

**CITY OF GETTYSBURG
GETTYSBURG, SOUTH DAKOTA
AUDIT REPORT
FOR THE YEAR THEN ENDED
DECEMBER 31, 2017**

CITY OF GETTYSBURG
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CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANT

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

Governing Board
City of Gettysburg
Gettysburg, 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 modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gettysburg (City), South Dakota, as of December 31, 2017 and for the year then ended and the related notes to the financial statements, which collectively comprises the City's basic financial statements and have issued our report thereon dated September 27, 2019.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items 2017-001, 2017-002, 2017-003, 2017-004, 2017-005, and 2017-006 to be material weaknesses.

Jason W. Bauer, CPA, CGMA, PFS • bauer@cahillbauer.com

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Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Caillie Bowen

Mobridge, South Dakota
September 27, 2019

**CITY OF GETTYSBURG
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2017**

PRIOR AUDIT FINDINGS

Finding 2016-001

A lack of proper segregation of duties existed for the duties for cash, equity, revenue, expenditures and the payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This finding has not been corrected and is restated as current audit finding 2017-001.

Finding 2016-002

The City does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. This finding has not been corrected and is restated as current audit finding 2017-002.

Finding 2016-003

The City lacks a system of internal control structure to provided for the recording of all necessary material adjustments. This finding has not been corrected and is restated as current audit finding 2017-003.

Finding 2016-004

The City did not properly bid out storm sewer culverts that were purchased, road resurfacing materials, and a sewer relining project, all of which were required to be bid. This finding has been corrected in the current year.

CURRENT AUDIT FINDINGS:

Internal Control-Related Findings - Material Weaknesses:

Finding 2017-001:

Criteria:

To obtain adequate internal control over cash management, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process.

**CITY OF GETTYSBURG
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2017**

Condition Found:

A lack of proper segregation of duties existed for the duties for cash, equity, revenue, expenditures and the payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This lack of segregation of duties has a direct effect on the cash management of the City.

Cause/Effect:

The City of Gettysburg, has a limited number of employees who prepare all records for cash, revenues, equity, expenditures and payroll. This lack of segregation of duties could result in inaccurate financial statement and/or misappropriations of funds.

Recommendation:

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

Identification of Repeat Finding:

This is the second consecutive audit report in which this finding has appeared.

Views of Responsible Officials and Planned Corrective Action:

The City of Gettysburg agrees with this finding and is willing to accept the risk. The City is continuing its work on correcting this deficiency and implementing compensating controls where possible and practical.

Finding 2017-002:

Criteria:

An organization's internal control structure should provide for the preparation of financial statements in accordance with other comprehensive basis of accounting - modified cash basis.

Condition Found:

The City does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements.

**CITY OF GETTYSBURG
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2017**

Cause/Effect:

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

Recommendation:

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Identification of Repeat Finding:

This is the second consecutive audit report in which this finding has appeared.

Views of Responsible Officials and Planned Corrective Action:

The City's finance officer, Sheila Schatz, is the contact person responsible for the corrective action plan for this comment. The City is continuing its work on correcting this deficiency.

Finding 2017-003:

Criteria:

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with other comprehensive basis of accounting - modified cash basis.

Condition Found:

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Cause/Effect:

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

**CITY OF GETTYSBURG
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2017**

Recommendation:

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of the cost of other considerations.

Identification of Repeat Finding:

This is the second consecutive audit report in which this finding has appeared.

Views of Responsible Officials and Planned Corrective Action:

The City's finance officer, Sheila Schatz, is the contact person responsible for the corrective action plan for this comment. The City is continuing its work on correcting this deficiency.

Finding 2017-004:

Criteria:

Fixed asset records should include comprehensive lists of all land, buildings, improvements and equipment that have a cost greater than the City's capitalization policy. The City's lists of such assets were found to be incomplete and lacking in supporting documentation.

Condition Found:

Fixed asset records were inadequate.

Cause/Effect:

Capital asset records did not contain adequate documentation to support the cost of capital assets, which could lead to misappropriation of assets.

Recommendation:

The City should conduct a comprehensive physical inventory of all fixed assets and update the subsidiary records accordingly. Costs (or estimated costs) of the assets should be properly documented.

Identification of Repeat Finding:

This is not a repeat finding.

**CITY OF GETTYSBURG
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2017**

Views of Responsible Officials and Planned Corrective Action:

The City agrees with the finding and will work on updating their records. The City's finance officer, Sheila Schatz, is the contact person responsible for this finding. The City has not set an anticipated completion date.

Finding Number 2017-005:

Criteria:

A City is required to properly calculate payroll taxes based on the appropriate compensation as defined by law.

Condition Found:

The City did not properly calculate payroll tax deductions on an employee's check throughout the year.

Cause/Effect:

The City does not have an internal control system in place to identify deficiencies in its payroll process that could lead to errors and/or miscalculations.

Recommendation:

The City should implement a review process for payroll that can identify errors and/or miscalculations in payroll.

Identification of Repeat Finding:

This is not a repeat finding.

Views of Responsible Officials and Planned Corrective Action:

The City's finance officer, Sheila Schatz, is the contact person responsible for the corrective action plan for this comment. The City has corrected this finding.

**CITY OF GETTYSBURG
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2017**

Finding Number 2017-006:

Criteria:

A City is required by SDCL 13-18-3 to document each check or warrant with an itemized invoice that is verified by an appropriate city official and filed in the finance officer's office.

Condition Found:

The City did not properly document three checks issued with an itemized invoice that was properly verified and filed in the business manager's office.

Cause/Effect:

The City Council has not properly monitored appropriations as required; therefore, a breakdown of internal control exists within the organization.

Recommendation:

The City Council should monitor appropriations and not approve payment until proper documentation is presented.

Identification of Repeat Finding:

This is not a repeat finding.

Views of Responsible Officials and Planned Corrective Action:

The City's finance officer is the contact person responsible for the corrective action plan for this comment. The City Council will monitor this condition in the future and ensure all documentation has been maintained.

Closing Conference

The contents of this report were discussed with Sheila Schatz, Finance Officer, on July 18, 2019.



CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANT

INDEPENDENT AUDITORS' REPORT

City Council
City of Gettysburg
Gettysburg, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gettysburg, South Dakota, as of December 31, 2017, and for the year then ended, and the related notes to the financial statements, which collectively comprises the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, we do not express such an 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.

Jason W. Bauer, CPA, CGMA, PFS • bauer@cahillbauer.com

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P.O. Box 669 • Mobridge, SD 57601-0669 • Fax (605) 845-2517 • Phone (605) 845-2927 • Toll Free 1-800-244-843

MEMBERS: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Opinions

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

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City's basic financial statements. The Budgetary Comparison Schedule, the Schedule of Long-Term Debt, and the Schedule of the City's Proportionate Share of the Net Pension Asset listed in the Table of Contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2019 on our consideration of the 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's internal control over financial reporting and compliance.

Caillie Bower

Mobridge, South Dakota
September 27, 2019

CITY OF GETTYSBURG
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 1,252,077	\$ 390,462	\$ 1,642,539
Investments	537,340	211,842	749,182
Restricted Assets			
Cash and cash equivalents	-	23,786	23,786
TOTAL ASSETS	1,789,417	626,090	2,415,507
NET POSITION:			
Restricted for			
Debt service purposes	-	8,930	8,930
Gross receipt tax purposes	3,980	-	3,980
Customer deposits	-	14,856	14,856
Unrestricted	1,785,437	602,304	2,387,741
TOTAL NET POSITION	\$ 1,789,417	\$ 626,090	\$ 2,415,507

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

**CITY OF GETTYSBURG
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government		
					Business-Type Activities	Total	
Primary government							
Governmental activities							
General government	\$ 123,469	\$ 27,709	\$ -	\$ (95,760)	\$ -	\$ -	(95,760)
Public safety	141,969	20	-	(141,949)	-	-	(141,949)
Public works	931,926	103,909	79,603	(748,414)	-	-	(748,414)
Health and welfare	51,938	76,970	-	25,032	-	-	25,032
Culture and recreation	152,684	12,175	-	(140,509)	-	-	(140,509)
Conservation and development	44,972	-	-	(44,972)	-	-	(44,972)
*Interest on long-term debt	569	-	-	(569)	-	-	(569)
Total governmental activities	1,447,527	220,783	79,603	(1,147,141)	-	-	(1,147,141)
Business-type activities							
Water	284,277	298,374	-	-	14,097	-	14,097
Sewer	116,274	144,312	-	-	28,038	-	28,038
Total business-type activities	400,551	442,686	-	-	42,135	-	42,135
Total primary government	\$ 1,848,078	\$ 663,469	\$ 79,603	\$ (1,147,141)	\$ 42,135	\$ -	(1,105,006)
General Revenues							
Taxes							
Property taxes				604,276	-	-	604,276
Sales tax				517,951	-	-	517,951
State shared revenue				21,605	-	-	21,605
Unrestricted investment earnings				4,313	282	-	4,595
Miscellaneous revenue				14,303	-	-	14,303
Total general revenues				1,162,948	282	-	1,163,230
Change in net position				15,807	42,417	-	58,224
Net position - beginning				1,773,610	583,673	-	2,357,283
Net position - ending				\$ 1,789,417	\$ 626,090	\$ -	2,415,507

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

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

**CITY OF GETTYSBURG
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,248,097	\$ 3,980	\$ 1,252,077
Investments	537,340	-	537,340
TOTAL ASSETS	1,785,437	3,980	1,789,417
FUND BALANCES			
Restricted	-	3,980	3,980
Assigned	125,128	-	125,128
Unassigned	1,660,309	-	1,660,309
TOTAL FUND BALANCES	\$ 1,785,437	\$ 3,980	\$ 1,789,417

CITY OF GETTYSBURG
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Primary Government		
	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes			
General property taxes	\$ 601,918	\$ -	\$ 601,918
General sales and use taxes	491,583	26,368	517,951
Amusement taxes	288	-	288
Penalties and interest on delinquent taxes	2,070	-	2,070
Licenses and permits	10,095	-	10,095
State shared revenue			
Bank franchise tax	14,391	-	14,391
Liquor tax reversion	7,214	-	7,214
Motor vehicle licenses (5%)	27,086	-	27,086
Local government highway and bridge fund	52,517	-	52,517
Charges for goods and services			
Highways and streets	1,480	-	1,480
Sanitation	102,429	-	102,429
Health	290	-	290
Culture and recreation	12,175	-	12,175
Ambulance	76,680	-	76,680
Fines and forfeits			
Court fines and costs	20	-	20
Miscellaneous revenue			
Investment earnings	4,313	-	4,313
Rentals	17,614	-	17,614
Contributions and donations from private sources	500	-	500
Other	11,446	-	11,446
Total Revenues	\$ 1,434,109	\$ 26,368	\$ 1,460,477

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

CITY OF GETTYSBURG
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Primary Government		
	General Fund	Other Governmental Funds	Total Governmental Funds
EXPENDITURES			
General government			
Executive	\$ 22,130	\$ -	\$ 22,130
Financial administration	101,339	-	101,339
Public safety			
Police	127,107	-	127,107
Fire	14,862	-	14,862
Public works			
Highways and streets	813,890	-	813,890
Sanitation	91,020	-	91,020
Airport	9,522	-	9,522
Health and welfare			
Health	525	-	525
Ambulance	51,413	-	51,413
Culture and recreation			
Recreation	64,592	-	64,592
Parks	77,830	-	77,830
Auditorium	10,262	-	10,262
Conservation and development			
Economic development and assistance (Industrial development)	20,000	24,972	44,972
Debt service	18,063	-	18,063
Total expenditures	<u>1,422,555</u>	<u>24,972</u>	<u>1,447,527</u>
Excess of revenue over (under) expenditures	11,554	1,396	12,950
Sale of municipal property	2,857	-	2,857
Total other financing sources	<u>2,857</u>	<u>-</u>	<u>2,857</u>
Net change in fund balances	14,411	1,396	15,807
Fund balance - beginning	<u>1,771,026</u>	<u>2,584</u>	<u>1,773,610</u>
Fund Balance - Ending	<u>\$ 1,785,437</u>	<u>\$ 3,980</u>	<u>\$ 1,789,417</u>

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

CITY OF GETTYSBURG
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2017

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current assets			
Cash and cash equivalents	\$ 62,069	\$ 328,393	\$ 390,462
Investments	211,842	-	211,842
Restricted cash	14,856	8,930	23,786
TOTAL ASSETS	288,767	337,323	626,090
NET POSITION			
Restricted for			
Revenue bond contingency	-	8,930	8,930
Customer deposits	14,856	-	14,856
Unrestricted	273,911	328,393	602,304
TOTAL NET POSITION	\$ 288,767	\$ 337,323	\$ 626,090

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

CITY OF GETTYSBURG
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
OPERATING REVENUE			
Charges for goods and services	\$ 298,374	\$ 144,312	\$ 442,686
Total operating revenue	<u>298,374</u>	<u>144,312</u>	<u>442,686</u>
OPERATING EXPENSES			
Personal services	74,476	29,700	104,176
Other current expense	40,351	50,854	91,205
Materials	169,450	-	169,450
Total operating expenses	<u>284,277</u>	<u>80,554</u>	<u>364,831</u>
Operating income	<u>14,097</u>	<u>63,758</u>	<u>77,855</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	282	-	282
Debt service (principal)	-	(23,420)	(23,420)
Interest expense and fiscal charges	-	(12,300)	(12,300)
Total nonoperating revenues (expenses)	<u>282</u>	<u>(35,720)</u>	<u>(35,438)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEMS, EXTRAORDINARY ITEMS AND TRANSFERS	<u>14,379</u>	<u>28,038</u>	<u>42,417</u>
CHANGE IN NET POSITION	14,379	28,038	42,417
NET POSITION - BEGINNING	<u>274,388</u>	<u>309,285</u>	<u>583,673</u>
NET POSITION - ENDING	<u>\$ 288,767</u>	<u>\$ 337,323</u>	<u>\$ 626,090</u>

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

**CITY OF GETTYSBURG
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 298,374	\$ 144,312	\$ 442,686
Payments to employees for services	(74,476)	(29,700)	(104,176)
Payments to suppliers of goods and services	(209,801)	(50,854)	(260,655)
Net cash provided by operating activities	<u>14,097</u>	<u>63,758</u>	<u>77,855</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	282	-	282
Net cash provided by investing activities	<u>282</u>	<u>-</u>	<u>282</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	14,379	28,038	42,417
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>274,388</u>	<u>309,285</u>	<u>583,673</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 288,767</u>	<u>\$ 337,323</u>	<u>\$ 626,090</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income	\$ 14,097	\$ 63,758	\$ 77,855

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

CITY OF GETTYSBURG
NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(See Independent Auditors' Report)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity

The reporting entity of the City of Gettysburg (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 nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation

Government-wide Financial Statements

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses and 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.

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(See Independent Auditors' Report)

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 two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

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

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

Governmental Funds

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

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

Liquor, Lodging and Dining Gross Receipts Tax Fund - To account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the City (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is not a major fund.

Proprietary Funds

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

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit-even if that government is not expected to make any payments-is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from 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.

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.

The City's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

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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 within the limitations of the modified cash basis of accounting as defined below.

Fund Financial Statements

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

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The acceptable modification to the cash basis of accounting implemented by the City in these financial statements is:

- a. Recording long-term investments (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

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d. Deposits and Investments

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

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

e. Long-Term Liabilities

Long-term liabilities include, but are not limited to Revenue Bonds and Other Long-Term Liabilities. As discussed in Note 1c. above the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The City has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the City. The City does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt. The City has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

f. Program Revenues

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

- 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.

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g. 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 as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

h. 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.

i. Equity Classifications

Government-wide Statements

Equity is classified as Net Position and is displayed in two component:

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

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.

j. Application of Net Positions

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

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k. Fund Balance Classification and Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City 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 or Finance Officer.

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

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

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

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A schedule of fund balances is provided as follows:

City of Gettysburg
 Disclosure of Fund Balances Reported on Balance Sheet
 Governmental Funds
 December 31, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances:			
Restricted For:			
Gross Receipt Tax	\$ -	\$ 3,980	\$ 3,980
Assigned To:			
Applied to Next Years' Budget	125,000	-	125,000
Unemployment	128	-	128
Unassigned	1,660,309	-	1,660,309
Total Fund Balances	\$ 1,785,437	\$ 3,980	\$ 1,789,417

NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT AND INTEREST RATE RISK

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

Deposits - The City'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 City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in 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.

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

The City has the following recurring fair value measurements as of December 31, 2017:

1. Repurchase agreement with the Bank of the West US Treasury Note, Level 1 inputs of the fair value hierarchy, and used the market approach valuation technique

Credit Risk - State law limits eligible investments for the City. The City has no investment policy that would further limit its investment choices.

As of December 31, 2017, the City had the following investments:

Investment	Credit Rating	Maturities	Fair Value
Repurchase Agreement with Bank of the West U.S. Treasury Note	Aaa	\$ 379,527	\$ 379,527
External Investment Pools: SDFIT	Unrated	228,369	228,369
Total Investments		<u>\$ 607,896</u>	<u>\$ 607,896</u>

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

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

Custodial Credit Risk - The risk that, in the even of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2017, none of the City's deposits were exposed to custodial credit risk.

Concentration of Credit Risk - The city places no limit on the amount that may be invested in any one issuer. More than 5 percent of the City's investments are in U.S. Treasury Note (51%), SDFIT (30%), and certificates of deposit (19%).

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

NOTE 3 - PROPERTY TAXES

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

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

NOTE 4- 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 survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 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.

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

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

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

Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25%.

If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will

The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%

If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:

The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% 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. The City's share of contributions to the SDRS for the years ended December 31, 2017, 2016, and 2015 were \$17,978, \$16,450, and \$14,600, respectively, equal to the required contributions each year.

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

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

	Governmental Activities	Business-Type Activities	Total
Proportionate share of total pension liability	\$ 1,319,177	\$ 380,342	\$ 1,699,519
Less proportionate share of net position restricted for pension benefits	(1,320,206)	(380,639)	(1,700,845)
Proportionate share of net pension asset	\$ (1,029)	\$ (297)	\$ (1,326)

At December 31, 2017, the City reported an asset of \$1,326 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017 and the total pension liability used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the City's proportion was 0.01460700%, which is an increase of 0.0014222% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized a reduction of pension expense of \$30,740. At December 31, 2017 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 21,240	\$ -
Changes in assumption	102,925	-
Net difference between projected and actual earnings on pension plan investments	-	25,486
Changes in proportion and difference between City contributions and proportionate share of contributions	551	3,948
City contributions subsequent to the measurement date	8,864	-
Total	\$ 133,580	\$ 29,434

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\$8,864 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ended December 31:	
2018	25,949
2019	43,982
2020	31,927
2021	(6,576)
2022	-
TOTAL	<u>\$ 95,282</u>

Actuarial Assumptions:

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

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.5% at entry to 3%
Discount Rate	6.5% net of plan investment expense

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

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

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

Discount Rate:

The discount rate used to measure the total pension asset was 6.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions 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 asset.

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

The following presents the City's proportionate share of net pension asset calculated using the discount rate of 6.50%, as well as what the City's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 242,783	\$ (1,326)	\$ (200,110)

Pension Plan Fiduciary Net Position:

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

NOTE 5 - RESTRICTED CASH AND INVESTMENTS

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

Amount	Purpose
\$ 14,856	For customer deposits in the Water Fund
\$ 8,930	For debt service by covenants in the Sewer Fund

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NOTE 6 - RESTRICTED NET POSITION

Restricted Net Position for the year ended December 31, 2017, was as follows:

Major Purposes

Gross Receipt Tax Purposes	\$	3,980
Water Fund Customer Deposit Purposes		14,856
Sewer Fund Purposes		8,930
Total Restricted Net Position	\$	27,766

These balances are restricted due to federal grant and statutory requirements.

NOTE 7 - RISK MANAGEMENT

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

Employee Health Insurance

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

Liability Insurance

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

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The agreement with the SDPAA provides that the above coverages will be provided to a \$1,000,000 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 City's First Full Year	50%
End City's First Full Year	60%
End City's First Full Year	70%
End City's First Full Year	80%
End City's First Full Year	90%
End City's First Full Year and Therefater	100%

As of December 31, 2017, the City's balance available to be refunded per the SDPAA was \$25,529, which was the same from the previous year. This amount does not appear in the financial statements because this is a modified cash basis entity.

The City carries a \$0 deductible for the legal liability, automobile liability, property coverage, and boiler and machinery coverage. The City carries a \$2,000 deductible for law enforcement operations liability.

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

The City purchases liability insurance for airport liability from a commercial insurance carrier.

Workmen's Compensation

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a 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 Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

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(See Independent Auditors' Report)

Unemployment Benefits

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

The City has assigned fund balance in the General Fund in the amount of \$128 for the payment of future unemployment benefits.

During the year ended December 31, 2017, no claims for unemployment benefits were paid. At December 31, 2017, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

NOTE 8 - LITIGATION

At December 31, 2017 the City was not involved in any litigation.

NOTE 9 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**CITY OF GETTYSBURG
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (Budgetary Basis)	with Final Budget
REVENUES				
Taxes				
General property tax	\$ 719,565	\$ 719,565	\$ 601,918	\$ (117,647)
General sales and use tax	522,210	522,210	491,583	(30,627)
Amusement taxes	275	275	288	13
Tax deed revenue	1,050	1,050	-	(1,050)
Penalties and interest on delinquent taxes	775	775	2,070	1,295
Licenses and permits	6,630	6,630	10,095	3,465
Intergovernmental revenue				
State shared revenue				
Bank franchise tax	9,270	9,270	14,391	5,121
Liquor tax reversion	9,525	9,525	7,214	(2,311)
Motor vehicle licenses (5%)	26,780	26,780	27,086	306
Local government highway and bridge fund	61,800	61,800	52,517	(9,283)
County shared revenue				
County road tax (25%)	2,575	2,575	-	(2,575)
Charges for goods and services				
Highways and streets	200	200	1,480	1,280
Sanitation	93,690	93,690	102,429	8,739
Health	410	410	290	(120)
Culture and recreation	12,095	12,095	12,175	80
Ambulance	61,800	61,800	76,680	14,880
Fines and forfeits				
Court fines and penalties	-	-	20	20
Miscellaneous revenue				
Investment earnings	5,150	5,150	4,313	(837)
Rentals	16,405	16,405	17,614	1,209
Contributions and donations from private sources	10,300	10,300	500	(9,800)
Other	31,115	31,115	11,446	(19,669)
Total revenue	\$ 1,591,620	\$ 1,591,620	\$ 1,434,109	\$ (157,511)

(Continued on next page)

**CITY OF GETTYSBURG
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
EXPENDITURES				
General government				
Contingency	\$ 33,880	\$ 33,880	\$ -	\$ -
Amount transferred	-	(453)	-	33,427
Executive	27,800	27,800	22,130	5,670
Elections	25	25	-	25
Financial administration	111,241	111,694	101,339	10,355
Public safety				
Police	161,900	161,900	127,107	34,793
Fire	20,250	20,250	14,862	5,388
Public works				
Highways and streets	696,803	835,348	813,890	21,458
Sanitation	92,250	92,250	91,020	1,230
Airport	26,475	26,475	9,522	16,953
Health and welfare				
Health	2,125	2,125	525	1,600
Ambulance	58,750	58,750	51,413	7,337
Culture and recreation				
Recreation	85,850	85,850	64,592	21,258
Parks	90,950	90,950	77,830	13,120
Auditorium	11,850	11,850	10,262	1,588
Conservation and development				
Economic development and assistance (industrial development)	20,000	20,000	20,000	-
Debt Service	-	18,063	18,063	-
Miscellaneous				
Other expenditures	25	25	-	25
Total Expenditures	\$ 1,440,174	\$ 1,596,782	\$ 1,422,555	\$ 174,227

(Continued on next page)

**CITY OF GETTYSBURG
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Excess revenue over/under expenditures	\$ 151,446	\$ (5,162)	\$ 11,554	\$ 16,716
Other financing sources/(uses)				
Sale of municipal property	-	-	2,857	2,857
Total other financing sources (uses)	-	-	2,857	2,857
Net change in fund balances	151,446	(5,162)	14,411	19,573
Fund balance - beginning	1,771,026	1,771,026	1,771,026	-
Fund balance - ending	\$ 1,922,472	\$ 1,765,864	\$ 1,785,437	\$ 19,573

**CITY OF GETTYSBURG
NOTES TO SUPPLEMENTARY INFORMATION
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
FOR THE YEARS ENDED DECEMBER 31, 2017**

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board/City Commission introduces the annual appropriation ordinance for ensuing fiscal year.
2. After adoption by the Governing Board/City Commission, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by 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. Unexpended appropriations lapse at year end unless encumbered by resolution of the Governing Board/City Commission.

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

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

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and major special revenue funds.
7. Budgets for the General Fund are adopted on a basis consistent with the modified cash basis of accounting.

CITY OF GETTYSBURG

NOTES TO SUPPLEMENTARY INFORMATION - Page 2

**SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

**CITY OF GETTYSBURG
SCHEDULE OF CHANGES IN LONG-TERM DEBT
YEAR ENDED DECEMBER 31, 2017**

<u>Indebtedness</u>	<u>Long-Term Debt 01/01/2017</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 12/31/2017</u>
GOVERNMENTAL LONG-TERM DEBT:				
Other Long Term Liabilities	\$ 17,494	\$ -	\$ 17,494	\$ -
ENTERPRISE LONG-TERM DEBT:				
Revenue Bonds	418,745	-	23,420	395,325
TOTAL	<u>\$ 436,239</u>	<u>\$ -</u>	<u>\$ 40,914</u>	<u>\$ 395,325</u>

**CITY OF GETTYSBURG
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY (ASSET)
SOUTH DAKOTA RETIREMENT SYSTEM**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.0146070%	0.0131848%	0.0141935%
City's proportionate share of net pension liability (asset)	\$ (1,326)	\$ 44,537	\$ (60,199)
City's covered-employee payroll	\$ 296,779	\$ 246,070	\$ 257,071
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-0.446797%	18.099321%	-23.417266%
Plan fiduciary net position as a percentage of the total pension liability	100.10%	96.89%	104.10%

*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 previous fiscal year.

**CITY OF GETTYSBURG
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (ASSET)**

Changes of benefit terms:

No changes were made.

Changes of assumptions:

No changes were made.