



Financial Statements
December 31, 2017
City of Ipswich

Mayor..... LeRoy Kilber

Governing Board..... Jon Gilbert
Mike Steen
Hank Baker
Barb Gillick
Tom Schaefer
Susie Treftz

Finance Officer Amy Jaenisch

Attorney Vaughn P. Beck

Independent Auditor’s Report.....	1
Financial Statements	
Statement of Net Position–Modified Cash Basis	4
Statement of Activities–Modified Cash Basis	5
Balance Sheet–Modified Cash Basis–Governmental Funds.....	6
Statement of Revenues, Expenditures and Changes in Fund Balances–Modified Cash Basis–Governmental Funds.....	7
Balance Sheet-Modified Cash Basis-Proprietary Funds	10
Statement of Revenues, Expenses and Changes in Fund Net Position-Modified Cash Basis-Proprietary Funds	11
Statement of Cash Flows-Modified Cash Basis-Proprietary Funds.....	12
Notes to Financial Statements.....	13
Federal Awards Reports in Accordance with the Uniform Guidance and other Supplementary Information	
Schedules of Employer’s Share of Net Pension Liability (Asset) and Pension Contributions	25
Schedule of Changes in Long-Term Debt.....	26
Budgetary Comparison Schedule-General Fund.....	27
Notes to Supplementary Information	30
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	31
Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance.....	33
Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards	36
Schedule of Findings and Questioned Costs.....	37



Independent Auditor's Report

The City Council
City of Ipswich
Ipswich, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities and each major fund of the City of Ipswich as of December 31, 2017, and for the fiscal year then ended and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

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

Basis of Accounting

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

Other Matters

Other Information

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

The schedules of employer's share of net pension liability (asset) and pension contributions, budgetary comparison schedule, schedule of changes in long-term debt, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2018 on our consideration of the City of Ipswich's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Ipswich's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Ipswich's internal control over financial reporting and compliance.

Eide Bailly LLP

Aberdeen, South Dakota
August 15, 2018

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,268,631	\$ 208,478	\$ 1,477,109
Investments	76,791	75,000	151,791
Restricted assets:			
Cash and cash equivalents restricted for:			
Library	2,653	-	2,653
Cemetery	24,457	-	24,457
Investments restricted for:			
Cemetery	68,900	-	68,900
Total assets	<u>\$ 1,441,432</u>	<u>\$ 283,478</u>	<u>\$ 1,724,910</u>
Net Position			
Restricted for:			
Library	\$ 2,653	\$ -	\$ 2,653
Debt service/repayment	9,475	117,052	126,527
Cemetery	93,357	-	93,357
Asset replacement, operation and maintenance	-	65,838	65,838
Unrestricted	<u>1,335,947</u>	<u>100,588</u>	<u>1,436,535</u>
Total net position	<u>\$ 1,441,432</u>	<u>\$ 283,478</u>	<u>\$ 1,724,910</u>

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Loan Proceeds	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government							
Governmental activities:							
General government	\$ 144,200	\$ 6,823	\$ 30	\$ -	\$ (137,347)	\$ -	\$ (137,347)
Public safety	20,674	110	-	-	(20,564)	-	(20,564)
Public works	414,723	62,530	59,640	-	(292,553)	-	(292,553)
Health and welfare	162,693	92,072	7,000	-	(63,621)	-	(63,621)
Culture and recreation	172,928	3,550	-	-	(169,378)	-	(169,378)
Miscellaneous expenditures	45,600	-	-	-	(45,600)	-	(45,600)
Debt service	44,520	-	-	-	(44,520)	-	(44,520)
Total governmental activities	<u>1,005,338</u>	<u>165,085</u>	<u>66,670</u>	<u>-</u>	<u>(773,583)</u>	<u>-</u>	<u>(773,583)</u>
Business-type activities:							
Water	250,076	260,165	-	618,717	-	628,806	628,806
Sewer	2,775,864	239,403	-	1,964,560	-	(571,901)	(571,901)
Total business-type activities	<u>3,025,940</u>	<u>499,568</u>	<u>-</u>	<u>2,583,277</u>	<u>-</u>	<u>56,905</u>	<u>56,905</u>
	<u>\$ 4,031,278</u>	<u>\$ 664,653</u>	<u>\$ 66,670</u>	<u>\$ 2,583,277</u>	<u>(773,583)</u>	<u>56,905</u>	<u>(716,678)</u>
General Revenues							
Taxes:							
Property taxes					342,801	-	342,801
Sales taxes					427,357	-	427,357
State shared revenues					7,577	-	7,577
Unrestricted investment earnings					3,412	910	4,322
Miscellaneous revenue					15,489	4,499	19,988
Total general revenues					<u>796,636</u>	<u>5,409</u>	<u>802,045</u>
Change in Net Position					23,053	62,314	85,367
Net Position - Beginning					<u>1,418,379</u>	<u>221,164</u>	<u>1,639,543</u>
Net Position - Ending					<u>\$ 1,441,432</u>	<u>\$ 283,478</u>	<u>\$ 1,724,910</u>

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

	General Fund
Assets	
Cash and cash equivalents	\$ 1,268,631
Restricted cash	27,110
Investments	76,791
Restricted investments	68,900
Total assets	\$ 1,441,432
Fund Balances	
264 Restricted for	
Library	\$ 2,653
Debt repayment	9,475
Cemetery	93,357
265 Committed for	
Ambulance replacement	20,000
Fitness center equipment	30,000
267 Unassigned	1,285,947
Total fund balances	\$ 1,441,432

City of Ipswich

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

	General Fund
Revenues	
310 Taxes	
311 General property taxes	\$ 340,610
313 General sales and use taxes	427,357
315 Amusement taxes	180
319 Penalties and interest on delinquent taxes	2,011
Total taxes	770,158
320 Licenses and permits	5,962
330 Intergovernmental revenue	
334 State grants	7,000
335 State shared revenue	
335.01 Bank franchise tax	1,654
335.02 Motor vehicle commercial prorate	4,582
335.03 Liquor tax reversion	5,923
335.04 Motor vehicle licenses (5%)	23,529
335.08 Local government highway and bridge fund	27,203
338 County shared revenue	
338.01 County road tax (25%)	1,411
338.03 County wheel tax	2,915
Total intergovernmental revenue	74,217
340 Charges for goods and services	
343 Highways and streets	1,020
344 Sanitation	58,385
346 Culture and recreation	3,550
347 Ambulance	81,573
349 Other	10,499
Total charges for goods and services	155,027
350 Fines and forfeits	
351 Court fines and costs	110
Total fines and forfeits	110

City of Ipswich

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

	General Fund
360 Miscellaneous revenue	
361 Investment earnings	3,412
362 Rentals	861
363 Special assessments	3,125
367 Contributions and donations from private sources	30
369 Other	15,489
	22,917
Total miscellaneous revenue	22,917
Total revenues	1,028,391
Expenditures	
410 General government	
411 Legislative	29,803
413 Elections	549
414 Financial administration	111,887
	142,239
Total general government	142,239
420 Public safety	
421 Police	2,238
422 Fire	15,669
423 Protective inspection administration	2,767
	20,674
Total public safety	20,674
430 Public works	
431 Highways and streets	232,362
432 Sanitation	78,557
437 Cemeteries	4,310
	315,229
Total public works	315,229
440 Health and welfare:	
441 Health	4,069
446 Ambulance	112,051
	116,120
Total health and welfare	116,120
450 Culture and recreation	
451 Recreation	68,477
452 Parks	37,097
455 Libraries	23,016
458 Museums	1,507
	130,097
Total culture and recreation	130,097

City of Ipswich

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

	General Fund
470 Debt service	44,520
485 Capital outlay	190,859
490 Miscellaneous	
492 Other expenditures	45,600
Total expenditures	1,005,338
Net Change in Fund Balance	23,053
Fund Balance - Beginning	1,418,379
Fund Balance - Ending	\$ 1,441,432

City of Ipswich
Balance Sheet-Modified Cash Basis-Proprietary Funds
December 31, 2017

	Water Fund	Sewer Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ 84,879	\$ 123,599	\$ 208,478
Investments	50,000	25,000	75,000
Total assets	<u>\$ 134,879</u>	<u>\$ 148,599</u>	<u>\$ 283,478</u>
Net Position			
Restricted net position for:			
Debt service/repayment	\$ 82,220	\$ 34,832	\$ 117,052
Asset replacement, and operation and maintenance	42,413	23,425	65,838
Unrestricted net position	<u>10,246</u>	<u>90,342</u>	<u>100,588</u>
Total net position	<u>\$ 134,879</u>	<u>\$ 148,599</u>	<u>\$ 283,478</u>

City of Ipswich

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

	Water Fund	Sewer Fund	Totals
Operating Revenue			
380 Charges for goods and services	\$ 242,456	\$ 77,306	\$ 319,762
381 Revenue dedicated to servicing debt	17,709	162,097	179,806
369 Miscellaneous	4,499	-	4,499
Total operating revenue	<u>264,664</u>	<u>239,403</u>	<u>504,067</u>
Operating Expenses			
410 Personal services	24,616	33,893	58,509
420 Other current expense	28,244	259,871	288,115
426.2 Materials	108,233	-	108,233
430 Capital assets	-	2,334,488	2,334,488
Total operating expenses	<u>161,093</u>	<u>2,628,252</u>	<u>2,789,345</u>
Operating Income (Loss)	<u>103,571</u>	<u>(2,388,849)</u>	<u>(2,285,278)</u>
Nonoperating Revenue (Expense)			
331 Federal grants	-	618,717	618,717
361 Investment earnings	800	110	910
391.02 Debt issued	-	1,964,560	1,964,560
441 Debt service	(34,792)	(82,616)	(117,408)
442 Interest expense	(54,191)	(64,996)	(119,187)
Total nonoperating revenue (expense)	<u>(88,183)</u>	<u>2,435,775</u>	<u>2,347,592</u>
Change in Net Position	15,388	46,926	62,314
Net Position - Beginning	<u>119,491</u>	<u>101,673</u>	<u>221,164</u>
Net Position - Ending	<u>\$ 134,879</u>	<u>\$ 148,599</u>	<u>\$ 283,478</u>

City of Ipswich
Statement of Cash Flows-Modified Cash Basis-Proprietary Funds
Year Ended December 31, 2017

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from (used for) Operating Activities			
Receipt from customers	\$ 260,165	\$ 239,403	\$ 499,568
Payments to suppliers	(136,477)	(259,871)	(396,348)
Payments to employees	(24,616)	(33,893)	(58,509)
Other receipts	4,499	-	4,499
Net Cash from (used for) Operating Activities	<u>103,571</u>	<u>(54,361)</u>	<u>49,210</u>
Cash Flows from (used for) Capital and Related Financing Activities			
Capital grants	-	618,717	618,717
Purchase of capital assets	-	(2,334,488)	(2,334,488)
Proceeds from long-term debt	-	1,964,560	1,964,560
Principal paid on capital debt	(34,792)	(82,616)	(117,408)
Interest paid on capital debt	(54,191)	(64,996)	(119,187)
Net Cash from (used for) Capital and Related Financing activities	<u>(88,983)</u>	<u>101,177</u>	<u>12,194</u>
Cash Flows from (used for) Investing Activities			
Purchase of certificate of deposit	(50,000)	(25,000)	(75,000)
Interest earnings	800	110	910
Net Cash used for Investing Activities	<u>(49,200)</u>	<u>(24,890)</u>	<u>(74,090)</u>
Net Change in Cash and Cash Equivalents	(34,612)	21,926	(12,686)
Cash and Cash Equivalents - Beginning	<u>119,491</u>	<u>101,673</u>	<u>221,164</u>
Cash and Cash Equivalents - Ending	<u>\$ 84,879</u>	<u>\$ 123,599</u>	<u>\$ 208,478</u>
Cash and cash equivalents consist of:			
Cash and cash equivalents	\$ 84,879	\$ 123,599	\$ 208,478
Reconciliation of Operating Income (Loss) to Net Cash from (used for) operating activities			
Operating income (loss)	\$ 103,571	\$ (2,388,849)	\$ (2,285,278)
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities:			
Purchase of capital assets	-	2,334,488	2,334,488
Net Cash from (used for) Operating Activities	<u>\$ 103,571</u>	<u>\$ (54,361)</u>	<u>\$ 49,210</u>

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

The reporting entity is comprised of the primary government, City of Ipswich.

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

Based upon the application of these criteria, the City does not have any component units.

B. Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

The funds of the City of Ipswich are described below:

Governmental Funds

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

Proprietary Funds

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

- **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.

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is applied within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involved modifications to the cash basis of accounting to report in the statement of net position or balance sheet cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such report balances include investments in certificates of deposit (those with maturities more than 90 days (three months) from date of acquisition) acquired with cash accounts at cost and interfund advances and borrowings arising from the use of a pooled cash account.

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

D. Deposits and Investments

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

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months and/or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

E. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

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

1. The City did not have any interfund receivables and payables that needed to be eliminated as of December 31, 2017.
2. The City did not have internal service fund activity which required elimination as of December 31, 2017.

F. Capital Assets

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

G. Long-Term Liabilities

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

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

H. Program Revenues

In the government-wide statement of activities, reported program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

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

I. Proprietary Funds Revenue and Expense Classifications

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

J. Cash and Cash Equivalents

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

K. Equity Classifications

Government-Wide Statements

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between nonspendable, restricted, committed, assigned and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

L. Application of Net Position and Fund Balance

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

M. Fund Balance Classification Policies and Procedures

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

- Nonspendable Fund Balance - Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

- Committed Fund Balance - Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned Fund Balance - Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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

N. Rounding

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

Note 2 - Deposits and Investments

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

Deposits

The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits.

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

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

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

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 495,122
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	1,223,757
	<u>\$ 1,718,879</u>

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

Cash and cash equivalents	\$ 1,504,219
Investments	220,691
	<u>\$ 1,724,910</u>

Investments

In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds and other obligations issued or directly or indirectly guaranteed by the United States Government, or otherwise directly or indirectly backed by the full faith and credit of the United States Government; provided that, for other than permanent, trust, retirement, building and depreciation reserve funds, such securities shall either mature within 18 months from the date of purchase or be redeemable at the option of the holder within 18 months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the 100 largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

Interest Rate Risk – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of December 31, 2017, all of the City's investments consist of certificates of deposit which have maturities of less than one year.

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

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

Under the modified cash basis of accounting, investments are stated at cost.

Note 3 - Property Taxes

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

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

Note 4 - Retirement Plan

Employees of the City participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

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

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

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

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

All benefits except those depending on the member’s accumulated contributions are annually increased by the cost-of-living adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by State statute to contribute the following percentages of their salary to the plan; Class A members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Member, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City’s share of contributions made to the SDRS for the years ended December 31, 2017, 2016 and 2015 were \$10,773, \$10,938, and \$10,518, respectively, equal to the required contributions each year.

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

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

Proportionate share of total pension liability	\$ 1,099,190
Less proportionate share of net position restricted for pension benefits	<u>1,100,047</u>
 Proportionate share of net pension liability (asset)	 <u><u>\$ (857)</u></u>

At December 31, 2017, the City reported an asset of \$(857) for its proportionate share of the net pension asset. The net pension liability (asset) was measured as of June 30, 2017, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the Municipality’s proportion was 0.0094%, which is an increase of 0.0004% from its proportion measured as of June 30, 2016 of 0.0090%. The City’s proportionate share net pension liability (asset) is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

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

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

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

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

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

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at 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:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 157,024	\$ (857)	\$ (129,424)

Pension Plan Fiduciary Net Position

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

Note 5 - Significant Contingencies - Litigation

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

Note 6 - Restricted Net Position/Fund Balance

Restricted net position for the year ended December 31, 2017 is as follows:

Fund	Restricted By	Amount
Library	Statute	\$ 2,653
Cemetery	Statute	93,357
Water - Debt Service and Other Reserves	Contractual Agreement	124,633
Sewer - Debt Service and Other Reserves	Contractual Agreement	58,257
General - Debt Service	Contractual Agreement	9,475

Note 7 - Risk Management

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

Employee Health Insurance

The City does not provide a group health insurance plan for City employees. Each employee is responsible to obtain individual health insurance.

Liability Insurance

The City purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Worker's Compensation

The City purchases worker's compensation insurance from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits

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



Federal Awards Reports in Accordance
with the Uniform Guidance and other
Supplementary Information
December 31, 2017

City of Ipswich

City of Ipswich

Schedules of Employer's Share of Net Pension Liability (Asset) and Pension Contributions
Year Ended December 31, 2017

Pension Plan	Fiscal Year Ending *	City's Percentage of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2017	0.0094%	\$ (857)	\$ 178,674	-0.5%	100.10%
SDRS	6/30/2016	0.0090%	30,456	185,431	16.4%	96.89%
SDRS	6/30/2015	0.0094%	(39,922)	171,847	-23.2%	104.1%

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

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2017	\$ 10,773	\$ 10,773	\$ -	\$ 179,550	6.0%
SDRS	12/31/2016	10,938	10,142	796	182,301	5.6%
SDRS	12/31/2015	10,518	10,518	-	175,300	6.0%

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

City of Ipswich
Schedule of Changes in Long-Term Debt
Year Ended December 31, 2017

Indebtedness	Long-Term Debt 1/1/17	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/17
Enterprise Long-Term Debt Revenue Bonds - Water	\$ 277,109	\$ -	\$ 7,566	\$ 269,543
USDA Rural Development Loan - Water	1,426,644	-	27,226	1,399,418
USDA Rural Development Loan - Sewer	1,524,276	1,964,560	82,616	3,406,220
Governmental Long-Term Debt USDA Rural Development Loan - Street	<u>602,066</u>	<u>-</u>	<u>25,330</u>	<u>576,736</u>
Total	<u>\$ 3,830,095</u>	<u>\$ 1,964,560</u>	<u>\$ 142,738</u>	<u>\$ 5,651,917</u>

City of Ipswich
Budgetary Comparison Schedule-General Fund
Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 343,540	\$ 343,540	\$ 340,610	\$ (2,930)
313 General sales and use taxes	426,000	426,000	427,357	1,357
315 Amusement taxes	145	145	180	35
319 Penalties and interest on delinquent taxes	1,000	1,000	2,011	1,011
Total taxes	<u>770,685</u>	<u>770,685</u>	<u>770,158</u>	<u>(527)</u>
320 Licenses and permits	<u>5,750</u>	<u>5,750</u>	<u>5,962</u>	<u>212</u>
330 Intergovernmental revenue				
334 State grants	-	-	7,000	7,000
335 State shared revenue				
335.01 Bank franchise tax	1,600	1,600	1,654	54
335.02 Motor vehicle commercial prorated	4,500	4,500	4,582	82
335.03 Liquor tax reversion	6,000	6,000	5,923	(77)
335.04 Motor vehicle licenses (5%)	18,000	18,000	23,529	5,529
335.08 Local government highway and bridge fund	25,000	25,000	27,203	2,203
338 County shared revenue				
338.01 County road tax (25%)	1,411	1,411	1,411	-
338.03 County wheel tax	3,000	3,000	2,915	(85)
Total intergovernmental revenue	<u>59,511</u>	<u>59,511</u>	<u>74,217</u>	<u>14,706</u>
340 Charges for goods and services				
343 Highways and streets	-	-	1,020	1,020
344 Sanitation	60,050	60,050	58,385	(1,665)
346 Culture and recreation	1,500	1,500	3,550	2,050
347 Ambulance	93,600	93,600	81,573	(12,027)
349 Other	-	-	10,499	10,499
Total charges for goods and services	<u>155,150</u>	<u>155,150</u>	<u>155,027</u>	<u>(123)</u>
350 Fines and forfeits				
351 Court fines and costs	-	-	110	110
Total fines and forfeits	<u>-</u>	<u>-</u>	<u>110</u>	<u>110</u>
360 Miscellaneous revenue				
361 Investment earnings	3,000	3,000	3,412	412
362 Rentals	1,000	1,000	861	(139)
363 Special assessments	-	-	3,125	3,125
367 Contributions and donations from private sources	-	-	30	30
369 Other	13,500	13,500	15,489	1,989
Total miscellaneous revenue	<u>17,500</u>	<u>17,500</u>	<u>22,917</u>	<u>5,417</u>
Total revenues	<u>1,008,596</u>	<u>1,008,596</u>	<u>1,028,391</u>	<u>19,795</u>

City of Ipswich
Budgetary Comparison Schedule-General Fund
Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	30,400	30,400	29,803	597
411.5 Contingency	50,430	36,230	-	36,230
413 Elections	1,000	1,000	549	451
414 Financial administration	125,100	125,100	113,848	11,252
Total general government	206,930	192,730	144,200	48,530
420 Public safety				
421 Police	2,500	2,500	2,238	262
422 Fire	21,950	21,950	15,669	6,281
423 Protective inspection administration	5,600	5,600	2,767	2,833
Total public safety	30,050	30,050	20,674	9,376
430 Public works				
431 Highways and streets	263,100	315,100	314,578	522
432 Sanitation	106,750	106,750	95,835	10,915
437 Cemeteries	9,700	9,700	4,310	5,390
Total public works	379,550	431,550	414,723	16,827
440 Health and welfare				
441 Health	3,850	5,350	4,069	1,281
446 Ambulance	130,100	170,100	158,624	11,476
Total health and welfare	133,950	175,450	162,693	12,757
450 Culture and recreation				
451 Recreation	62,800	68,600	68,477	123
452 Parks	74,566	80,166	79,928	238
455 Libraries	30,250	30,250	23,016	7,234
458 Museums	900	1,600	1,507	93
Total culture and recreation	168,516	180,616	172,928	7,688
470 Debt service	44,600	44,600	44,520	80
490 Miscellaneous				
492 Other expenditures	45,000	45,600	45,600	-
Total expenditures	1,008,596	1,100,596	1,005,338	95,258

City of Ipswich
 Budgetary Comparison Schedule-General Fund
 Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Excess of Revenue over (under) Expenditures	-	(92,000)	23,053	115,053
Fund Balance - Beginning	<u>1,418,379</u>	<u>1,418,379</u>	<u>1,418,379</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,418,379</u>	<u>\$ 1,326,379</u>	<u>\$ 1,441,432</u>	<u>\$ 115,053</u>

Note 1 - Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

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

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

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

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

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

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

Note 3 - Pension Schedules

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



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The City Commission
City of Ipswich
Ipswich, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Ipswich as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated August 15, 2018. The statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2017-A and 2017-B to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Ipswich's Response to Findings

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

Purpose of this Report

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



Aberdeen, South Dakota
August 15, 2018



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

To the City Council
City of Ipswich
Ipswich, South Dakota

Report on Compliance for the Major Federal Program

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

Management’s Responsibility

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

Auditor’s Responsibility

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

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

Basis for Qualified Opinion on the Major Federal Program

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA 10.760 Water and Waste Disposal Systems for Rural Communities as described in finding number 2017-001 for Procurement, Suspension and Debarment. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material aspects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2017.

Other Matters

City of Ipswich's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. City of Ipswich's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-002 to be a significant deficiency.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

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

Aberdeen, South Dakota
August 15, 2018

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

Federal Grantor/Pass-Through Grantor Program Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Expenditures
U.S. Department of Agriculture Direct Federal Funding: Water and Waste Disposal Systems for Rural Communities	N/A	10.760	\$ 3,821,421
Total Federal Financial Assistance			\$ 3,821,421

Note A – Basis of Presentation

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

Note B – Significant Accounting Policies

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

Note C – Indirect Cost Rate

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

Note D – Loan Programs

Expenditures reported in this schedule consist of the eligible expenditures incurred during the year ended December 31, 2017. The outstanding loan balance at December 31, 2017 was \$3,406,220 and represents eligible expenditures that have been funded with drawn down proceeds of the federal loan, less principal payments made as of December 31, 2017. Principle payments were started to be made on the loan during 2016.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major programs:

<u>Name of Federal Program</u>	CFDA Number
Water and Waste Disposal Systems for Rural Communities	10.760
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2017-A - Preparation of Financial Statements, Footnotes and Material Journal Entries

Material Weakness

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

Condition: City of Ipswich requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2017. As a part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the City’s existing internal controls and; therefore, could result in a misstatement of the City’s financial statements.

Cause: The City does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to at times propose material journal entries.

Effect: This condition may affect the City’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

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

Views of Responsible Officials: Management agrees with the finding.

Finding 2017-B - Lack of Segregation of Duties

Material Weakness

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

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

Cause: The City has an insufficient number of staff to adequately separate duties.

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

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

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

**2017-001 U.S. Department of Agriculture
CFDA # 10.760 Grant awarded in 2015 with no grant award number
Water and Waste Disposal Systems for Rural Communities**

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

Criteria: Uniform Guidance and 2 CFR sections 200.318 through 200.326 set forth the procurement standards non-federal entities other than states must follow when operating federal programs and the procurement procedures required depending on the amount of the transaction.

Condition: In our testing of procurement, suspension and debarment, it was identified that the City did not have a written policy on procurement that satisfied the requirements of 2 CFR sections 200.318 through 200.326 and there was no observable control documentation to directly indicate that a cost or price analysis was performed in connection with one covered transaction. Additionally, the City secured a contract through noncompetitive proposal without meeting one of the allowable circumstances as indicated in 2 CFR section 200.320.

Cause: Lack of oversight, awareness, or understanding of all of the specific requirements under the Uniform Guidance and applicable CFR sections and controls were not adequately designed to ensure compliance with all of these requirements.

Effect: A lack of documented policies and established controls increase the overall risk that employees are not aware of the specific requirements with contracting and awarding contracts to lower tier entities.

Questioned Costs: None reported

Context/Sampling: All vendors, which totaled four, were selected for procurement testing.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend that management establish a written policy that addresses all of the procurement requirements for federal programs as identified in 2 CFR sections 200.318 through 200.326, and maintain adequate supporting documentation and records to document history and methods of procurement and the procedures performed to comply with these CFR sections.

Views of Responsible Officials: Management agrees with the finding.

**2017-002 U.S. Department of Agriculture
CFDA # 10.760 Grant awarded in 2015 with no grant award number
Water and Waste Disposal Systems for Rural Communities**

**Reporting
Significant Deficiency in Internal Control over Compliance**

Criteria: 7 CFR section 1780.47 and the program letter of conditions defines the program reporting requirements and reporting requirement deadlines for submission of the required reports. Internal controls are required to be in place to ensure the timeliness and accuracy of the reporting.

Condition: On one of the reports required to be submitted, we noted in testing the review for accuracy of the reported information took place after the submission of the report and after the reporting deadline.

Cause: Internal controls were not adequately designed to ensure that these required reports were reviewed by a second individual for accuracy prior to the submission of the reports to the applicable federal agency.

Effect: Lack of internal review of these reports can result in inaccurate information or unsupported information being provided to the federal agency which is being used to satisfy program requirements.

Questioned Costs: None reported.

Context/Sampling: Sampling was not used, tested 100% of population.

Repeat Finding from Prior Year(s): Yes, prior year finding 2016-001.

Recommendation: We recommend that management in cooperation with the City Council institute a review process of these reports and ensure the review takes place prior to submission of the required reports to ensure accuracy and compliance with the applicable requirements.

Views of Responsible Officials: Management agrees with the finding.



PO Box 586, Ipswich, SD 57451-0586

Phone: 605-426-6961

Fax: 605-426-6626

E-mail: ipswichfo@valleytel.net

Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
December 31, 2017

Prepared by Management of
City of Ipswich

Mayor LeRoy Kilber

Council: Susie Treftz, Mike Steen, Tom Schaefer, Barb Gillick, Mike Hammrich & Jon Gilbert

Finding 2016-A

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

Status: Ongoing. Due to cost considerations, we will continue to have Eide Bailly LLP prepare the financial statements and the accompanying notes to the financial statements as part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the material adjustments proposed during the audit.

Finding 2016-B

Finding Summary: Due to the limited number of office personnel, the City of Ipswich does not have adequate staffing to facilitate proper segregation of duties in internal accounting controls over revenue, expenditures, payroll function, and review of manual journal entries.

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

Finding 2016-001

Federal Agency Name: U.S. Department of Agriculture

Program Name: Water and Waste Disposal Systems for Rural Communities

CFDA # 10.760

Finding Summary: Relating to the reporting requirements of the federal program, internal controls were not designed and operating effectively to ensure that submitted reports were reviewed timely prior to submission of the required reports.

Status: Ongoing. Internal controls over the federal program reporting process will be revised so that an individual outside of who is responsible for preparing the report will review for accuracy and overall reasonableness and this control will be monitored for timeliness in its execution.

Finding 2017-A

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

Responsible Individuals: Amy Jaenisch, Finance Officer

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

Anticipated Completion Date: Ongoing

Finding 2017-B

Finding Summary: Due to the limited number of office personnel, the City of Ipswich does not have adequate staffing to facilitate proper segregation of duties in internal accounting controls over revenue, expenditures, payroll function, and review of manual journal entries.

Responsible Individuals: Amy Jaenisch, Finance Officer

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

Anticipated Completion Date: Ongoing

Finding 2017-001

Federal Agency Name: U.S. Department of Agriculture

Program Name: Water and Waste Disposal System for Rural Communities

CFDA # 10.760 For the Year Ended December 31, 2017

Finding Summary: Eide Bailly LLP, determined in the testing of Uniform Guidance, that the City of Ipswich did not have a written policy on procurement that satisfied the requirements of 2 CFR Sections 200.318 through 200.326 and there was no observable control documentation to directly indicate that a cost or price analysis was performed in connection with one covered transaction. Additionally, the City secured a contract through noncompetitive proposal without meeting one of the allowable circumstances as indicated in 2 CFR section 200.320.

Corrective Action Plan

Responsible Individuals: Amy Jaenisch, Finance Officer

Corrective Action Plan: The City, due to timing, is unable to correct this finding for the current project. The City for future projects will establish a written policy that addresses all of the procurement requirements of the State of South Dakota and those requirements for federal program procurements as identified in 2 CFR sections 200.318 through 200.326 and maintain adequate supporting documentation and records to document history of procurement and the procedures performed to comply with these CFR sections.

Anticipated Completion Date: Ongoing

Finding 2017-002

Federal Agency Name: U.S. Department of Agriculture

Program Name: Water and Waste Disposal System for Rural Communities

CFDA # 10.760 For the Year Ended December 31, 2017

Finding Summary: Relating to the reporting requirements of the federal program, the accuracy of the reported information took place after the submission of the report and after the reporting deadline.

Responsible Individuals: Amy Jaenisch, Finance Officer

Corrective Action Plan: Ongoing. Internal controls over the federal program reporting process will be revised so that an individual outside of who is responsible for preparing the report will review for accuracy and overall reasonableness and this control will be monitored for timeliness in its execution.

Anticipated Completion Date: Ongoing