Water	619,532.54	863,786.40				244,253.86	244,253.86
Sewer	1,050,454.28	1,009,614.45		56,247.97		15,408.14	15,408.14
Total Business-type Activities	1,669,986.82	1,873,400.85	0.00	56,247.97	259,662.00	259,662.00	259,662.00
Total Primary Government	4,006,701.35	2,037,568.81	43,811.57	724,117.16	(1,460,865.81)	259,662.00	(1,201,203.81)

General Revenues:

Taxes:

Property Taxes	1,087,990.07	1,087,990.07
Sales Taxes	1,000,828.96	1,000,828.96
State Shared Revenues	31,785.09	31,785.09
Unrestricted Investment Earnings	7,247.44	7,714.27
Miscellaneous Revenue	48,013.45	31,026.54
Transfers	380,453.28	(380,453.28)
Total General Revenues	2,556,318.29	(341,712.47)

Change in Net Position	1,095,452.48	(82,050.47)	1,013,402.01
Net Position - Beginning	8,687,700.89	21,967,904.95	30,655,605.84
Adjustments:			
Prior Period Adjustment for GASB 68 - See Note 10	73,698.14	32,541.07	106,239.21
Adjusted Net Position - Beginning	8,761,399.03	22,000,446.02	30,761,845.05
NET POSITION - ENDING	9,856,851.51	21,918,395.55	31,775,247.06

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

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

MUNICIPALITY OF HARRISBURG
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and Cash Equivalents	3,217,768.39	1,048,489.09	4,266,257.48
Cash with Fiscal Agent	72,224.62	1,507.13	73,731.75
Taxes Receivable--Delinquent	13,546.56		13,546.56
Accounts Receivable, Net	5,724.04	4,234.00	9,958.04
Special Assessments Receivable--Current	147,833.74	232,676.52	380,510.26
Special Assessments Receivable--Delinquent	3,725.95	2,139.77	5,865.72
Due from Other Governments	131,036.84	3,515.21	134,552.05
Deposits	12,755.54		12,755.54
TOTAL ASSETS	<u>3,604,615.68</u>	<u>1,292,561.72</u>	<u>4,897,177.40</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:			
Liabilities:			
Accounts Payable	12,959.77		12,959.77
Accrued Wages Payable	12,355.84		12,355.84
Accrued Taxes Payable	1,717.82		1,717.82
Total Liabilities	<u>27,033.43</u>	<u>0.00</u>	<u>27,033.43</u>
Deferred Inflows of Resources:			
Unavailable Revenue--Sales and Use Taxes	13,051.20	385.02	13,436.22
Unavailable Revenue--Property taxes	13,546.56		13,546.56
Unavailable Revenue--Special Assessments	151,559.69	234,816.29	386,375.98
Other Deferred Inflows of Resources	3,886.33		3,886.33
Total Deferred Inflows of Resources	<u>182,043.78</u>	<u>235,201.31</u>	<u>417,245.09</u>
Fund Balances:			
Nonspendable:			
Cumulative Insurance Reserve	12,755.54		12,755.54
Restricted:			
City Promotion/Parks		75,558.35	75,558.35
Storm Sewer Maintenance		981,802.06	981,802.06
Unassigned	3,382,782.93		3,382,782.93
Total Fund Balances	<u>3,395,538.47</u>	<u>1,057,360.41</u>	<u>4,452,898.88</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>3,604,615.68</u>	<u>1,292,561.72</u>	<u>4,897,177.40</u>

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

MUNICIPALITY OF HARRISBURG
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2015

Total Fund Balances - Governmental Funds	<u>4,452,898.88</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	<u>70,681.17</u>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>6,608,453.30</u>
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>123,157.37</u>
Long-term liabilities, including bonds payable and accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,689,060.05)</u>
Assets such as taxes receivable (delinquent), special assessment receivables (current, delinquent and deferred), and sales tax receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	<u>408,742.67</u>
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>(107,913.82)</u>
Interest on general long-term debt is not recognized when incurred in the funds but is rather recognized when due. Accordingly, interest expense accrued but not due is not reported in the funds statements.	<u>(10,108.01)</u>
Net Position - Governmental Activities	<u><u>9,856,851.51</u></u>

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

MUNICIPALITY OF HARRISBURG
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes:			
General Property Taxes	888,816.44	197,326.46	1,086,142.90
General Sales and Use Taxes	974,364.87	33,246.83	1,007,611.70
Amusement Taxes	276.00		276.00
Penalties and Interest on Delinquent Taxes	1,885.23		1,885.23
Licenses and Permits	114,282.00		114,282.00
Intergovernmental Revenue:			
Federal Grants	14,668.45		14,668.45
State Grants	1,851.00		1,851.00
State Shared Revenue:			
Bank Franchise Tax	6,358.38		6,358.38
Prorate License Fees	2,190.99		2,190.99
Liquor Tax Reversion	25,426.71		25,426.71
Motor Vehicle Licenses	20,580.24		20,580.24
Local Government Highway and Bridge Fund	8,164.33		8,164.33
County Shared Revenue:			
County Highway & Bridge Reserve Tax	2,051.28		2,051.28
County Wheel Tax	4,350.46		4,350.46
Charges for Goods and Services:			
General Government	21,758.80		21,758.80
Sanitation	90.00		90.00
Culture and Recreation	17,000.00		17,000.00
Fines and Forfeits:			
Parking Meter Fines	725.00		725.00
Library	593.86		593.86
Other	50.00		50.00
Miscellaneous Revenue:			
Investment Earnings	4,997.07	2,250.37	7,247.44
Rentals	9,687.60		9,687.60
Special Assessments	11,126.86		11,126.86
Maintenance Assessments	129,343.20	182,160.19	311,503.39
Contributions and Donations from Private Sources	78,254.07		78,254.07
Other	48,014.07		48,014.07
Total Revenue	2,386,906.91	414,983.85	2,801,890.76
Expenditures:			
General Government:			
Legislative	26,994.61		26,994.61
Executive	119,895.29		119,895.29
Elections	221.66		221.66
Financial Administration	171,980.02		171,980.02
Other	298,112.53		298,112.53
Total General Government	617,204.11	0.00	617,204.11

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

MUNICIPALITY OF HARRISBURG
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures (Continued):			
Public Safety:			
Police	243,228.11		243,228.11
Fire	56,338.64		56,338.64
Protective Inspection	42,165.37		42,165.37
Total Public Safety	341,732.12	0.00	341,732.12
Public Works:			
Highways and Streets	262,278.08	111,512.50	373,790.58
Sanitation	13,923.41		13,923.41
Total Public Works	276,201.49	111,512.50	387,713.99
Health and Welfare:			
Health	12,071.27		12,071.27
Total Health and Welfare	12,071.27	0.00	12,071.27
Culture and Recreation:			
Recreation	21,263.00		21,263.00
Parks	128,328.80		128,328.80
Libraries	48,238.90		48,238.90
Total Culture and Recreation	197,830.70	0.00	197,830.70
Conservation and Development:			
Economic Development and Assistance (Industrial Development)	13,689.98	38,407.00	52,096.98
Total Conservation and Development	13,689.98	38,407.00	52,096.98
Debt Service	0.00	287,507.44	287,507.44
Capital Outlay	712,975.55	9,602.72	722,578.27
Total Expenditures	2,171,705.22	447,029.66	2,618,734.88
Excess of Revenue Over (Under) Expenditures	215,201.69	(32,045.81)	183,155.88
Other Financing Sources (Uses):			
Long-Term Debt Issued		123,750.00	123,750.00
Total Other Financing Sources (Uses)	0.00	123,750.00	123,750.00
Net Change in Fund Balances	215,201.69	91,704.19	306,905.88
Fund Balance - Beginning	3,180,336.78	965,656.22	4,145,993.00
FUND BALANCE - ENDING	3,395,538.47	1,057,360.41	4,452,898.88

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

MUNICIPALITY OF HARRISBURG
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances to the Government-Wide Statement of Activities
For the Year Ended December 31, 2015

Net Change in Fund Balances - Total Governmental Funds	<u>306,905.88</u>
Amounts reported for governmental activities in the statement of activities are different because:	
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.	<u>722,578.27</u>
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	<u>(675,491.16)</u>
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.	<u>206,468.50</u>
Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position.	<u>220,071.15</u>
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.	<u>(123,750.00)</u>
The fund financial statement governmental fund property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available".	<u>(314.06)</u>
The fund financial statement governmental fund sales and use tax accruals differ from the government-wide statement sales and use tax accruals in that the fund financial statements require the amounts to be "available".	<u>(6,782.74)</u>
Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.	<u>67,655.43</u>
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits.	<u>(4,496.07)</u>
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>(10,064.48)</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>623.09</u>
The transfer of infrastructure assets that were financed with proprietary fund revenues is not recorded on the funds statement but is reported as a transfer on the government-wide statements.	<u>380,453.28</u>
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	<u>11,595.39</u>
Change in Net Position of Governmental Activities	<u><u>1,095,452.48</u></u>

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

MUNICIPALITY OF HARRISBURG
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2015

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	1,976,402.05	2,286,726.00	4,263,128.05
Accounts Receivable, Net	15,374.95	17,285.11	32,660.06
Unbilled Accounts Receivable	36,941.94	52,537.24	89,479.18
Total Current Assets	2,028,718.94	2,356,548.35	4,385,267.29
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	218,138.14	72,070.84	290,208.98
Net Pension Asset	15,629.94	15,579.00	31,208.94
Capital Assets:			
Land	56,250.71	19,183.85	75,434.56
Improvements Other Than Buildings	9,238,111.40	16,985,774.00	26,223,885.40
Machinery and Equipment	220,187.97	739,328.79	959,516.76
Construction Work in Progress	14,357.61		14,357.61
Less: Accumulated Depreciation	(2,024,027.02)	(3,465,704.51)	(5,489,731.53)
Intangible Assets	1,553,220.95		1,553,220.95
Accumulated Amortization	(242,058.36)		(242,058.36)
Total Noncurrent Assets	9,049,811.34	14,366,231.97	23,416,043.31
TOTAL ASSETS	11,078,530.28	16,722,780.32	27,801,310.60
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	27,234.16	27,145.39	54,379.55
TOTAL DEFERRED OUTFLOWS OF RESOURCES	27,234.16	27,145.39	54,379.55
LIABILITIES:			
Current Liabilities:			
Accounts Payable	365.13	6,553.85	6,918.98
Accrued Interest Payable	18,807.91	23,150.77	41,958.68
Accrued Wages Payable	2,637.47	2,780.05	5,417.52
Accrued Taxes Payable	360.02	379.47	739.49
Customer Deposits	238,111.00		238,111.00
Bonds Payable Current:			
Revenue	163,688.82	83,666.51	247,355.33
Total Current Liabilities	423,970.35	116,530.65	540,501.00
Noncurrent Liabilities:			
Bonds Payable:			
Revenue	2,425,878.62	2,917,276.67	5,343,155.29
Accrued Leave Payable	2,994.74	2,994.74	5,989.48
Total Noncurrent Liabilities	2,428,873.36	2,920,271.41	5,349,144.77
TOTAL LIABILITIES	2,852,843.71	3,036,802.06	5,889,645.77

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

**MUNICIPALITY OF HARRISBURG
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2015**

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
DEFERRED INFLOWS OF RESOURCES:			
Pension Related Deferred Inflows	23,863.31	23,785.52	47,648.83
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>23,863.31</u>	<u>23,785.52</u>	<u>47,648.83</u>
NET POSITION:			
Net Investment in Capital Assets	<u>6,226,475.82</u>	<u>11,277,638.95</u>	<u>17,504,114.77</u>
Restricted Net Position, Restricted for:			
Revenue Bond Debt Service	<u>154,445.88</u>		<u>154,445.88</u>
Equipment Repair and/or Replacement	<u>63,692.26</u>	<u>72,070.84</u>	<u>135,763.10</u>
SDRS Pension Purposes	<u>19,000.79</u>	<u>18,938.87</u>	<u>37,939.66</u>
Unrestricted Net Position	<u>1,765,442.67</u>	<u>2,320,689.47</u>	<u>4,086,132.14</u>
TOTAL NET POSITION	<u><u>8,229,057.42</u></u>	<u><u>13,689,338.13</u></u>	<u><u>21,918,395.55</u></u>

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

MUNICIPALITY OF HARRISBURG
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2015

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Revenue Dedicated to Servicing Debt	863,786.40	1,009,614.45	1,873,400.85
Total Operating Revenue	863,786.40	1,009,614.45	1,873,400.85
Operating Expenses:			
Personal Services	91,072.41	90,733.56	181,805.97
Other Current Expense	74,240.30	451,461.22	525,701.52
Materials (Cost of Goods Sold)	123,284.58		123,284.58
Amortization	32,756.86		32,756.86
Depreciation	207,816.84	411,550.03	619,366.87
Total Operating Expenses	529,170.99	953,744.81	1,482,915.80
Operating Income (Loss)	334,615.41	55,869.64	390,485.05
Nonoperating Revenue (Expense):			
Investment Earnings	3,220.35	4,493.92	7,714.27
Rental Revenue	31,026.54		31,026.54
Interest Expense and Fiscal Charges	(90,361.55)	(96,709.47)	(187,071.02)
Total Nonoperating Revenue (Expense)	(56,114.66)	(92,215.55)	(148,330.21)
Income (Loss) Before Contributions and Transfers	278,500.75	(36,345.91)	242,154.84
Capital Contributions		56,247.97	56,247.97
Transfers Out		(380,453.28)	(380,453.28)
Change in Net Position	278,500.75	(360,551.22)	(82,050.47)
Net Position - Beginning	7,934,259.57	14,033,645.38	21,967,904.95
Adjustments:			
Prior Period Adjust for GASB 68 (See note 10)	16,297.10	16,243.97	32,541.07
Adjusted Net Position - Beginning	7,950,556.67	14,049,889.35	22,000,446.02
NET POSITION - ENDING	8,229,057.42	13,689,338.13	21,918,395.55

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

MUNICIPALITY OF HARRISBURG
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2015

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Receipts from Customers	883,650.68	1,019,143.53	1,902,794.21
Cash Payments to Employees for Services	(91,678.79)	(91,169.12)	(182,847.91)
Cash Payments to Suppliers of Goods and Services	(208,906.60)	(448,683.75)	(657,590.35)
Net Cash Provided (Used) by Operating Activities	<u>583,065.29</u>	<u>479,290.66</u>	<u>1,062,355.95</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from Capital Debt		84,058.00	84,058.00
Capital Contributions		56,247.97	56,247.97
Purchase of Capital Assets	(109,598.97)	(102,341.56)	(211,940.53)
Principal Paid on Capital Debt	(157,958.24)	(77,961.14)	(235,919.38)
Interest Paid on Capital Debt	(91,599.88)	(96,559.66)	(188,159.54)
Net Cash (Used) by Capital and Related Financing Activities	<u>(359,157.09)</u>	<u>(136,556.39)</u>	<u>(495,713.48)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash Received for Interest	3,220.35	4,493.92	7,714.27
Cash Received for Rent	31,026.54		31,026.54
Net Cash Provided by Investing Activities	<u>34,246.89</u>	<u>4,493.92</u>	<u>38,740.81</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>258,155.09</u>	<u>347,228.19</u>	<u>605,383.28</u>
Balances - Beginning	1,936,385.10	2,011,568.65	3,947,953.75
Balances - Ending	<u>2,194,540.19</u>	<u>2,358,796.84</u>	<u>4,553,337.03</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	334,615.41	55,869.64	390,485.05
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization Expense	240,573.70	411,550.03	652,123.73
(Increase) decrease in Receivables	6,452.23	9,529.08	15,981.31
(Increase) decrease in Net Pension Asset	9,135.36	9,105.58	18,240.94
(Increase) decrease in Pension Related Deferred Outflows	(7,019.97)	(6,997.10)	(14,017.07)
(Decrease) increase in Accounts and Other Payables	(11,305.41)	2,873.23	(8,432.18)
(Decrease) increase in Accrued Wages Payable	559.02	701.60	1,260.62
(Decrease) increase in Accrued Leave Payable	1,461.98	1,461.98	2,923.96
(Decrease) increase in Pension Related Deferred Inflows	(4,819.08)	(4,803.38)	(9,622.46)
(Decrease) increase in Customer Deposits	13,412.05		13,412.05
Net Cash Provided (Used) by Operating Activities	<u>583,065.29</u>	<u>479,290.66</u>	<u>1,062,355.95</u>
Noncash Investing, Capital and Financing Activities:			
Cost of Infrastructure Improvements Transferred to the Governmental Funds		(380,453.28)	(380,453.28)

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

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

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

b. Basis of Presentation:

Government-wide Financial Statements:

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

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

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The funds of the Municipality financial reporting entity are described below:

Governmental Funds:

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

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

Liquor, Lodging and Dining Sales Tax – to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the promotion of advertising of the municipality. (SDCL 10-52-8) This is not a major fund.

Storm Drainage Maintenance Fund – to account for the proceeds of the special assessment for the purpose of maintaining the municipal sewers and septic or sewage treatment plants. (SDCL 9-48-21) 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.

Industrial Park Debt Service Fund – to account for property taxes which may be used only for the payment of the debt principal, interest, and related costs. This is not a major fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Water Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL 9-47-1) This is a major fund.

Sewer Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

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 funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type 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 Municipality of Harrisburg, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2015 are sales tax revenue and franchise fees.

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 deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

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

All proprietary 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

d. Deposits and Investments:

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

e. 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.

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 the government-wide or fund financial statements.

Government-Wide Statements

Capital assets are recorded 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 the useful life of a capital asset are also capitalized.

The total December 31, 2015 balance of capital assets for governmental activities and business-type activities are all valued at original cost.

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, 2004, were not required to be capitalized by the Municipality. Infrastructure assets acquired since January 1, 2004 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 USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, except for that portion related to common use assets for which allocation would be unduly complex, and which is reported as Unallocated Depreciation, 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.

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:

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land and land rights	\$ -	-- N/A --	-- N/A --
Improvements other than buildings	\$ 10,000.00	Straight-line	10-50 yrs.
Buildings	\$ 10,000.00	Straight-line	50 yrs.
Machinery & Equipment	\$ 1,000.00	Straight-line	5-10 yrs.
Infrastructure	\$ 10,000.00	Straight-line	10-50 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as Capital Outlay expenditures of the appropriate 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.

f. 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 primarily consist of revenue bonds, notes payable, and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal 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.

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Municipality's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

h. Deferred Inflows and Deferred Outflows of Resources:

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.

i. Proprietary Funds Revenue and Expense Classifications:

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

j. Cash and Cash Equivalents:

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

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

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.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

I. Application of Net Position:

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

m. Fund Balance Classification Policies and Procedures:

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

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

The Nonspendable Fund Balance is comprised of the following:

- Amount legally or contractually required to be maintained intact such as Cumulative Insurance Reserve.

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

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

n. 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 (revenue), 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.

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The Municipality follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized as follows:

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Deposits - The Municipality's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits municipal funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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

As of December 31, 2015, the Municipality had the following investments. All investments are in an external investment pool.

<u>Investment</u>	<u>Credit Rating</u>	<u>Fair Value</u>
External Investment Pools:		
SDFIT	Unrated	<u>\$ 852,367.37</u>
Total Investments		<u>\$ 852,367.37</u>

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

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

Interest Rate Risk – The Municipality does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Municipality's policy is to credit all income from deposits and investments to the fund making the investment.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. RESTRICTED DEPOSITS

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

Amount:	Purpose:
\$12,755.54	Restricted amount on deposit with the South Dakota Public Assurance Alliance

4. RECEIVABLES AND PAYABLES

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

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

6. CHANGES IN GENERAL CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2015, is as follows:

	Balance 01/01/2015	Increases	Decreases	Balance 12/31/2015
Primary Government:				
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	388,066.00	312,371.97		700,437.97
Construction in Progress	1,464,199.89	72,807.31	(1,429,157.61)	107,849.59
Total, not being depreciated	<u>1,852,265.89</u>	<u>385,179.28</u>	<u>(1,429,157.61)</u>	<u>808,287.56</u>
Capital Assets, being depreciated:				
Buildings	1,429,741.94	5,000.00		1,434,741.94
Improvements Other Than Buildings	9,098,052.49	2,249,766.99		11,347,819.48
Machinery & Equipment	818,994.79	78,711.39	(3,495.00)	894,211.18
Total, being depreciated	<u>11,346,789.22</u>	<u>2,333,478.38</u>	<u>(3,495.00)</u>	<u>13,676,772.60</u>
Less Accumulated Depreciation for:				
Buildings	(157,013.94)	(28,928.17)		(185,942.11)
Improvements Other Than Buildings	(6,591,283.05)	(544,120.25)		(7,135,403.30)
Machinery & Equipment	(476,313.71)	(97,743.68)	699.00	(573,358.39)
Total Accumulated Depreciation	<u>(7,224,610.70)</u>	<u>(670,792.10)</u>	<u>699.00</u>	<u>(7,894,703.80)</u>
Total Capital Assets, being depreciated, net	<u>4,122,178.52</u>	<u>1,662,686.28</u>	<u>(2,796.00)</u>	<u>5,782,068.80</u>
Governmental Activity Capital Assets, Net	<u>5,974,444.41</u>	<u>2,047,865.56</u>	<u>(1,431,953.61)</u>	<u>6,590,356.36</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 20,649.52
Public Safety	6,103.65
Public Works	592,459.31
Culture and Recreation	<u>51,579.62</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 670,792.10</u>

	Balance 01/01/2015	Increases	Decreases	Balance 12/31/2015
Business-type Activities:				
Capital Assets, not being depreciated:				
Land	75,434.56			75,434.56
Construction Work in Progress	<u>1,181,296.61</u>	<u>38,970.54</u>	<u>(1,205,909.54)</u>	<u>14,357.61</u>
Total, not being depreciated	<u>1,256,731.17</u>	<u>38,970.54</u>	<u>(1,205,909.54)</u>	<u>89,792.17</u>
Capital Assets, being depreciated:				
Improvements Other Than Buildings	25,285,024.27	938,861.13		26,223,885.40
Machinery & Equipment	<u>908,047.12</u>	<u>51,469.64</u>		<u>959,516.76</u>
Total, being depreciated	<u>26,193,071.39</u>	<u>990,330.77</u>	0.00	<u>27,183,402.16</u>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	(4,305,241.54)	(520,524.40)		(4,825,765.94)
Machinery & Equipment	<u>(565,123.12)</u>	<u>(98,842.47)</u>		<u>(663,965.59)</u>
Total Accumulated Depreciation	<u>(4,870,364.66)</u>	<u>(619,366.87)</u>	0.00	<u>(5,489,731.53)</u>
Total Capital Assets, being depreciated, net	<u>21,322,706.73</u>	<u>370,963.90</u>	0.00	<u>21,693,670.63</u>
Business-type Activity Capital Assets, Net	<u>22,579,437.90</u>	<u>409,934.44</u>	<u>(1,205,909.54)</u>	<u>21,783,462.80</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Water	\$ 207,816.84
Sewer	<u>411,550.03</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 619,366.87</u>

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NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Construction Work in Progress at December 31, 2015 is composed of the following:

<u>Project Name</u>	<u>Project Authorization</u>	<u>Expended Thru 12/31/2015</u>	<u>Committed</u>	<u>Required Future Financing</u>
Central Park Improvements	39,584.00	28,896.32	10,687.68	0.00
Willow Street Improvement	589,573.30	78,953.27	27,465.03	483,155.00
Elevated Tower Painting	235,650.00	6,810.00	228,840.00	0.00
SD Hwy 115 Water Main Improvement	99,284.00	7,547.61	91,736.39	0.00
Total	<u>964,091.30</u>	<u>122,207.20</u>	<u>358,729.10</u>	<u>483,155.00</u>

Intangible assets are composed of the following:

	<u>Balance 01/01/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2015</u>
Governmental Activities:				
Software & Website	0.00	23,495.00		23,495.00
Less Accumulated Amortization	0.00	<u>(5,398.00)</u>		<u>(5,398.00)</u>
Business-type Activities, Net	<u>0.00</u>	<u>18,097.00</u>	<u>0.00</u>	<u>18,097.00</u>

Amortization expense was charged to functions as follows:

Governmental Activities	
General Government	<u>\$ 5,398.00</u>
Total Amortization Expense - Governmental Activities	<u>\$ 5,398.00</u>

	<u>Balance 01/01/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2015</u>
Business-type Activities:				
Lewis and Clark Water System Payment	1,553,220.95			1,553,220.95
Less Accumulated Amortization	<u>(209,301.50)</u>	<u>(32,756.86)</u>		<u>(242,058.36)</u>
Business-type Activities, Net	<u>1,343,919.45</u>	<u>(32,756.86)</u>	<u>0.00</u>	<u>1,311,162.59</u>

Amortization expense was charged to functions as follows:

Business-Type Activities:	
Water	<u>\$ 32,756.86</u>
Total Amortization Expense - Business-Type Activities	<u>\$ 32,756.86</u>

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance 1/1/2015	Additions	Deletions	Ending Balance 12/31/2015	Due Within One Year
Primary Government:					
Governmental Activities:					
Bonds Payable:					
Clean Water Revenue Bond - Series 2014	1,276,759.84	123,750.00	50,068.84	1,350,441.00	57,499.31
TIF #1 Note Payable	497,275.14		170,002.31	327,272.83	72,991.71
Total Debt	<u>1,774,034.98</u>	<u>123,750.00</u>	<u>220,071.15</u>	<u>1,677,713.83</u>	<u>130,491.02</u>
Accrued Compensated Absences- Governmental Funds	<u>6,850.15</u>	<u>19,209.37</u>	<u>14,713.30</u>	<u>11,346.22</u>	<u>11,346.22</u>
Total Governmental Activities	<u>1,780,885.13</u>	<u>142,959.37</u>	<u>234,784.45</u>	<u>1,689,060.05</u>	<u>141,837.24</u>
Business-Type Activities:					
Bonds Payable:					
Water Revenue, Series 2000	251,903.18		29,590.77	222,312.41	31,098.27
Water Revenue, Series 2007	989,049.28		56,757.73	932,291.55	58,624.96
Water System Revenue, Series 2008	1,506,573.22		71,609.74	1,434,963.48	73,965.59
Clean Water Revenue Bonds, Series 2009	2,399,687.32		55,758.82	2,343,928.50	57,593.19
Clean Water Revenue Bonds, Series 2014	595,159.00	84,058.00	22,202.32	657,014.68	26,073.32
Total Debt	<u>5,742,372.00</u>	<u>84,058.00</u>	<u>235,919.38</u>	<u>5,590,510.62</u>	<u>247,355.33</u>
Accrued Compensated Absences- Business-Type Funds	<u>3,065.52</u>	<u>10,118.22</u>	<u>7,194.26</u>	<u>5,989.48</u>	<u>5,989.48</u>
Total Business-Type Activities	<u>5,745,437.52</u>	<u>94,176.22</u>	<u>243,113.64</u>	<u>5,596,500.10</u>	<u>253,344.81</u>
TOTAL PRIMARY GOVERNMENT	<u>7,526,322.65</u>	<u>237,135.59</u>	<u>477,898.09</u>	<u>7,285,560.15</u>	<u>395,182.05</u>

Compensated absences for governmental activities typically have been liquidated from the General Fund.

Debt payable at December 31, 2015 is comprised of the following:

Revenue Bonds:

Sales Tax Revenue Bonds - Series 2009 3.25 Percent Interest, Final Maturity Date of January 2042, Retired by the Sewer Fund.	2,343,928.50
Water Improvement Revenue Bonds SRF - Series 2000 5.0 Percent Interest, Final Maturity Date of January 2022, Retired by the Water Enterprise Fund.	222,312.41
Water Improvement Revenue Bonds SRF - Series 2007 3.25 Percent Interest, Final Maturity Date of October 2028, Retired by the Water Enterprise Fund.	932,291.55
Water System Revenue Bonds SRF - Series 2008 3.25 Percent Interest, Final Maturity Date of January 2031, Retired by the Water Enterprise Fund.	1,434,963.48

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NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Clean Water Revenue Bonds SRF - Series 2011 3.00 Percent Interest, Final Maturity Date of October 2034, Retired by the Sewer Enterprise Fund.	657,014.68
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Clean Water Revenue Bonds SRF - Series 2011 3.00 Percent Interest, Final Maturity Date of October 2033, Retired by the Storm Sewer Maintenance Fund.	1,350,441.00
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Notes Payable:

Harrisburg Tax Increment District # 1 Note Payable to L.G. Everist, Inc. 6.0 Percent Interest, Final Maturity Date of June 1, 2023, unless paid sooner. Retired by the Industrial Park Improvement Debt Service Fund.	327,272.83
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Compensated Absences:

Compensated Absences Accrued at Year End, Payable from the Fund that the payroll is incurred.	
General Fund	11,346.22
Water Fund	2,994.74
Sewer Fund	2,994.74

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The annual requirements to amortize all debt outstanding as of December 31, 2015, except for compensated absences, are as follows:

Annual Requirements to Maturity for Long-Term Debt
December 31, 2015

Year Ending December 31,	Sales Tax Revenue Bonds - Series 2009		Water Improvement Revenue Bond, Series 2000		Water Improvement Revenue Bond, Series 2007	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	57,593.19	75,480.49	31,098.27	10,538.57	58,624.96	29,589.80
2017	59,487.90	73,585.78	32,682.59	8,954.25	60,553.61	27,661.15
2018	61,444.95	71,628.73	34,347.61	7,289.23	62,545.73	25,669.03
2019	63,466.38	69,607.30	36,097.47	5,539.37	64,603.36	23,611.40
2020	65,554.31	67,519.37	37,936.46	3,700.38	66,728.71	21,486.05
2021-2025	361,575.35	303,793.05	50,150.01	1,896.04	368,052.90	73,020.90
2026-2030	425,095.50	240,272.90			251,182.28	13,462.00
2031-2035	499,774.62	165,593.79				
2036-2040	587,573.09	77,795.31				
2041-2045	162,363.21	3,978.89				
Totals	<u>2,343,928.50</u>	<u>1,149,255.61</u>	<u>222,312.41</u>	<u>37,917.84</u>	<u>932,291.55</u>	<u>214,500.33</u>

Year Ending December 31,	Water System Revenue Bond, Series 2008		TIF #1 Note Payable		Clean Water Revenue Bond, Series 2011	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	73,965.59	45,740.93	72,991.71	18,557.68	26,073.32	19,418.96
2017	76,398.92	43,307.60	77,436.91	14,112.48	26,864.35	18,627.93
2018	78,912.31	40,794.21	82,152.82	9,396.58	27,679.41	17,812.87
2019	81,508.39	38,198.13	87,155.92	4,393.46	28,519.17	16,973.11
2020	84,189.87	35,516.65	7,535.47	222.06	29,384.44	16,107.84
2021-2025	464,362.76	134,169.84			160,848.00	66,613.40
2026-2030	545,940.21	52,592.36			186,774.16	40,687.24
2031-2035	29,685.43	241.20			170,871.83	11,096.55
2036-2040						
2041-2045						
Totals	<u>1,434,963.48</u>	<u>390,560.92</u>	<u>327,272.83</u>	<u>46,682.26</u>	<u>657,014.68</u>	<u>207,337.90</u>

Year Ending December 31,	Clean Water Revenue Bond, Series 2011		Totals	
	Principal	Interest	Principal	Interest
2016	57,499.31	39,870.41	377,846.35	239,196.84
2017	59,243.79	38,125.93	392,668.07	224,375.12
2018	61,041.19	36,328.53	408,124.02	208,919.18
2019	62,893.15	34,476.57	424,243.84	192,799.34
2020	64,801.27	32,568.45	356,130.53	177,120.80
2021-2025	354,717.03	132,131.57	1,759,706.05	711,624.80
2026-2030	411,891.79	74,956.81	1,820,883.94	421,971.31
2031-2035	278,353.47	13,755.65	978,685.35	190,687.19
2036-2040			587,573.09	77,795.31
2041-2045			162,363.21	3,978.89
Totals	<u>1,350,441.00</u>	<u>402,213.92</u>	<u>7,268,224.45</u>	<u>2,448,468.78</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

8. OPERATING LEASES

The Municipality leases a copy, print, scan, fax machine for office use. Monthly lease payments of \$187.79 are made from the General Fund.

The following are the minimum payments required for existing leases:

<u>Year:</u>	
2016	2,253.48
2017	2,253.48
2018	2,253.48
2019	187.79

9. RESTRICTED NET POSITION

Restricted net position for the year ended December 31, 2015 was as follows:

	<u>Restricted By</u>	<u>12/31/2015</u>
City Promotion/Parks	Law	\$ 75,943.37
Storm Sewer Maintenance	Law	1,216,618.35
Cumulative Insurance Reserve	Insurance Agreement	12,755.54
SDRS Pension Purposes	Governmental Accounting Standards	123,864.78
Water Fund - Debt Service	Loan Agreement	154,445.88
Water Fund - Equipment Repair/Replacement	Loan Agreement	63,692.26
Sewer Fund - Equipment Repair/Replacement	Loan Agreement	72,070.84
Total Restricted Net Position		<u>\$ 1,719,391.02</u>

10. PRIOR PERIOD ADJUSTMENTS

The Municipality implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of January 1, 2015 as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net Position January 1, 2015, as previously reported	8,687,700.89	21,967,904.95	30,655,605.84
Restatement for pension accounting:			
Net Pension Asset	111,992.76	49,449.88	161,442.64
Pension Related Deferred Outflows of Resources	91,411.88	40,362.48	131,774.36
Pension Related Deferred Inflows of Resources	(129,706.50)	(57,271.29)	(186,977.79)
Net Position January 1, 2015, as restated	<u>8,761,399.03</u>	<u>22,000,446.02</u>	<u>30,761,845.05</u>

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. PENSION PLAN

Plan Information:

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

Benefits Provided:

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014, and 2013 were \$27,225.98, \$24,279.85, and \$21,441.07, respectively, equal to the required contributions each year.

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

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Municipality as of this measurement period and reported by the Municipality as of December 31, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 2,588,889.78
Less proportionate share of total pension liability	<u>\$ 2,486,999.67</u>
Proportionate share of net pension liability (asset)	<u>\$ (101,890.11)</u>

At December 31, 2015, the Municipality reported a liability (asset) of \$(101,890.11) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the Municipality's proportion was 0.0240234%, which is an increase of 0.0042005% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Municipality recognized pension expense (revenue) of \$9,600.81. At December 31, 2015 the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience.	\$ 20,862.46	
Changes in assumption.	\$ 80,792.44	
Net Difference between projected and actual earnings on pension plan investments.	\$ 62,242.94	\$ 150,340.80
Changes in proportion and difference between Municipality contributions and proportionate share of contributions.		\$ 5,221.85
Municipality contributions subsequent to the measurement date.	<u>\$ 13,639.08</u>	
TOTAL	<u>\$ 177,536.92</u>	<u>\$ 155,562.65</u>

\$13,639.08 reported as deferred outflow of resources related to pensions resulting from Municipality contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. 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:

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NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Year Ended
December 31:

2016	\$ 4,828.01
2017	\$ 4,828.01
2018	\$ (12,988.65)
2019	\$ 16,889.68
	<hr/>
TOTAL	<u>\$ 13,557.05</u>

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent 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, 2015 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (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	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.8%
	<hr/>	
Total	<u>100%</u>	

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2016 and 7.50 percent thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

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

The following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$256,456.25	\$(101,890.11)	\$(394,090.69)

Pension Plan Fiduciary Net Position:

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

12. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2015, the Municipality was not involved in any significant litigation.

13. RISK MANAGEMENT

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2015, the Municipality managed its risks as follows:

Employee Health Insurance:

The Municipality purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The Municipality joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members 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 Municipality'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 Municipality. The Municipality pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the member based on their exposure or type of coverage. The Municipality pays an annual

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

premium to the pool to provide coverage for: General Liability, Vehicle Coverage, Property and Building Coverage, Errors and Omissions of Officials and Employees Coverage.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverage's will be provided to a \$2,000,000 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. A portion of the member premiums are also allocated to a cumulative reserve fund. The Municipality 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 Municipality's First Full Year	50%
End of Municipality's Second Full Year	60%
End of Municipality's Third Full Year	70%
End of Municipality's Fourth Full Year	80%
End of Municipality's Fifth Full Year	90%
End of Municipality's Sixth Full Year and Thereafter	100%

As of December 31, 2015, the Municipality has vested balance in the cumulative reserve fund of \$12,755.54.

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

Worker's Compensation:

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

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

Unemployment Benefits:

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

14. ASSOCIATION WITH RELATED PARTIES

The Finance Officer's spouse is a maintenance worker for the city.

The Office Assistant for the city is also an employee of the Harrisburg Economic Development Corporation.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

A member of the City Council, Ryan Wolbrink, is the treasurer of the Harrisburg Fire Department.

The City may make decisions that affect the dealings with these organizations although the City has no direct influence on the organizations' operations.

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF HARRISBURG
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Property Taxes	897,600.00	897,600.00	888,816.44	(8,783.56)
General Sales and Use Taxes	825,000.00	825,000.00	974,364.87	149,364.87
Amusement Taxes	350.00	350.00	276.00	(74.00)
Penalties and Interest on Delinquent Taxes	1,000.00	1,000.00	1,885.23	885.23
Licenses and Permits	62,400.00	62,400.00	114,282.00	51,882.00
Intergovernmental Revenue:				
Federal Grants	0.00	1,851.00	14,668.45	12,817.45
State Grants	0.00	0.00	1,851.00	1,851.00
State Shared Revenue:				
Bank Franchise Tax	6,000.00	6,000.00	6,358.38	358.38
Prorate License Fees	1,400.00	1,400.00	2,190.99	790.99
Liquor Tax Reversion	6,000.00	6,000.00	25,426.71	19,426.71
Motor Vehicle Licenses	14,000.00	14,000.00	20,580.24	6,580.24
Local Government Highway and Bridge Fund	6,500.00	6,500.00	8,164.33	1,664.33
County Shared Revenue:				
County Highway and Bridge Reserve Tax	1,375.00	1,375.00	2,051.28	676.28*
County Wheel Tax	4,000.00	4,000.00	4,350.46	350.46
Charges for Goods and Services:				
General Government	5,160.00	7,248.00	21,758.80	14,510.80
Sanitation	0.00	0.00	90.00	90.00
Culture and Recreation	15,000.00	15,000.00	17,000.00	2,000.00
Fines and Forfeits:				
Parking Meter Fines	0.00	0.00	725.00	725.00
Library	0.00	0.00	593.86	593.86
Other	0.00	0.00	50.00	50.00
Miscellaneous Revenue:				
Investment Earnings	2,500.00	2,500.00	4,997.07	2,497.07
Rentals	8,500.00	8,500.00	9,687.60	1,187.60
Special Assessments	0.00	0.00	11,126.86	11,126.86
Maintenance Assessments	110,902.00	110,902.00	129,343.20	18,441.20
Contributions and Donations from Private Sources	5,000.00	5,000.00	78,254.07	73,254.07
Other	42,500.00	42,500.00	48,014.07	5,514.07
Total Revenue	2,015,187.00	2,019,126.00	2,386,906.91	367,780.91

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF HARRISBURG
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
General Government:				
Legislative	32,173.00	32,173.00	26,994.61	5,178.39
Contingency	30,000.00	30,000.00		
Amount Transferred		(5,610.00)		24,390.00
Executive	122,102.00	136,212.00	130,645.29	5,566.71
Elections	1,675.00	1,675.00	221.66	1,453.34
Financial Administration	215,253.00	215,253.00	174,892.02	40,360.98
Other	275,107.00	483,027.00	407,609.91	75,417.09
Total General Government	676,310.00	892,730.00	740,363.49	152,366.51
Public Safety:				
Police	230,665.00	243,665.00	243,228.11	436.89
Fire	56,340.00	56,340.00	56,338.64	1.36
Protective Inspection	43,055.00	45,655.00	42,165.37	3,489.63
Total Public Safety	330,060.00	345,660.00	341,732.12	3,927.88
Public Works:				
Highways and Streets	517,056.00	904,056.00	685,021.82	219,034.18
Sanitation	42,325.00	42,325.00	13,923.41	28,401.59
Total Public Works	559,381.00	946,381.00	698,945.23	247,435.77
Health and Welfare:				
Health	12,399.00	16,328.00	12,071.27	4,256.73
Total Health and Welfare	12,399.00	16,328.00	12,071.27	4,256.73
Culture and Recreation:				
Recreation	91,080.00	91,080.00	23,292.60	67,787.40
Parks	223,914.00	308,914.00	277,089.57	31,824.43
Libraries	60,000.00	66,164.75	64,520.96	1,643.79
Total Culture and Recreation	374,994.00	466,158.75	364,903.13	101,255.62
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	12,043.00	15,673.00	13,689.98	1,983.02
Total Conservation and Development	12,043.00	15,673.00	13,689.98	1,983.02
Total Expenditures	1,965,187.00	2,682,930.75	2,171,705.22	511,225.53
Excess of Revenue Over (Under) Expenditures	50,000.00	(663,804.75)	215,201.69	879,006.44
Fund Balance - Beginning	3,180,336.78	3,180,336.78	3,180,336.78	0.00
FUND BALANCE - ENDING	3,230,336.78	2,516,532.03	3,395,538.47	879,006.44

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

Note 1. Budgets and Budgetary Accounting

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpected appropriations lapse at year end unless encumbered by resolution of the Governing Board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with the accounting principles generally accepted in the United States (USGAAP).

NOTE 2. GAAP/Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balances, however, in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

REQUIRED SUPPLEMENTARY INFORMATION

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

South Dakota Retirement System

(Dollar amounts in thousands)

	2015
Municipality's proportion of the net pension liability (asset)	0.0240234%
Municipality's proportionate share of net pension liability (asset)	\$ (102)
Municipality's covered-employee payroll	\$ 439
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(23.23%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	(104.1%)

The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is 06/30/15.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE MUNICIPALITY CONTRIBUTIONS

South Dakota Retirement System

(Dollar amounts in thousands)

	<u>2015</u>
Contractually required contribution	\$ 27
Contributions in relation to the contractually required contribution	<u>\$ 27</u>
Contribution deficiency (excess)	\$ -
Municipality's covered-employee payroll	\$ 454
Contributions as a percentage of covered-employee payroll	6.00%

**MUNICIPALITY OF HARRISBURG
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2015**

	Liquor, Lodging & Dining Sales Tax Spec. Rev. Fund	Storm Drainage Maintenance Fund	Total Nonmajor Governmental Funds
ASSETS:			
Cash and Cash Equivalents	68,194.16	980,294.93	1,048,489.09
Cash with Fiscal Agent		1,507.13	1,507.13
Accounts Receivable, Net	4,234.00		4,234.00
Special Assessments Receivable--Current		232,676.52	232,676.52
Special Assessments Receivable--Delinquent		2,139.77	2,139.77
Due from Other Government	3,515.21		3,515.21
TOTAL ASSETS	75,943.37	1,216,618.35	1,292,561.72
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:			
Deferred Inflows of Resources:			
Unavailable Revenue--Sales and Use Taxes	385.02		385.02
Unavailable Revenue--Special Assessments		234,816.29	234,816.29
Total Deferred Inflows of Resources	385.02	234,816.29	235,201.31
Fund Balances:			
Restricted for City Promotion/Parks	75,558.35		75,558.35
Restricted for Storm Sewer Maintenance		981,802.06	981,802.06
Total Fund Balances	75,558.35	981,802.06	1,057,360.41
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	75,943.37	1,216,618.35	1,292,561.72

MUNICIPALITY OF HARRISBURG
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	<u>Liquor, Lodging, & Dining Sales Tax Spec. Rev. Fund</u>	<u>Storm Drainage Maintenance Fund</u>	<u>Industrial Park TIF Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:				
Taxes:				
General Property Taxes			197,326.46	197,326.46
General Sales and Use Taxes	33,246.83			33,246.83
Miscellaneous Revenue:				
Investment Earnings	79.90	2,170.47		2,250.37
Maintenance Assessments		182,160.19		182,160.19
Total Revenue	33,326.73	184,330.66	197,326.46	414,983.85
Expenditures:				
Public Works:				
Highway and Streets		111,512.50		111,512.50
Total Public Works	0.00	111,512.50	0.00	111,512.50
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	38,407.00			38,407.00
Total Conservation and Development	38,407.00	0.00	0.00	38,407.00
Debt Service	0.00	90,180.98	197,326.46	287,507.44
Capital Outlay	0.00	9,602.72	0.00	9,602.72
Total Expenditures	38,407.00	211,296.20	197,326.46	447,029.66
Excess of Revenue Over (Under) Expenditures	(5,080.27)	(26,965.54)	0.00	(32,045.81)
Other Financing Sources (Uses):				
Long-Term Debt Issued		123,750.00		123,750.00
Total Other Financing Sources (Uses)	0.00	123,750.00	0.00	123,750.00
Net Change in Fund Balances	(5,080.27)	96,784.46	0.00	91,704.19
Fund Balance - Beginning	80,638.62	885,017.60	0.00	965,656.22
FUND BALANCE - ENDING	75,558.35	981,802.06	0.00	1,057,360.41