

QUAM, BERGLIN & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

(605) 356-3374

City Council
City of North Sioux City
Union County, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Sioux City for the year ended December 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 5, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2016. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the governmental activities capital assets is based on estimates of original cost. We evaluated the key factors and assumptions used to develop the governmental activities capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the depreciation expense is based on estimated useful lives of the capital assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of

management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 2017.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to the retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

It was noted during sample testing of vendor payment vouchers, that a small percentage had not been signed for approval by a board member. It is our recommendation that the city's voucher approval method be monitored and reviewed more closely in the future.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the Pension Schedules and the Budgetary Comparison Schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Combining Nonmajor Fund Financial Statements, which accompany the financial statements but are not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to

the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restrictions on Use

This information is intended solely for the use of the City Council and management of the City, and is not intended to be and should not be used by anyone other than these specified parties.

Quam, Berglin + Post P.C.

Quam, Berglin and Post, P.C.
Certified Public Accountants

October 5, 2017

CITY OF NORTH SIOUX CITY
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2016

QUAM, BERGLIN & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

**CITY OF NORTH SIOUX CITY
MUNICIPAL OFFICIALS
DECEMBER 31, 2016**

Mayor:

Randy Fredricksen

Governing Board:

Lesa Cropley

Joan Christiansen

Dan Parks

Harold Beavers

Tammy Reiff

Rodd Slater

Clarence Verdoorn

Doug Berg

Finance Officer:

Susan Kloostra

City Administrator:

Ted Cherry

Municipal Attorney:

Darrell Jesse

**CITY OF NORTH SIOUX CITY
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INDEPENDENT AUDITOR'S REPORT

City Council
City of North Sioux City
Union County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Sioux City, South Dakota, as of December 31, 2016 and for the year then ended, and the related notes to the financial statements. We were not engaged to audit the financial statements of the discretely presented component units. These financial statements 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion on the Discretely Presented Component Units" paragraph, however we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the discretely presented component units.

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.

Basis for Disclaimer of Opinion on the Discretely Presented Component Unit

The financial statements of the Housing and Redevelopment Commission (HRC) and the Economic Development Corp. (EDC) have not been audited, and we were not engaged to audit the HRC and EDC financial statements as part of the City's basic financial statements. HRC and EDC's financial activities are included in the City's basic financial statements as discretely presented component units and represent the assets, net position, and revenues of the City's discretely presented component units.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Discretely Presented Component Unit" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component units of the City of North Sioux City. Accordingly, we do not express an opinion on those financial statements.

Unmodified 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 City of North Sioux City, South Dakota as of December 31, 2016 and the respective changes in financial position, and, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Pension Schedules and the Budgetary Comparison Schedules as listed in the Table of Contents 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 the 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 City's basic financial statements. The Combining Nonmajor Fund Financial Statements as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Nonmajor Fund Financial Statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Nonmajor Fund Financial Statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

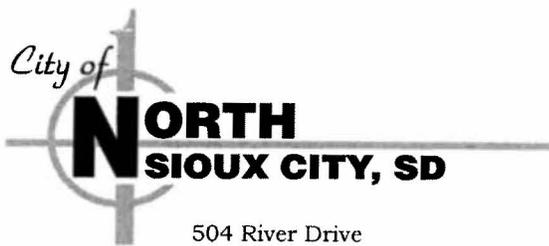
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2017, on our consideration of the City of North Sioux City'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 City of North Sioux City's internal control over financial reporting and compliance.



Quam, Berglin and Post, P.C.
Certified Public Accountants
Elk Point, SD

October 5, 2017



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North Sioux City, SD 57049
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CITY OF NORTH SIOUX CITY Management's Discussion and Analysis

This discussion and analysis presents an overview of the financial activities and financial position for the City of North Sioux City (the "City") for the year ended December 31, 2016. The information presented in this section should be considered in conjunction with the additional information furnished in the basic financial statements as well as notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Primarily during 2016, the City focused resources on improving infrastructure. The projects either started or completed included Westshore reconstruction, Bike Trail upgrade, Levee Culvert Cleaning and Televising, Lift station enhancements, joint project with SD DOT to resurface Highway 105.
- North Sioux City and Union County reached an agreement for North Sioux to acquire Northshore Drive.

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 types of statements that present different views of the City:

- The governmental funds statements tell how general government services and 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 three proprietary funds: Water Fund, Sewer Fund and Garbage 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. In addition to the required elements, we have included a section with combining statements that provide details about our non-major governmental funds, each of which are added together and presented in a single column in the basic financial statements.

Figure A-1 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-1
 Major features of North Sioux City's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government (except component units)	City activities that are not proprietary or fiduciary, such as finance office, police, library, parks and overall administration	Activities the City operates similar to private businesses, the water, sewer, garbage and stormwater 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 Fund 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 the year, regardless of when cash is received or paid

Government-Wide Fund 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 and liabilities, are 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 non-financial 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 most of the City's basic services, such as police, cemetery, library, 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, sewer and garbage 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 be readily converted to cash flow in and out and (2) the balances left at 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 fund 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 – CITY AS A WHOLE

Net Position

The City's combined net position increased by 4.0% between fiscal year 2015 and 2016, increasing by \$1,659,456 (See Table A-1).

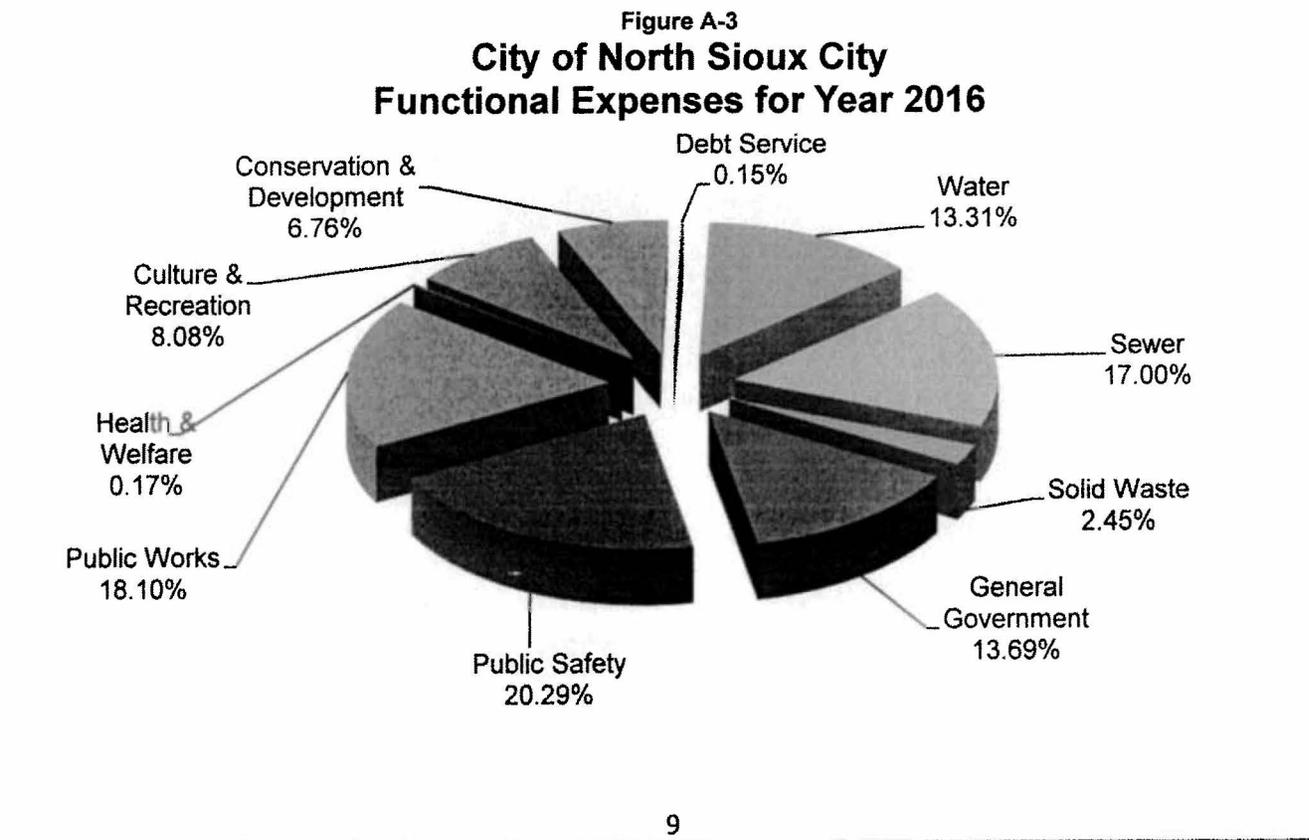
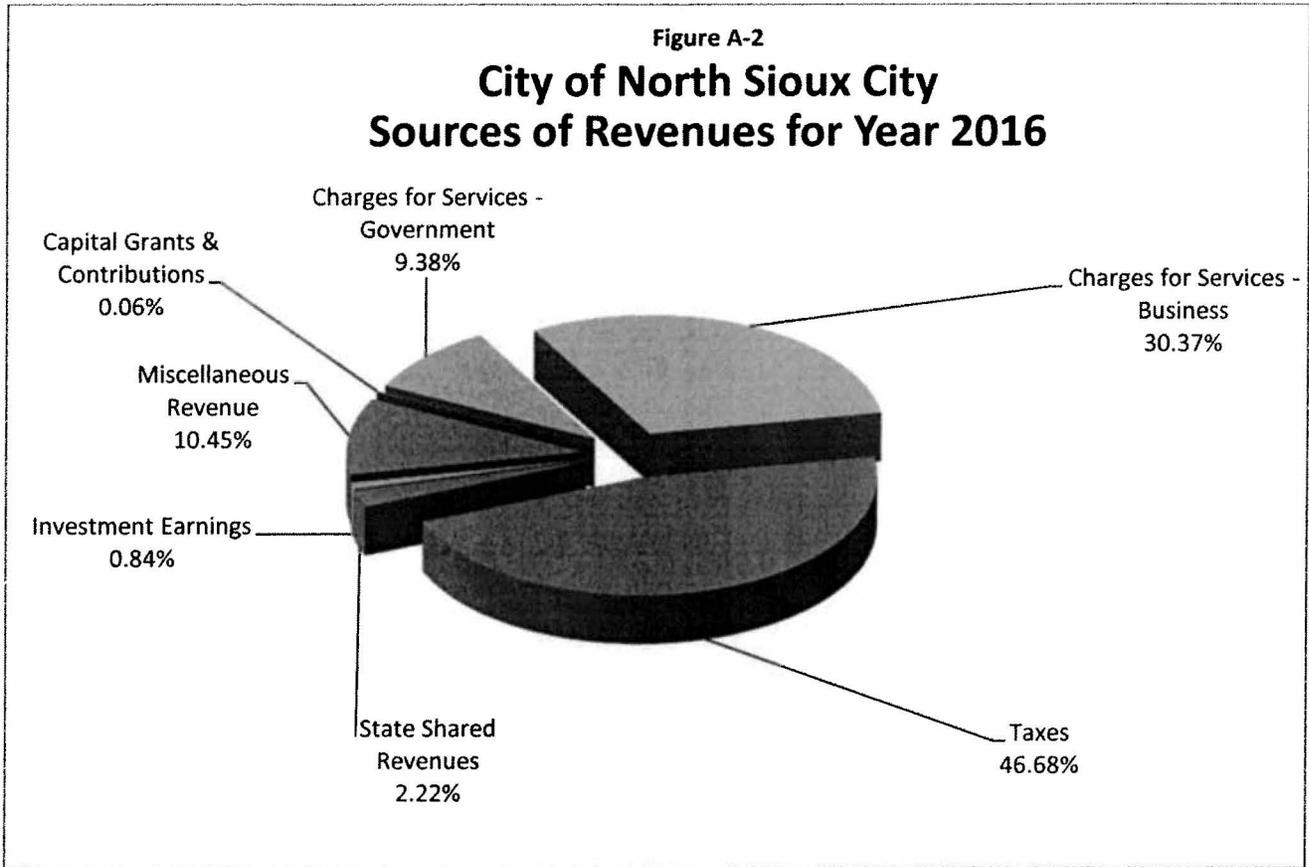
The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due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

	Primary Government					
	Governmental		Business-Type		Total	
	Activities		Activities		Activities	
	December 31,		December 31,		December 31,	
	2015	2016	2015	2016	2015	2016
Current and Other Assets	\$ 7,917,704	\$ 6,752,405	\$ 4,406,157	\$ 5,579,571	\$ 12,323,861	\$ 12,331,976
Capital Assets	18,161,834	20,062,403	12,708,402	12,259,273	30,870,236	32,321,676
Total Assets	26,079,538	26,814,808	17,114,559	17,838,844	43,194,097	44,653,652
Pension Related Deferred Outflows	365,412	396,033			365,412	396,033
Long-Term Debt Outstanding	1,422,175	1,386,985	15,089	20,281	1,437,264	1,407,266
Other Liabilities	161,653	305,278	171,726	185,508	333,379	490,786
Total Liabilities	1,583,828	1,692,263	186,815	205,789	1,770,643	1,898,052
Pension Related Deferred Inflows	307,949	10,531			307,949	10,531
Net Position:						
Net Investment in Capital Assets	16,773,533	18,902,898	12,699,011	12,259,273	29,472,544	31,162,171
Restricted	430,967	982,084			430,967	982,084
Unrestricted	7,348,673	5,622,337	4,228,733	5,373,781	11,577,406	10,996,118
Total Net Position	\$ 24,553,173	\$ 25,507,319	\$ 16,927,744	\$ 17,633,054	\$ 41,480,917	\$ 43,140,373
Increase (Decrease) in Net Position	1,409,701	954,146	443,353	705,310	1,853,054	1,659,456
Beginning Net Position	22,907,689	24,553,173	16,484,391	16,927,744	39,392,080	41,480,917
Prior Period Adjustment	235,783				235,783	
Adjusted Beginning Net Position	23,143,472	24,553,173	16,484,391	16,927,744	39,627,863	41,480,917
Ending Net Position	\$ 24,553,173	\$ 25,507,319	\$ 16,927,744	\$ 17,633,054	\$ 41,480,917	\$ 43,140,373
Percentage of Increase (Decrease) in						
Net Position	6.09%	3.89%	2.69%	4.17%	4.68%	4.00%

Changes in Net Position

The City's revenues totaled \$6,398,578 (see Table A-2). Approximately 39.75% of the City's revenue comes from charges for services and 46.68% comes from some type of tax (see Figure A-2). Another 12.73% comes from intergovernmental revenues and 0.84% from interest earnings. The City's expenses (see Figure A-3) cover a range of services, with over half related to public works services (street maintenance, water, sewer and garbage services).

	Governmental Activities December 31		Business-Type Activities December 31		Total Change December 31	
	2015	2016	2015	2016	2015	2016
Revenues						
Program Revenues						
Charges for Services	\$ 350,605	\$ 596,384	\$ 1,908,961	\$ 1,930,009	\$ 2,259,566	\$ 2,526,393
Operating Grants and Contributions	144,360	4,004			144,360	4,004
Capital Grants and Contributions	576,734	43,190			576,734	43,190
General Revenues						
Taxes	3,241,595	2,966,311			3,241,595	2,966,311
Revenue State Sources	134,807	141,024			134,807	141,024
Unrestricted Investment Earnings	22,953	35,281	2,358	18,038	25,311	53,319
Other General Revenue	145,355	664,337			145,355	664,337
Total Revenues	4,616,409	4,450,531	1,911,319	1,948,047	6,527,728	6,398,578
Expenses						
General Government	565,194	649,235			565,194	649,235
Public Safety	910,464	961,747			910,464	961,747
Public Works	798,432	857,961			798,432	857,961
Health & Welfare	73,116	7,867			73,116	7,867
Culture & Recreation	205,062	382,708			205,062	382,708
Conservation & Development	251,684	320,142			251,684	320,142
Debt Service		6,949				6,949
Water			556,770	630,598	556,770	630,598
Sewer			805,025	805,872	805,025	805,872
Solid Waste			106,171	116,043	106,171	116,043
Total Expenses	2,803,952	3,186,609	1,467,966	1,552,513	4,271,918	4,739,122
Excess (Deficiency) Before						
Transfers	1,812,457	1,263,922	443,353	395,534	2,255,810	1,659,456
Loss on Capital Assets	(402,756)				(402,756)	
Transfers In				309,776		
Transfers Out		(309,776)				
Increase (Decrease) in Net Position	1,409,701	954,146	443,353	705,310	1,853,054	1,659,456
NET POSITION - BEGINNING	22,907,689	24,553,173	16,484,391	16,927,744	39,392,080	41,480,917
Prior Period Adjustment	235,783				235,783	
ADJUSTED NET POSITION - BEGINNING	23,143,472	24,553,173	16,484,391	16,927,744	39,627,863	41,480,917
NET POSITION - ENDING	<u>\$ 24,553,173</u>	<u>\$ 25,507,319</u>	<u>\$ 16,927,744</u>	<u>\$ 17,633,054</u>	<u>\$ 41,480,917</u>	<u>\$ 43,140,373</u>



Governmental Activities

Total governmental activities revenues for the City decreased 3.59. Total governmental activities expenses increased approximately 13.65%. (See previous Table A-2.)

Business-Type Activities

Revenues of the City's business-type activities increased by 1.92%, to \$1,948,047 and expenses increased 5.76% to \$1,552,513. (As shown in previous Table A-2.)

FINANCIAL ANALYSIS – 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's four governmental fund types are General Fund, Special Revenue Fund, Debt Service Fund and Capital Project Fund, and only three business-type funds are Water, Sewer and Garbage Funds.

General Budgetary Highlights

Budgets are monitored and amended to ensure budgetary compliance.

CAPITAL ASSET ADMINISTRATION

The City made a concerted effort to establish and maintain the fixed assets and accumulated depreciation records for the general and proprietary funds during the year 2016. By the end of 2016, the City's had invested \$32,321,676 in a broad range of capital assets, including construction in progress, buildings, various machinery and equipment, net of depreciation. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$1,451,440, or 4.7% over the prior year.

Table A-3
City of North Sioux City - Capital Assets
(Net of Depreciation)

	Governmental Activities			Business-Type Activities		
	FY2015	FY2016	Increase/ (Decrease)	FY2015	FY2016	Increase/ (Decrease)
Land	\$ 959,384	\$ 959,877	\$ 493	\$ 98,284	\$ 98,284	\$
Land Held for Sale	1,168,750	1,068,750	(100,000)			
Construction Work in Progress		2,355,148	2,355,148			
Buildings	6,058,571	5,900,212	(158,359)	1,759,305	1,728,530	(30,775)
Improvements other than Buil	9,356,612	9,039,776	(316,836)	9,808,472	9,378,173	(430,299)
Machinery and Equipment	618,517	738,640	120,123	1,042,341	1,054,286	11,945
Total Capital Assets	\$ 18,161,834	\$ 20,062,403	\$ 1,900,569	\$ 12,708,402	\$ 12,259,273	\$ (449,129)

LONG-TERM DEBT

At year-end, the City had borrowings on a TIF Loan, pension and accrued leave, and other long-term obligations. There was a decrease of 2.09% as shown on Table A-4 below.

The City is liable for the accrued vacation leave payable to all full-time employees. Labor contracts also allow for a percentage of sick leave to be paid out upon termination, therefore, this percentage is also included in Accrued Leave Payable. In September 2016, the leave payable was modified for vacation leave payable regardless of tenure. Additionally, all employees having been employed for more than ten years, will receive sick leave payable at 50%.

The TIF loan is secured by increased property taxes to be collected (100% of the increase to the City of North Sioux City) on the parcels found within the TIF district until paid in full.

	Governmental Activities		Business-type Activities		Dollar Change	Total % Change
	2015	2016	2015	2016		
Compensated Absences	\$ 33,874	\$ 51,667	\$ 5,697	\$ 20,281	\$ 32,377	81.82%
Note Payable	697,190	526,046			(171,144)	-24.55%
TIF Loan - River Valley	691,111	633,459			(57,652)	-8.34%
SDRS Liability		175,813			175,813	100.00%
DENR Loan			9,392		(9,392)	-100.00%
Total Outstanding Debt and Obligations	\$ 1,422,175	\$ 1,386,985	\$ 15,089	\$ 20,281	\$ (29,998)	-2.09%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

This year's growth factor was 6.7% with 3% CPI. One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City had a slight decrease in General Sales and Use Taxes from the prior year.

The City's business-type activities (water, sewer and garbage operations) saw an increase in revenues due to a three year increase in water and sewer rates starting in 2014.

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 North Sioux City's Finance Office in writing by mailing it to 504 River Drive, North Sioux City, SD 57049.

**CITY OF NORTH SIOUX CITY
STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	Primary Government			Unaudited Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing & Redevelopment	Economic Development
ASSETS:					
Cash and Cash Equivalents	\$ 2,795,495.47	\$ 2,270,005.42	\$ 5,065,500.89	\$ 45,697.88	\$ 284,034.35
Investments	3,338,880.39	3,043,356.91	6,382,237.30		
Taxes Receivable	9,835.22		9,835.22		
Accounts Receivable, Net	31,580.58	93,867.95	125,448.53		
Special Assessments Receivable - Current	42,154.51		42,154.51		
Notes Receivable	350,000.00		350,000.00		
Due From Government	73,686.98		73,686.98		
Due From Component Unit	54,000.00		54,000.00		
Inventory	8,532.05	111,955.81	120,487.86		
Restricted Deposits	26,627.71	56,275.14	82,902.85		
Prepaid Expenses	20,884.48	4,109.75	24,994.23		
Capital Assets:					
Land and Construction Work in Progress	4,383,775.91	98,283.84	4,482,059.75	70,000.00	
Other Capital Assets, Net of Depreciation	15,678,626.84	12,160,989.12	27,839,615.96	473,259.34	
TOTAL ASSETS	<u>26,814,080.14</u>	<u>17,838,843.94</u>	<u>44,652,924.08</u>	<u>588,957.22</u>	<u>284,034.35</u>
DEFERRED OUTFLOWS OF RESOURCES:					
Pension Related Deferred Outflows	396,032.99		396,032.99		
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>396,032.99</u>		<u>396,032.99</u>		

**CITY OF NORTH SIOUX CITY
STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	Primary Government			Unaudited Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing & Redevelopment	Economic Development
<u>LIABILITIES:</u>					
Accounts Payable	88,578.54	115,514.44	204,092.98		
Construction Contracts Payable	216,699.49		216,699.49		
Accrued Other Payables		1,521.74	1,521.74		
Accrued Taxes Payable					66.25
Customer Deposits Payable		62,821.51	62,821.51		
Unearned Revenue		5,650.58	5,650.58	9,150.00	
Noncurrent Liabilities:					
Due Within One Year	857,981.08	20,281.09	878,262.17	46,302.30	
Due in More than One Year	529,003.97		529,003.97	423,070.03	
TOTAL LIABILITIES	<u>1,692,263.08</u>	<u>205,789.36</u>	<u>1,898,052.44</u>	<u>478,522.33</u>	<u>66.25</u>
 DEFERRED INFLOWS OF RESOURCES:					
Pension Related Deferred Inflows	10,531.23		10,531.23		
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>10,531.23</u>		<u>10,531.23</u>		
 <u>NET POSITION:</u>					
Net Investment in Capital Assets	18,902,897.60	12,259,272.96	31,162,170.56		
Restricted for:					
Cumulative Reserve - SDPA	26,627.71		26,627.71		
Economic Development and Promotion	740,992.26		740,992.26		
Public Services	4,775.39		4,775.39		
SDRS Pension Purposes	209,689.07		209,689.07		
Unrestricted	5,622,336.79	5,373,781.62	10,996,118.41	110,434.89	283,968.10
TOTAL NET POSITION	<u>\$ 25,507,318.82</u>	<u>\$ 17,633,054.58</u>	<u>\$ 43,140,373.40</u>	<u>\$ 110,434.89</u>	<u>\$ 283,968.10</u>

The attached notes are an integral part of these financial statements.

CITY OF NORTH SIOUX CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Unaudited Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Housing & Redevelopment	Economic Development
					Governmental Activities	Business-Type Activities			
Primary Government:									
Governmental Activities:									
General Government	\$ 649,234.91	\$ 493.43	\$	\$	\$ (648,741.48)	\$	\$ (648,741.48)	\$	
Public Safety	961,747.13	15,655.94	4,003.93		(942,087.26)		(942,087.26)		
Public Works	857,960.70	455,904.60			(402,056.10)		(402,056.10)		
Health and Welfare	7,866.83	20.00			(7,846.83)		(7,846.83)		
Culture and Recreation	382,708.41	13,770.96			(368,937.45)		(368,937.45)		
Conservation & Development	320,142.24				(320,142.24)		(320,142.24)		
Miscellaneous		110,538.85		43,189.62	153,728.47		153,728.47		
*Interest on Long-Term Debt	6,949.12				(6,949.12)		(6,949.12)		
Total Governmental Activities	3,186,609.34	596,383.78	4,003.93	43,189.62	(2,543,032.01)		(2,543,032.01)		
Business-Type Activities:									
Water	630,598.61	857,705.61				227,107.00	227,107.00		
Sewer	805,871.43	967,371.17				161,499.74	161,499.74		
Garbage	116,042.27	104,932.47				(11,109.80)	(11,109.80)		
Total Business-Type Activities	1,552,512.31	1,930,009.25				377,496.94	377,496.94		
Total Primary Government	\$ 4,739,121.65	\$ 2,526,393.03	\$ 4,003.93	\$ 43,189.62	(2,543,032.01)	377,496.94	(2,165,535.07)		
Component Unit:									
Housing and Redevelopmen	\$ 98,540.75	\$ 133,440.71						34,899.96	
Economic Development	\$ 270,015.85	\$ 92,927.00							(177,088.85)
General Revenues:									
Taxes:									
Property Taxes					489,446.19		489,446.19		
Sales and Use Taxes					2,476,865.01		2,476,865.01		
State Shared Revenues					141,024.50		141,024.50		
Unrestricted Investment Earnings					35,280.89	18,037.87	53,318.76	55.51	152.16
Miscellaneous Revenue					664,337.03		664,337.03	100.00	196.00
Gain/(Loss) on Disposal of Capital Assets								(91,136.25)	1,000.00
Transfer In (Out)					(309,775.73)	309,775.73			
Total General Revenues					3,497,177.89	327,813.60	3,824,991.49	(90,980.74)	1,348.16
Change in Net Position					954,145.88	705,310.54	1,659,456.42	(56,080.78)	(175,740.69)
Net Position - Beginning					24,553,172.94	16,927,744.04	41,480,916.98	166,515.67	702,778.13
Prior Period Adjustment									(243,069.34)
Adjusted Net Position- Beginning					24,553,172.94	16,927,744.04	41,480,916.98	166,515.67	459,708.79
Net Position - Ending					\$ 25,507,318.82	\$ 17,633,054.58	\$ 43,140,373.40	\$ 110,434.89	\$ 283,968.10

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

The attached notes are an integral part of these financial statements.

**CITY OF NORTH SIOUX CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	Major Funds				Nonmajor	Total Governmental Funds
	General Fund	Additional Sales Tax Fund	Liquor/Lodging Dining Sales Tax Fund	Westshore Drive Project Fund	Other Governmental Fund	
ASSETS:						
Cash and Cash Equivalents	\$ 539,473.54	\$ 1,397,880.22	\$ 121,901.50	\$ 587,674.32	\$ 148,565.89	\$ 2,795,495.47
Investments	2,165,478.41	700,618.36	472,783.62			3,338,880.39
Taxes Receivable - Delinquent	9,835.22					9,835.22
Accounts Receivable, Net	25,456.07				6,124.51	31,580.58
Special Assessments Receivable - Current	42,154.51					42,154.51
Notes Receivable	350,000.00					350,000.00
Due from Other Funds	1,349.12					1,349.12
Due From Government	57,999.02	10,125.79	5,562.17			73,686.98
Due From Component Unit	54,000.00					54,000.00
Inventory	8,532.05					8,532.05
Restricted Deposits	26,627.71					26,627.71
Prepaid Expenses	20,884.48					20,884.48
TOTAL ASSETS	<u>\$ 3,301,790.13</u>	<u>\$ 2,108,624.37</u>	<u>\$ 600,247.29</u>	<u>\$ 587,674.32</u>	<u>\$ 154,690.40</u>	<u>\$ 6,753,026.51</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ 28,146.00	\$	\$ 2,861.12	\$ 48,878.86	\$ 8,692.56	\$ 88,578.54
Construction Contracts Payable				216,699.49		216,699.49
Due to General Fund					1,349.12	1,349.12
Total Liabilities	<u>28,146.00</u>	<u></u>	<u>2,861.12</u>	<u>265,578.35</u>	<u>10,041.68</u>	<u>306,627.15</u>

Deferred Inflows of Resources:

Unavailable Revenue - Property Taxes	9,835.22					9,835.22
Unavailable Revenue - Special Assessment:	42,154.51					42,154.51
Unavailable Revenue - Other	<u>350,000.00</u>					<u>350,000.00</u>
Total Deferred Inflows of Resources	<u>401,989.73</u>					<u>401,989.73</u>

Fund Balances:

NonSpendable:

Inventory	8,532.05					8,532.05
Prepays	20,884.48					20,884.48
Notes Receivable	54,000.00					54,000.00
Cumulative Reserve - SDPAA	26,627.71					26,627.71

Restricted:

Economic Development and Promotion			597,386.17		56,076.75	653,462.92
Grant Revolving Loan					87,529.34	87,529.34
Public Services					4,775.39	4,775.39

Committed:

Capital Improvement Additions		2,108,624.37		322,095.97		2,430,720.34
Unassigned	<u>2,761,610.16</u>				<u>(3,732.76)</u>	<u>2,757,877.40</u>
Total Fund Balances	<u>2,871,654.40</u>	<u>2,108,624.37</u>	<u>597,386.17</u>	<u>322,095.97</u>	<u>144,648.72</u>	<u>6,044,409.63</u>

TOTAL LIABILITIES, DEFERRED INFLOWS OF

RESOURCES AND FUND BALANCES	<u>\$ 3,301,790.13</u>	<u>\$ 2,108,624.37</u>	<u>\$ 600,247.29</u>	<u>\$ 587,674.32</u>	<u>\$ 154,690.40</u>	<u>\$ 6,753,026.51</u>
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The attached notes are an integral part of these financial statements.

**CITY OF NORTH SIOUX CITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Total Fund Balances - Governmental Funds \$ 6,044,409.63

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Cost of Assets:	\$ 27,378,734.60	
(Less) Accumulated Depreciation	<u>(7,316,331.85)</u>	20,062,402.75

Long-term liabilities, including loans payable and accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.

Loans Payable	\$ (1,159,505.15)	
Accrued Leave Payable	<u>(51,667.21)</u>	(1,211,172.36)

Assets such as taxes receivable (delinquent), special assessments receivable (current, delinquent and deferred) and certain notes receivables are not available to pay for current period expenditures and therefore are deferred in the funds but are revenue in the government-wide financial statements.

401,989.73

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.

209,689.07

Net Position - Governmental Funds \$ 25,507,318.82

The attached notes are an integral part of these financial statements.

CITY OF NORTH SIOUX CITY
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Major Funds				Nonmajor	Total Governmental Funds
	General Fund	Additional Sales Tax Fund	Liquor/ Lodging Dining Sales Tax Fund	West Shore Drive Project Fund	Other Governmental Funds	
Revenues:						
Taxes:						
General Property Taxes	\$ 465,656.09				\$ 29,125.86	\$ 494,781.95
General Sales and Use Taxes	1,871,433.69	467,858.46	137,572.86			2,476,865.01
Amusement Taxes	204.00					204.00
911 Telephone Surcharge					47,253.30	47,253.30
Penalties and Interest on Delinquent Taxes	2,639.19					2,639.19
Licenses and Permits	103,974.60					103,974.60
Intergovernmental Revenue:						
State Grants	4,003.93					4,003.93
State Shared Revenue:						
Bank Franchise Tax	6,757.93					6,757.93
Liquor Tax Reversion	20,556.46					20,556.46
Motor Vehicle Licenses (5%)	38,909.10					38,909.10
Local Government Highway and Bridge Fund	74,801.01					74,801.01
County Shared Revenue:						
County Wheel Tax	10,334.72					10,334.72
Charge for Services:						
General Government	493.43					493.43
Sanitation	1,930.00					1,930.00
Health	20.00					20.00
Culture and Recreation	1,235.00					1,235.00
Fines and Forfeits:						
Court Fines and Costs	5,997.68					5,997.68
Library	12,535.96					12,535.96
Other	9,658.26					9,658.26
Miscellaneous Revenue:						
Investment Earnings	26,540.11	5,424.58	2,394.70		921.50	35,280.89
Rentals	110,538.85					110,538.85
Contributions and Donations	18,027.78	24,668.84				42,696.62
Other	252,840.69		353,908.32			606,749.01
Total Revenue	<u>3,039,088.48</u>	<u>497,951.88</u>	<u>493,875.88</u>		<u>77,300.66</u>	<u>4,108,216.90</u>

Expenditures:

General Government:					
Legislative	158,956.41				158,956.41
Elections	2,251.43				2,251.43
Financial Administration	218,811.37				218,811.37
Other	64,088.87				64,088.87
Total General Government	444,108.08				444,108.08
Public Safety:					
Police	777,458.42			70,424.34	847,882.76
Civil Defense	638.60				638.60
Total Public Safety	778,097.02			70,424.34	848,521.36
Public Works:					
Highways, Streets and Dike	494,110.45				494,110.45
Cemeteries	2,787.77				2,787.77
Total Public Works	496,898.22				496,898.22
Health and Welfare:					
Health	4,169.50				4,169.50
Senior Center	1,050.00				1,050.00
Total Health and Welfare	5,219.50				5,219.50
Culture and Recreation:					
Recreation	59,890.00				59,890.00
Parks	76,600.24				76,600.24
Libraries	147,312.73				147,312.73
Community Center	40,045.49				40,045.49
Total Culture and Recreation	323,848.46				323,848.46
Conservation and Development:					
Economic Development and Assistance	123,087.86		118,591.36		241,679.22
Economic Opportunity	33,679.00		44,784.02		78,463.02
Total Conservation and Development	156,766.86		163,375.38		320,142.24

CITY OF NORTH SIOUX CITY
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (Continued)
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Major Funds			Nonmajor		
	General Fund	Additional Sales Tax Fund	Liquor/ Lodging Dining Sales Tax Fund	West Shore Drive Project Fund	Other Governmental Funds	Total Governmental Funds
Debt Service			178,092.91		57,652.36	235,745.27
Capital Outlay	211,577.55			2,355,148.06		2,566,725.61
Total Expenditures	<u>2,416,515.69</u>		<u>341,468.29</u>	<u>2,355,148.06</u>	<u>128,076.70</u>	<u>5,241,208.74</u>
Excess of Revenue Over (Under) Expenditures	<u>622,572.79</u>	<u>497,951.88</u>	<u>152,407.59</u>	<u>(2,355,148.06)</u>	<u>(50,776.04)</u>	<u>(1,132,991.84)</u>
<u>Other Financing Sources (Uses):</u>						
Transfer In			460,643.48	2,677,244.03	144,791.17	3,282,678.68
Transfer (Out)	(3,592,454.41)					(3,592,454.41)
Total Other Financing Sources (Uses)	<u>(3,592,454.41)</u>		<u>460,643.48</u>	<u>2,677,244.03</u>	<u>144,791.17</u>	<u>(309,775.73)</u>
Net Change in Fund Balances	(2,969,881.62)	497,951.88	613,051.07	322,095.97	94,015.13	(1,442,767.57)
Fund Balance - Beginning	<u>5,841,536.02</u>	<u>1,610,672.49</u>	<u>(15,664.90)</u>		<u>50,633.59</u>	<u>7,487,177.20</u>
FUND BALANCE - ENDING	<u>\$ 2,871,654.40</u>	<u>\$ 2,108,624.37</u>	<u>\$ 597,386.17</u>	<u>\$ 322,095.97</u>	<u>\$ 144,648.72</u>	<u>\$ 6,044,409.63</u>

The attached notes are an integral part of these financial statements.

**CITY OF NORTH SIOUX CITY
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, 2016**

Net Change in Fund Balances - Total Governmental Funds \$(1,442,767.57)

Amounts reported for governmental activities in the Statement of
Activities are different because:

Governmental funds report capital outlays as expenditures, however, in
the Statement of Activities the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense. This is the
amount by which capital outlays exceeded depreciation expense in the
current period. 1,900,075.80

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. 493.00

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. (e.g., accrued interest and leave
expenses) (17,793.32)

Repayment of debt is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the Statement of Net Position. 228,796.15

Governmental funds report property taxes, special assessments, and
certain receivables as revenue when cash is received, but the Statement
of Activities includes these items as revenues when earned. 341,821.05

Changes in the pension related deferred outflows/inflows are direct
components of pension liability(asset) and are not reflected in the
governmental funds. (56,479.23)

Change in Net Position of Governmental Activities \$ 954,145.88

The attached notes are an integral part of these financial statements.

**CITY OF NORTH SIOUX CITY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016**

	Enterprise Funds			Totals
	Major Funds		Nonmajor Fund	
	Water Fund	Sewer Fund	Garbage Fund	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 537,477.43	\$ 1,718,465.95	\$ 14,062.04	\$ 2,270,005.42
Investments	1,477,898.64	1,546,897.75	18,560.52	3,043,356.91
Accounts Receivable, Net	47,220.86	38,351.67	8,295.42	93,867.95
Inventory of Supplies	11,627.03	100,328.78		111,955.81
Prepaid Expenses	2,787.39	1,322.36		4,109.75
Total Current Assets	2,077,011.35	3,405,366.51	40,917.98	5,523,295.84
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	56,275.14			56,275.14
Capital Assets:				
Land	60,780.56	37,503.28		98,283.84
Buildings	2,216,651.22			2,216,651.22
Improvement other than Buildings	9,303,068.02	6,374,492.76		15,677,560.78
Machinery and Equipment	1,522,285.29	727,894.84		2,250,180.13
Less: Accumulated Depreciation	(4,540,217.69)	(3,443,185.32)		(7,983,403.01)
Total Noncurrent Assets	8,562,567.40	3,696,705.56		12,259,272.96
TOTAL ASSETS	10,695,853.89	7,102,072.07	40,917.98	17,838,843.94
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 8,228.84	\$ 99,051.16	\$ 8,234.44	\$ 115,514.44
Accrued Other Payables			1,521.74	1,521.74
Customer Deposits	62,821.51			62,821.51
Accrued Leave Payable - Current	10,785.61	9,495.48		20,281.09
Unearned Revenue	5,650.58			5,650.58
Total Current Liabilities	87,486.54	108,546.64	9,756.18	205,789.36
NET POSITION:				
Net Investment in Capital Assets	8,562,567.40	3,696,705.56		12,259,272.96
Unrestricted Net Position	2,045,799.95	3,296,819.87	31,161.80	5,373,781.62
Total Net Position	\$ 10,608,367.35	\$ 6,993,525.43	\$ 31,161.80	\$ 17,633,054.58

The attached notes are an integral part of these financial statements.

CITY OF NORTH SIOUX CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Enterprise Funds			Totals
	Major Funds		Nonmajor Fund	
	Water Fund	Sewer Fund	Garbage Fund	
<u>Operating Revenue:</u>				
Charges for Goods and Services (Revenues Securing Debt Issues)	\$ 846,742.27	\$ 959,372.57	\$	\$ 1,806,114.84
Charges for Goods and Services			104,822.46	104,822.46
Miscellaneous	10,963.34	7,998.60	110.01	19,071.95
Total Operating Revenue	857,705.61	967,371.17	104,932.47	1,930,009.25
<u>Operating Expenses:</u>				
Personal Services	140,659.62	123,701.07	3,472.67	267,833.36
Other Current Expense	186,440.94	439,449.93	112,569.60	738,460.47
Capital Outlay		233.81		233.81
Depreciation	303,187.56	242,425.72		545,613.28
Total Operating Expenses	630,288.12	805,810.53	116,042.27	1,552,140.92
 Operating Income (Loss)	 227,417.49	 161,560.64	 (11,109.80)	 377,868.33
<u>Nonoperating Revenue (Expense):</u>				
Interest Income	7,514.53	7,667.13	2,856.21	18,037.87
Interest Expense and Fiscal Charges	(310.49)	(60.90)		(371.39)
Transfer In	309,775.73			309,775.73
Total Nonoperating Revenue (Expense)	316,979.77	7,606.23	2,856.21	327,442.21
 Change in Net Position	 544,397.26	 169,166.87	 (8,253.59)	 705,310.54
 Net Position - Beginning	 10,063,970.09	 6,824,358.56	 39,415.39	 16,927,744.04
 NET POSITION - ENDING	 \$ 10,608,367.35	 \$ 6,993,525.43	 \$ 31,161.80	 \$ 17,633,054.58

The attached notes are an integral part of these financial statements.

**CITY OF NORTH SIOUX CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Enterprise Funds</u>			<u>Totals</u>
	<u>Major Funds</u>		<u>Nonmajor Fund</u>	
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Cash Receipts from Customers	\$ 880,375.11	\$ 997,727.54	\$ 104,870.90	\$ 1,982,973.55
Cash Payments to Employees for Services	(133,057.44)	(116,719.56)	(3,472.67)	(253,249.67)
Cash Payments to Suppliers for Goods and Services	(194,663.37)	(423,505.82)	(121,061.29)	(739,230.48)
Net Cash Provided (Used) by Operating Activities	<u>552,654.30</u>	<u>457,502.16</u>	<u>(19,663.06)</u>	<u>990,493.40</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Purchase of Capital Assets		(96,483.81)		(96,483.81)
Principal Paid on Capital Debt	(7,841.65)	(1,550.00)		(9,391.65)
Interest Paid on Capital Debt	(310.49)	(60.90)		(371.39)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(8,152.14)</u>	<u>(98,094.71)</u>		<u>(106,246.85)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Purchase of Investment Securities	(7,493.29)	(7,638.45)		(15,131.74)
Interest Earnings	7,514.53	7,667.13	2,856.21	18,037.87
Net Cash Provided (Used) by Investing Activities	<u>21.24</u>	<u>28.68</u>	<u>2,856.21</u>	<u>2,906.13</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 544,523.40</u>	<u>\$ 359,436.13</u>	<u>\$ (16,806.85)</u>	<u>\$ 887,152.68</u>
Cash and Cash Equivalents at Beginning of Year	\$ 49,229.17	\$ 1,359,029.82	\$ 30,868.89	\$ 1,439,127.88
Cash and Cash Equivalents at End of Year	<u>593,752.57</u>	<u>1,718,465.95</u>	<u>14,062.04</u>	<u>2,326,280.56</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 544,523.40</u>	<u>\$ 359,436.13</u>	<u>\$ (16,806.85)</u>	<u>\$ 887,152.68</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>				
Operating Income (Loss)	\$ 227,417.49	\$ 161,560.64	\$ (11,109.80)	\$ 377,868.33
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Capital Outlay				
Depreciation Expense	303,187.56	242,425.72		545,613.28
Change in Assets and Liabilities:				
Receivables	6,399.86	30,356.37	(61.57)	36,694.66
Inventories	3,515.38	(5,625.55)		(2,110.17)
Prepaid Expenses	985.57	3,075.37		4,060.94
Accounts and Other Payables	(12,723.38)	18,728.10	(8,491.69)	(2,486.97)
Accrued Leave Payable	7,602.18	6,981.51		14,583.69
Unearned Revenue	2,542.33			2,542.33
Customer Deposits	13,727.31			13,727.31
Net Cash Provided (Used) by Operating Activities	<u>\$ 552,654.30</u>	<u>\$ 457,502.16</u>	<u>\$ (19,663.06)</u>	<u>\$ 990,493.40</u>

The attached notes are an integral part of these financial statements.

CITY OF NORTH SIOUX CITY
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

a. Financial Reporting Entity:

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

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Municipality 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 Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality.

The Housing and Redevelopment Commission of North Sioux City, South Dakota (Commission) is a proprietary fund-type, discretely presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from the North Sioux City Housing and Redevelopment Commission, P.O. Box 338, North Sioux City, SD 57049.

The Economic Development Corporation of North Sioux City, South Dakota is a proprietary fund-type, discretely presented component unit. The seven members of the Corporation are appointed by the Economic Development and it elects its own chairperson and recruits and employs its own management personnel. The City's Governing Board, though, retains the statutory authority to issue and hold debt for the Corporation, which gives the Corporation the ability to impose specific financial burdens on the City of North Sioux City. Separately issued financial statements of the Economic Development Corporation may be obtained from the North Sioux City Economic Development Corporation, located in the City Hall of the City of North Sioux City.

The City is a member of the South Dakota Municipal League, the Siouxland Initiative, SECOG, Siouxland Chamber, Dakota Valley Business Council and the Siouxland Interstate Metropolitan Planning Council.

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 and deferred outflows of resources, liabilities and deferred inflows of resources, 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 and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

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

Governmental Funds:

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

Special Revenue Funds – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Additional Sales Tax Fund – To account for the additional two percent sales tax, the proceeds of which are allocated eighty percent to the General Fund and twenty percent to be used only for capital improvements, land acquisition, and debt retirement. Only the designated twenty percent is accounted for in the Additional Sales Tax Fund. (City Ordinance 3.12.050) This is a major fund.

Liquor, Lodging and Dining Fund – 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 building, including the maintenance, staffing and operations of such facilities; and the promotion and advertising for the city (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is a major fund.

911 Emergency Fund – A special revenue fund established from the collection of a telephone surcharge to be used by the Police Department for providing emergency services. This is not a major fund.

The remaining Special Revenue Fund, namely the Grant Revolving Loan Fund, is not considered a major fund.

Debt Service Funds – Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

River Valley Tax Increment Financing District Fund – A debt service fund to be used to account for the accumulation of resources for and the payment of, general long-term debt principal financed by and payable to the bank which holds the note for the developer of the River Valley TIF project. This is not a major fund.

Westshore Drive Project Fund – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Capital projects fund – to account for financial resources to be used for the construction of the West Shore Drive Project. This is a major fund.

Proprietary Funds:

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

Garbage Fund – Financed primarily by user charges, this fund accounts for the operation of the garbage collection service. This is not a major fund.

c. Measurement Focus and Basis of Accounting:

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

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

Fund Financial Statements:

All governmental fund types 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 North Sioux City, the length of that cycle is 45 days. The revenues which were accrued at December 31, 2016, are taxes receivable, amounts due from other governments for grants, and other receivables due within 45 days.

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 inflows of resources 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.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

e. Deposits and Investments:

For the purpose of financial reporting, "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 primarily 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.

f. Capital Assets:

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

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 cost, where actual cost could not be determined. 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, 2016 balance of governmental activities capital assets includes approximately 0.94% for which the costs were determined by estimates of the original costs. The total December 31, 2016 balance of capital assets for business-type activities are valued at original costs. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land and Land Rights	All	NA	NA
Improvements other than Buildings	\$ 50,000	Straight Line	8-30 years
Buildings	50,000	Straight Line	8-75 years
Machinery and Equipment	5,000	Straight Line	5-40 years

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.

g. Long-Term Liabilities:

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of state revolving loans, 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.

h. Program Revenues:

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

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

3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

i. Deferred Inflows and Deferred Outflows of Resources

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

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

j. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses, and Changes in 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.

k. Cash and Cash Equivalents:

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

l. 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.

m. 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.

n. 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 Municipal Council.
- Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Municipality uses *restricted/committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government 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.

o. 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. City 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 below:

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

"AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits Municipality funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly or (b) repurchase agreements fully collateralized by securities described in (a) 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 Laws 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, 2016, the City had the following investments:

External Investment Pools:

	<u>Credit Rating</u>	<u>Value</u>
SDFIT - GCR	Unrated	\$800,310.03

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.

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.

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

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 investments to the fund making the investment.

3. Receivables and Payables

Receivables and payables are not aggregated in the financial statements. The Municipality expects all receivables to be collected within one year, except for \$404,000.00 of receivables related to economic development loans and note receivable described in Note 12.

4. Inventory

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

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

Government-wide Financial Statements:

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

Fund Financial Statements:

In the governmental fund financial statements, purchases of supply inventory items are recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a non-spendable fund balance classification which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. Property Taxes

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach 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 City.

6. Changes In General Capital Assets

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

	Balance <u>01/01/16</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/16</u>
Governmental Activities:				
Land	\$ 959,384.55	\$ 493.00	\$	\$ 959,877.55
Land Held for Sale	1,168,750.30		(100,000.00)	1,068,750.30
Construction in Progress		2,355,148.06		2,355,148.06
Total Capital Assets, not being Depreciated	<u>2,128,134.85</u>	<u>2,355,641.06</u>	<u>(100,000.00)</u>	<u>4,383,775.91</u>
Capital Assets, being Depreciated:				
Buildings	7,035,768.81		(14,792.75)	7,020,976.06
Improvements, other than Buildings	13,467,785.53	34,609.49		13,502,395.02
Machinery and Equipment	2,228,487.55	276,968.06	(33,868.00)	2,471,587.61
Total Capital Assets, being Depreciated	<u>22,732,041.89</u>	<u>311,577.55</u>	<u>(48,660.75)</u>	<u>22,994,958.69</u>
Less Accumulated Depreciation for:				
Buildings	977,198.27	158,358.65	(14,792.75)	1,120,764.17
Improvements, other than Buildings	4,111,173.12	351,446.19		4,462,619.31
Machinery and Equipment	1,609,971.40	156,844.97	(33,868.00)	1,732,948.37
Total Accumulated Depreciation	<u>6,698,342.79</u>	<u>666,649.81</u>	<u>(48,660.75)</u>	<u>7,316,331.85</u>
Total Governmental Activities Capital Assets, being Depreciated, Net	<u>16,033,699.10</u>	<u>(355,072.26)</u>		<u>15,678,626.84</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 18,161,833.95</u>	<u>\$ 2,000,568.80</u>	<u>\$ (100,000.00)</u>	<u>\$ 20,062,402.75</u>

Depreciation expenses were charged to functions as follows:

General Government	\$ 148,647.60
Public Safety	113,225.77
Public Works	343,269.16
Health and Welfare	2,647.33
Culture and Recreation	<u>58,859.95</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 666,649.81</u>

Construction Work in Progress at December 31, 2016 is composed of the following:

Project Name <u>Governmental Activities:</u>	Project Authorization	Expended through 12/31/16	Committed
Westshore Project	\$ 2,795,390.22	\$ 2,355,148.06	\$ 440,242.16

	Balance 1/1/2016	Increases	Decreases	Balance 12/31/2016
Business-Type Activities:				
Capital Assets, not being Depreciated				
Land	\$ 98,283.84	\$ _____	\$ _____	\$ 98,283.84
Total Capital Assets, not being Depreciated	<u>98,283.84</u>	<u>_____</u>	<u>_____</u>	<u>98,283.84</u>
Capital Assets, being Depreciated:				
Buildings	2,216,651.22			2,216,651.22
Machinery and Equipment	2,153,696.32	96,483.81		2,250,180.13
Improvements Other than Building	15,677,560.78			15,677,560.78
Total	<u>20,047,908.32</u>	<u>96,483.81</u>	<u>_____</u>	<u>20,144,392.13</u>
Less Accumulated Depreciation for:				
Buildings	457,345.66	30,775.67		488,121.33
Machinery and Equipment	1,111,355.18	84,538.12		1,195,893.30
Improvements Other than Building	5,869,088.89	430,299.49		6,299,388.38
Total Accumulated Depreciation	<u>7,437,789.73</u>	<u>545,613.28</u>	<u>_____</u>	<u>7,983,403.01</u>
Total Business-Type Activities Capital Assets, being depreciated, net	<u>12,610,118.59</u>	<u>(449,129.47)</u>	<u>_____</u>	<u>12,160,989.12</u>
Business-Type Activity, Capital Assets, net	<u>\$ 12,708,402.43</u>	<u>\$ (449,129.47)</u>	<u>\$ _____</u>	<u>\$ 12,259,272.96</u>

Depreciation expense was charged to functions as follows:

Water	\$ 303,187.56
Sewer	<u>242,425.72</u>
Total Depreciation Expense, Business-Type Activities	<u>\$ 545,613.28</u>

7. Long-Term Liabilities

A summary of changes in long-term liabilities follows:

	Balance 01/01/16	Additions	Retired	Balance 12/31/16	Due within One Year
Primary Government:					
Governmental Activities:					
Note Payable	\$ 697,190.29	\$	\$ (171,143.79)	\$ 526,046.50	\$ 172,855.22
TIF Loan - River Valley	691,111.01		(57,652.36)	633,458.65	633,458.65
Total Debt	<u>1,388,301.30</u>	<u></u>	<u>(228,796.15)</u>	<u>1,159,505.15</u>	<u>806,313.87</u>
SDRS Pension Liability		175,812.69		175,812.69	
Accrued Compensated Absences - Governmental Funds	33,873.89	51,667.21	(33,873.89)	51,667.21	51,667.21
Total Governmental Activities	<u>\$ 1,422,175.19</u>	<u>\$ 227,479.90</u>	<u>\$ (262,670.04)</u>	<u>\$ 1,386,985.05</u>	<u>\$ 857,981.08</u>
Business-Type Activities:					
DENR Loan	\$ 9,391.65	\$	\$ (9,391.65)	\$	\$
Total Debt	<u>9,391.65</u>	<u></u>	<u>(9,391.65)</u>	<u></u>	<u></u>
Accrued Compensated Absences - Business-Type Funds	5,697.40	20,281.09	(5,697.40)	20,281.09	20,281.09
Total Business - Type Activities	<u>\$ 15,089.05</u>	<u>\$ 20,281.09</u>	<u>\$ (15,089.05)</u>	<u>\$ 20,281.09</u>	<u>\$ 20,281.09</u>

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

Governmental Activities:

Flynn Note:

This note was obtained to purchase property for economic development purposes.

Repayment of this note will be over five years with annual installments of \$178,092.91, at a rate of 1%. Payments from Liquor, Lodging and Dining Fund.

\$ 526,046.50

TIF Loan - River Valley Project:

Pay-as-you-go financing due Developer for costs incurred for the TIF Development District Number 2. Repayment of the PAYG Note will be over the life of the TIF District, not to exceed 20 years, at a rate not to exceed 8.00%. Payments from the River Valley Tax Increment Financing District Debt Service Fund.

633,458.65

Compensated Absences:

Compensated absences of General Government Employees.

51,667.21

SDRS Pension Liability

Pension Liability (See Note 13)

175,812.69

Business-Type Activities:

Compensated Absences:

Water Fund

10,785.61

Sewer Fund

9,495.48

Municipal employees accumulate a limited amount of earned but unused vacation time and sick leave for subsequent use or for payment upon termination, death, or retirement. A liability for the time and related benefits is recorded when incurred in the government-wide and proprietary fund financial statements. The compensated absence liability attributed to the governmental activities will be paid by the General Fund.

Annual requirements to amortize long-term debt, excluding compensated absences, at December 31, 2016 were:

Governmental Activities:		
Year Ending December 31,	<u>Flynn Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 172,855.22	\$ 5,237.69
2018	174,583.78	3,509.13
2019	<u>178,607.50</u>	<u>1,763.31</u>
TOTAL	<u>\$ 526,046.50</u>	<u>\$ 10,510.13</u>

8. Operating Leases

The Municipality is obligated under a lease accounted for as an operating lease. The leases are for a postage machine and a copy machine. Operating leases do not give rise to property rights or lease obligation. Payments of \$215.04 and \$576.69, respectively, are made monthly from the General Fund.

The following are the minimum payments on the existing operating leases:

Postage Meters		Copiers	
<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2017	\$ 860.16	2017	\$ 4,056.18
2018	860.16	2018	<u>2,849.93</u>
2019	860.16	TOTAL	<u>\$ 6,906.11</u>
2020	860.16		
TOTAL	<u>\$ 3,440.64</u>		

9. Individual Fund Interfund Receivable and Payable Balances

Interfund receivable and payable balances at December 31, 2016 were:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 1,349.12	\$
911 Emergency		<u>1,349.12</u>
Total	<u>\$ 1,349.12</u>	<u>\$ 1,349.12</u>

The General Fund loaned money for funding temporary cash shortages. The Municipality plans to fund these cash shortages with a resolution to transfer by December 31, 2017.

10. Restricted Net Position

Restricted net position for the year ended December 31, 2016 was as follows:

<u>Major Purposes</u>	
Cumulative Reserve - SDPAA	\$ 26,627.71
Economic Development and Promotion	740,992.26
SDRS Pension Purposes	209,689.06
Public Safety Purposes	<u>4,775.39</u>
Total Restricted Net Position	<u>\$ 982,084.42</u>

These balances are restricted due to statutory requirements.

11. Notes Receivable

The Municipality participates in the Economic Development Program whereby the city received a community development grant, which was loaned to new enterprises located within the city. Amounts received from repayment of debts are set-aside in a special revenue fund and are reserved for future loans. Receivables related to the Economic Development Program at December 31, 2016 were as follows:

On March 1, 2000 the municipality loaned \$150,000 to the North Sioux City Housing and Redevelopment Commission (NSCHRC) at 0% interest per annum. The loan was made from the General Fund and is to be repaid over twenty-five years with annual payments of \$6,000 beginning March 2001. The amount receivable at December 31, 2016 was \$54,000. The Commission is a component unit of the City and this note receivable qualifies as a related party transaction.

Union County has agreed to pay North Sioux City a total of \$550,000 for the city to take over responsibility of maintaining Northshore Drive. A payment of \$200,000 was initially made and \$50,000 payments will be made annually. This note is due to be paid in full in October 2023. Balance of this note was \$350,000 as of December 31, 2016.

The annual amounts to be received on the notes receivable are as follows:

<u>Year</u>	<u>NSC HRC</u>	<u>Union County</u>	<u>Total</u>
2017	\$ 6,000.00	\$ 50,000.00	\$ 56,000.00
2018	6,000.00	50,000.00	56,000.00
2019	6,000.00	50,000.00	56,000.00
2020	6,000.00	50,000.00	56,000.00
2021-2025	<u>30,000.00</u>	<u>150,000.00</u>	<u>180,000.00</u>
Total	<u>\$ 54,000.00</u>	<u>\$ 350,000.00</u>	<u>\$ 404,000.00</u>

12. 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 City's share of contributions to the SDRS for the fiscal years ended December 31, 2016, 2015, and 2014 were \$62,952.17, \$54,160.45, and \$52,449.00, 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, 2016, SDRS is 96.89% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the Municipality as of this measurement period and reported by the Municipality as of December 31, 2016 are as follows:

Proportionate share of pension liability	\$ 5,647,848.94
Less proportionate share of net pension restricted for pension benefits	<u>5,472,036.25</u>
Proportionate share of net pension liability (asset)	<u>\$ 175,812.69</u>

At December 31, 2016, the City reported a liability (asset) of \$175,812.69 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2016 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the City's proportion was 0.05204790%, which is a decrease of 0.0028398% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense (reduction of pension expense) of \$56,479.24. At December 31, 2016 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	\$ 61,204.30	\$
Changes in assumption	105,303.47	
Net difference between projected and actual earnings on pension plan investments	195,563.14	
Changes in proportion and difference between Municipality contributions and proportionate share of contributions	2,206.58	10,531.23
Municipality contributions subsequent to the measurement date	<u>31,755.50</u>	
TOTAL	<u>\$ 396,032.99</u>	<u>\$ 10,531.23</u>

\$31,755.50 reported as deferred outflow of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended December 31:

2017	\$ 97,698.43
2018	59,097.74
2019	123,830.66
2020	<u>81,444.07</u>
TOTAL	<u>\$ 362,070.90</u>

Actuarial Assumptions:

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

Inflation	3.25 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 2017 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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by 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, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2017 and 7.50% 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 2017 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% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$ 983,845.49	\$ 175,812.69	\$ (483,224.83)

Pension Plan Fiduciary Net Position:

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

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 year ended December 31, 2016, the Municipality managed its risks as follows:

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for torts, thefts, errors and omissions, automobile and general liability.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverage will be provided up 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 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

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, 2016, the City has a vested balance in the cumulative reserve fund of \$26,627.71.

The City carries a \$100 deductible for the automobile comprehensive coverage and \$250 deductible for the automobile collision coverage, \$500 deductible for official's liability and \$2,000 for Law Enforcement liabilities.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Worker's Compensation:

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

claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended December 31, 2016 no claims was filed for unemployment benefits. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

14. Significant Contingencies-Litigation

At December 31, 2016, the City was not involved in any litigation.

15. Interfund Transfers

Interfund transfers for the year ended December 31, 2016 were as follows:

<u>Transfers To:</u>	<u>Transfers From:</u>
	General Fund
Major Funds:	
Liquor/Lodging Sales Tax	\$ 460,643.48
Westhore Drive Capital Project	2,677,244.03
Nonmajor Funds:	
Other Governmental	144,791.17
Enterprise Funds:	
Water Fund	309,775.73
	<u>\$ 3,592,454.41</u>

The City typically budgets transfers of money to cover temporary cash shortages and to also transfer budgeted funds for a Capital Project Fund.

**REQUIRED SUPPLEMENTARY INFORMATION
CITY OF NORTH SIOUX CITY
BUDGETARY BASIS COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Property Taxes	\$ 473,826.83	\$ 473,826.83	\$ 468,295.28	\$ (5,531.55)
General Sales and Use Taxes	1,640,288.43	1,640,288.43	1,871,433.69	231,145.26
Licenses and Permits	79,850.00	79,850.00	104,178.60	24,328.60
Intergovernmental Revenue:				
State Grants			4,003.93	4,003.93
State Shared Revenue:				
Bank Franchise Tax	3,000.00	3,000.00	6,757.93	3,757.93
Liquor Tax Reversion	9,000.00	9,000.00	20,556.46	11,556.46
Motor Vehicle Licenses (5%)	23,000.00	23,000.00	38,909.10	15,909.10
Local Government Highway and Bridge Fund	50,500.00	50,500.00	74,801.01	24,301.01
County Shared Revenue:				
County Wheel Tax	8,000.00	8,000.00	10,334.72	2,334.72
Charge for Services:				
General Government	18,500.00	18,500.00	493.43	(18,006.57)
Sanitation	1,700.00	1,700.00	1,930.00	230.00
Health			20.00	20.00
Culture and Recreation			1,235.00	1,235.00
Fines and Forfeits:				
Court Fines and Costs	3,500.00	3,500.00	5,997.68	2,497.68
Library	13,500.00	13,500.00	12,535.96	(964.04)
Other			9,658.26	9,658.26
Miscellaneous Revenue:				
Investment Earnings	15,000.00	15,000.00	26,540.11	11,540.11
Rentals	111,660.00	111,660.00	110,538.85	(1,121.15)
Contribution and Donations			18,027.78	18,027.78
Other	23,000.00	23,000.00	252,840.69	229,840.69
Total Revenue	<u>2,474,325.26</u>	<u>2,474,325.26</u>	<u>3,039,088.48</u>	<u>564,763.22</u>
Expenditures:				
General Government:				
Legislative	198,689.14	198,689.14	158,956.41	39,732.73
Elections	5,000.00	5,000.00	2,251.43	2,748.57
Financial Administration	281,357.04	281,357.04	281,357.04	
Other	88,367.24	118,367.24	64,088.87	54,278.37
Total General Government	<u>573,413.42</u>	<u>603,413.42</u>	<u>506,653.75</u>	<u>96,759.67</u>
Public Safety:				
Police	707,355.14	847,355.14	812,431.56	34,923.58
Civil Defense	2,870.00	2,870.00	638.60	2,231.40
Total Public Safety	<u>710,225.14</u>	<u>850,225.14</u>	<u>813,070.16</u>	<u>37,154.98</u>

**REQUIRED SUPPLEMENTARY INFORMATION
CITY OF NORTH SIOUX CITY
BUDGETARY BASIS COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Public Works:				
Highways, Streets and Dikes	3,518,140.27	3,518,140.27	666,616.94	2,851,523.33
Cemeteries	<u>6,350.00</u>	<u>6,350.00</u>	<u>2,787.77</u>	<u>3,562.23</u>
Total Public Works	<u>3,524,490.27</u>	<u>3,524,490.27</u>	<u>669,404.71</u>	<u>2,855,085.56</u>
Health and Welfare:				
Health	15,469.50	15,469.50	15,469.50	
Senior Center	<u>44,832.56</u>	<u>44,832.56</u>	<u>1,050.00</u>	<u>43,782.56</u>
Total Health and Welfare	<u>60,302.06</u>	<u>60,302.06</u>	<u>16,519.50</u>	<u>43,782.56</u>
Culture and Recreation:				
Recreation	59,890.00	59,890.00	59,890.00	
Parks	110,163.88	110,163.88	87,070.24	23,093.64
Libraries	169,497.12	169,497.12	167,094.98	2,402.14
Community Center	<u>103,700.00</u>	<u>117,700.00</u>	<u>40,045.49</u>	<u>77,654.51</u>
Total Culture and Recreation	<u>443,251.00</u>	<u>457,251.00</u>	<u>354,100.71</u>	<u>103,150.29</u>
Conservation and Development:				
Economic Development and Assistance	5,000.00	125,000.00	123,087.86	1,912.14
Economic Opportunity	<u>33,679.00</u>	<u>33,679.00</u>	<u>33,679.00</u>	
Total Conservation and Development	<u>38,679.00</u>	<u>158,679.00</u>	<u>156,766.86</u>	<u>1,912.14</u>
Contingency	<u>100,000.00</u>	<u>100,000.00</u>		<u>100,000.00</u>
Total Expenditures	<u>5,450,360.89</u>	<u>5,754,360.89</u>	<u>2,516,515.69</u>	<u>3,237,845.20</u>
Excess of Revenue Over (Under) Expenditures	(2,976,035.63)	(3,280,035.63)	522,572.79	3,802,608.42
Other Financing Sources (Uses):				
Sale of Municipal Property	25,000.00	25,000.00	100,000.00	75,000.00
Transfers Out	<u>(915,210.38)</u>	<u>(915,210.38)</u>	<u>(3,592,454.41)</u>	<u>(2,677,244.03)</u>
Total Other Financing Sources (Uses)	<u>(890,210.38)</u>	<u>(890,210.38)</u>	<u>(3,492,454.41)</u>	<u>(2,602,244.03)</u>
Net Change in Fund Balances	(3,866,246.01)	(4,170,246.01)	(2,969,881.62)	1,200,364.39
Fund Balance - Beginning	<u>5,841,536.02</u>	<u>5,841,536.02</u>	<u>5,841,536.02</u>	
FUND BALANCE - ENDING	<u>\$ 1,975,290.01</u>	<u>\$ 1,671,290.01</u>	<u>\$ 2,871,654.40</u>	<u>\$ 1,200,364.39</u>

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF NORTH SIOUX CITY
BUDGETARY BASIS COMPARISON SCHEDULE
SPECIAL REVENUE FUND - ADDITIONAL SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Taxes:				
General Sales and Use Taxes	\$ 359,339.58	\$ 359,339.58	\$ 467,858.46	\$ 108,518.88
Miscellaneous Revenue:				
Investment Earnings	6,000.00	6,000.00	5,424.58	(575.42)
Contributions and Donations	<u>50,000.00</u>	<u>50,000.00</u>	<u>24,668.84</u>	<u>(25,331.16)</u>
Total Revenue	<u>415,339.58</u>	<u>415,339.58</u>	<u>497,951.88</u>	<u>82,612.30</u>
Excess of Revenue Over (Under)				
Expenditures	<u>415,339.58</u>	<u>415,339.58</u>	<u>497,951.88</u>	<u>82,612.30</u>
Net Change in Fund Balances	415,339.58	415,339.58	497,951.88	82,612.30
Fund Balance - Beginning	<u>1,610,672.49</u>	<u>1,610,672.49</u>	<u>1,610,672.49</u>	<u> </u>
FUND BALANCE - ENDING	<u><u>\$2,026,012.07</u></u>	<u><u>\$2,026,012.07</u></u>	<u><u>\$2,108,624.37</u></u>	<u><u>\$ 82,612.30</u></u>

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF NORTH SIOUX CITY
BUDGETARY BASIS COMPARISON SCHEDULE
SPECIAL REVENUE FUND - LIQUOR, LODGING, AND DINING SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Positive</u> <u>(Negative)</u>
Revenues:				
Taxes:				
General Sales and Use Taxes	\$ 97,411.33	\$ 97,411.33	\$ 137,572.86	\$ 40,161.53
Miscellaneous Revenue:				
Investment Earnings	3,900.00	3,900.00	2,394.70	(1,505.30)
Other		178,092.91	353,908.32	175,815.41
Total Revenue	<u>101,311.33</u>	<u>101,311.33</u>	<u>493,875.88</u>	<u>214,471.64</u>
Expenditures:				
Conservation and Development:				
Economic Development and Assistance	117,677.00	117,677.00	117,677.00	
Economic Opportunity	80,000.00	80,000.00	45,698.38	34,301.62
Debt Services		178,092.91	178,092.91	
Total Expenditures	<u>197,677.00</u>	<u>197,677.00</u>	<u>341,468.29</u>	<u>34,301.62</u>
Excess of Revenue Over (Under) Expenditures	<u>(96,365.67)</u>	<u>(96,365.67)</u>	<u>152,407.59</u>	<u>248,773.26</u>
Other Financing Sources (Uses):				
Transfer In			460,643.48	460,643.48
Total Other Financing Sources (Uses)			<u>460,643.48</u>	<u>460,643.48</u>
Net Change in Fund Balances	(96,365.67)	(96,365.67)	613,051.07	709,416.74
Fund Balance - Beginning	<u>(15,664.90)</u>	<u>(15,664.90)</u>	<u>(15,664.90)</u>	
FUND BALANCE - ENDING	<u>\$ (112,030.57)</u>	<u>\$ (112,030.57)</u>	<u>\$ 597,386.17</u>	<u>\$ 709,416.74</u>

Schedule of Required Supplementary Information

**CITY OF NORTH SIOUX CITY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(ASSET)**

South Dakota Retirement System

	2014	2015	2016
City's proportion of the net pension liability (asset)	0.0501703%	0.0492081%	0.0520479%
City's proportionate share of net pension liability (asset)	\$ (361,456)	\$ (208,706)	\$ 175,813
City's covered-employee payroll	\$ 750,752	\$ 799,419	\$ 846,366
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-48.15%	-26.11%	20.77%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%	104.1%	96.9%

* 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 of the previous fiscal year

Schedule of Required Supplementary Information

**CITY OF NORTH SIOUX CITY
SCHEDULE OF THE CITY'S CONTRIBUTIONS
South Dakota Retirement System**

	<u>2015</u>	<u>2016</u>
Contractually required contribution	<u>\$ 54,160</u>	<u>\$ 62,952</u>
Contributions in relation to the contractually required contribution	<u>\$ 54,160</u>	<u>\$ 62,952</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
City's covered-employee payroll	\$ 799,419	\$ 923,335
Contributions as a percentage of covered-employee payroll	6.77%	6.82%

MUNICIPALITY OF NORTH SIOUX CITY
NOTES TO 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 City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board/Municipal Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board/Municipal 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 percent of the total municipal budget and may be transferred by the resolution of the Governing Board/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. Unexpected appropriations lapse at year end unless encumbered by the resolution of the Governing Board/ Municipal Commission.

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

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and each major special revenue fund.
7. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with 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 Revenues, 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.

**CITY OF NORTH SIOUX CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	<u>Special Revenue</u>		<u>Debt Service</u>	
	Grant Revolving Fund	911 Emergency Fund	River Valley Tax Increment Financing District	Total Nonmajor Governmental Funds
<u>ASSETS:</u>				
Cash and Cash Equivalents	\$ 143,606.09	\$	\$ 4,959.80	\$ 148,565.89
Accounts Receivable		6,124.51		6,124.51
TOTAL ASSETS	\$ 143,606.09	\$ 6,124.51	\$ 4,959.80	\$ 154,690.40
<u>LIABILITIES AND FUND BALANCES:</u>				
Liabilities:				
Accounts Payable	\$	\$	\$ 8,692.56	\$ 8,692.56
Due to General Fund		1,349.12		1,349.12
Total Liabilities		1,349.12	8,692.56	10,041.68
Fund Balances:				
Restricted:				
Economic Development and Promotion	56,076.75			56,076.75
Grant Revolving Loan	87,529.34			87,529.34
Community Services		4,775.39		4,775.39
Unassigned			(3,732.76)	(3,732.76)
Total Fund Balances	143,606.09	4,775.39	(3,732.76)	144,648.72
TOTAL LIABILITIES AND FUND BALANCES	\$ 143,606.09	\$ 6,124.51	\$ 4,959.80	\$ 154,690.40

CITY OF NORTH SIOUX CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Special Revenue</u>		<u>Debt Service</u>	
	Grant Revolving Fund	911 Emergency Fund	River Valley Tax Increment Financing District	Total Nonmajor Governmental Funds
<u>Revenues:</u>				
Taxes:				
General Property Taxes	\$	\$	\$ 29,125.86	\$ 29,125.86
911 Telephone Surcharge		47,253.30		47,253.30
Miscellaneous Revenue:				
Investment Earnings	<u>921.50</u>			<u>921.50</u>
Total Revenue	<u>921.50</u>	<u>47,253.30</u>	<u>29,125.86</u>	<u>77,300.66</u>
<u>Expenditures:</u>				
Public Safety:				
Police		70,424.34		70,424.34
Debt Service			57,652.36	57,652.36
Total Expenditures		<u>70,424.34</u>	<u>57,652.36</u>	<u>128,076.70</u>
Excess of Revenue Over (Under)				
Expenditures	921.50	(23,171.04)	(28,526.50)	(50,776.04)
<u>Other Financing Sources (Uses):</u>				
Transfer In	<u>29,306.58</u>	<u>115,484.59</u>		<u>144,791.17</u>
Total Other Financing Sources (Uses)	<u>29,306.58</u>	<u>115,484.59</u>		<u>144,791.17</u>
Net Change in Fund Balances	30,228.08	92,313.55	(28,526.50)	94,015.13
Fund Balance - Beginning	<u>113,378.01</u>	<u>(87,538.16)</u>	<u>24,793.74</u>	<u>50,633.59</u>
Fund Balance - Ending	<u>\$ 143,606.09</u>	<u>\$ 4,775.39</u>	<u>\$ (3,732.76)</u>	<u>\$ 144,648.72</u>

QUAM, BERGLIN & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

(605) 356-3374

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

City Council
City of North Sioux City
Union County, 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 City of North Sioux City, South Dakota, as of December 31, 2016 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City of North Sioux City's basic financial statements and have issued our report thereon dated October 5, 2017. A disclaimer of opinion was issued on the aggregate discretely presented component units because the financial data of these components units was not audited.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of North Sioux 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 of North Sioux City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of North Sioux City'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 Prior and Current Audit Findings, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Prior and Current Audit Findings as item 2016-001 to be a material weakness.

Compliance and Other Matters

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

North Sioux City's Response to Findings

The City of North Sioux City's responses to the findings identified in our audit are described in the accompanying Schedule of Prior and Current Audit Findings. The City of North Sioux 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 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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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.



Quam, Berglin and Post, P.C.
Certified Public Accountants
Elk Point, SD

October 5, 2017

**CITY OF NORTH SIOUX CITY
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2016**

STATUS OF PRIOR AUDIT RECOMMENDATIONS:

The prior audit recommendation 2015-001 has not been corrected and is restated as Current Audit Finding Number 2016-001.

The prior audit recommendation 2015-002 has since been corrected.

CURRENT AUDIT FINDINGS:

Internal Control Related Finding – Material Weakness:

Audit Finding Number 2016-001:

The City of North Sioux City does not have an adequate segregation of duties for revenues, resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

Criteria:

In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to revenues. Lack of this segregation of duties could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with management assertions.

Condition Found:

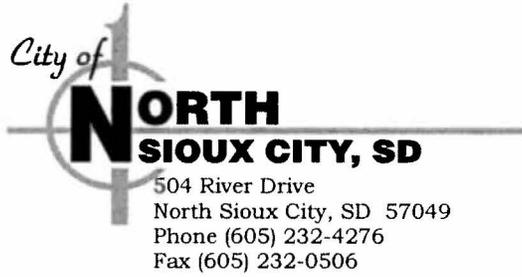
A material weakness in internal controls was reported due to a lack of adequate segregation of duties for revenues resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

Recommendation:

We recommend that the City officials be cognizant of this lack of segregation of duties and attempt to provide compensating controls whenever and wherever possible and practical.

Corrective Action Plan:

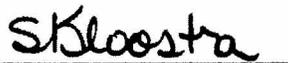
Susan Kloostra, Finance Officer for the City of North Sioux City, is the contact person responsible for the corrective action plan for these comments. The City Council has prepared responses to the findings, which are on page 60.



CORRECTIVE PLAN OF ACTION
December 31, 2016

The City of North Sioux City has considered the lack of segregation of duties for revenues. At this time, it is not cost efficient for the City of North Sioux City to hire the additional staff needed to achieve segregation of duties. Alternate procedures have been implemented by the City of North Sioux City to decrease the likelihood that financial data is adversely affected. The City will continue to monitor the necessity to have segregation of duties for revenues and implement such segregation as budget dollars and board authority allows.


Randy Fredericksen
Mayor


Susan Kloostra
Finance Officer