



Financial Statements
December 31, 2017
City of Lennox

City of Lennox
Municipal Officials (Unaudited)
December 31, 2017

Mayor.....Orville Wiebers

Governing Board.....Billy Welch
Chad Wulf
Greg Poppenga
Brock Rops
Mike Gregg
John Kirchner

Finance OfficerDonna Houck

AttorneyBrett Lovrien

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Independent Auditor's Report

The City Council
City of Lennox
Lennox, South Dakota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Adverse
General Fund	Unmodified
2 nd Penny Sales Tax Fund	Unmodified
3 rd Penny Sales Tax Fund	Unmodified
Storm Drainage Fund	Unmodified
Baseball Fund	Unmodified
Library Fines Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Pool Fund	Unmodified
Ambulance Fund	Unmodified

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

Management has not included the financial data for the legally separate component units in the City’s financial statements. Accounting principles applicable to the City’s modified cash basis of accounting require the financial data for the component unit to be reported with the financial data of the City’s primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, net position, revenues and expenditures of the aggregate discretely presented component unit has not been determined.

Adverse Opinion on the Aggregate Discretely Presented Component Unit

In our opinion, because of the omission of the discretely presented component units, as described in the Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units paragraph, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the aggregate discretely presented component units of the City as of December 31, 2017, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

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

Basis of Accounting

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

Change in Basis of Accounting

As discussed in Note 11 to the financial statements, during 2017 the City changed from an accrual basis of accounting to a modified cash basis of accounting. Accordingly, amounts reported for Government-Wide net position, General Fund, 2nd Penny Sales Tax Fund, 3rd Penny Sales Tax Fund, Storm Drainage Fund, Library Fines Fund, and Baseball Fund fund balance, and Water Fund, Sewer Fund, Pool Fund, and Ambulance Fund net position beginning of the year, have been restated in the 2017 financial statements to account for the change. Our opinions are not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Lennox's financial statements. The listing of municipal officials, budgetary comparison schedules, schedule of net pension liability (asset) and pension contributions, and schedule of changes in notes and bonds payable (the supplementary information) are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary 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. 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. Because of the significance of the matter described in the Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units paragraph, it is inappropriate to and we do not express an opinion on such supplementary information.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Aberdeen, South Dakota
August 30, 2018

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 787,324	\$ 1,102,715	\$ 1,890,039
Restricted assets:			
Cash and cash equivalents restricted for:			
Library	1,105	-	1,105
Due from (to) other funds	163,294	(163,294)	-
	<u>\$ 951,723</u>	<u>\$ 939,421</u>	<u>\$ 1,891,144</u>
Net Position			
Restricted for:			
Debt service	\$ -	\$ 329,004	\$ 329,004
Library	1,105	-	1,105
Pool donors	-	34,448	34,448
Promotion and economic development	77,993	-	77,993
Future projects	95,051	-	95,051
Unrestricted	777,574	575,969	1,353,543
	<u>\$ 951,723</u>	<u>\$ 939,421</u>	<u>\$ 1,891,144</u>

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

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions, and Loan Proceeds	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 331,662	\$ 57,244	\$ -	\$ -	\$ (274,418)	\$ -	\$ (274,418)
Public safety	700,963	8,556	-	1,549	(690,858)	-	(690,858)
Public works	2,412,537	6,938	51,806	221,815	(2,131,978)	-	(2,131,978)
Health and welfare	4,296	2,078	-	-	(2,218)	-	(2,218)
Culture and recreation	263,990	67,836	-	-	(196,154)	-	(196,154)
Conservation and development	124,634	-	-	-	(124,634)	-	(124,634)
Total governmental activities	3,838,082	142,652	51,806	223,364	(3,420,260)	-	(3,420,260)
Business-type activities:							
Water	875,643	538,670	-	425,000	-	88,027	88,027
Sewer	1,103,194	516,683	-	370,432	-	(216,079)	(216,079)
Pool	55,554	12,356	-	-	-	(43,198)	(43,198)
Ambulance	280,377	93,486	-	-	-	(186,891)	(186,891)
Total business-type activities	2,314,768	1,161,195	-	795,432	-	(358,141)	(358,141)
Total primary government	\$ 6,152,850	\$ 1,303,847	\$ 51,806	\$ 1,018,796	(3,420,260)	(358,141)	(3,778,401)
General Revenues							
Taxes:							
Property taxes					916,557	-	916,557
Sales taxes					650,672	-	650,672
State shared revenues					31,728	-	31,728
Unrestricted investment earnings					3,589	-	3,589
Miscellaneous revenue					16,564	-	16,564
Transfers					(317,646)	317,646	-
Compensation for Damage to Capital Assets					2,961	-	2,961
Long-term debt issued					1,630,758	-	1,630,758
Total general revenues					2,935,183	317,646	3,252,829
Change in Net Position					(485,077)	(40,495)	(525,572)
Net Position - Beginning, as Previously Stated					8,055,539	9,313,588	17,369,127
Change in Reporting (See Note 10)					(6,618,739)	(8,333,672)	(14,952,411)
Net Position - Beginning, Restated					1,436,800	979,916	2,416,716
Net Position - Ending					\$ 951,723	\$ 939,421	\$ 1,891,144

City of Lennox
 Balance Sheet–Modified Cash Basis–Governmental Funds
 December 31, 2017

	General Fund	2nd Penny Sales Tax Fund	3rd Penny Sales Tax Fund	Storm Drainage Fund	Baseball Fund	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 292,088	\$ 293,688	\$ 77,993	\$ 95,051	\$ 28,504	\$ 787,324
Restricted cash and cash equivalents	1,105	-	-	-	-	1,105
Due from other funds	163,294	-	-	-	-	163,294
	<u>\$ 456,487</u>	<u>\$ 293,688</u>	<u>\$ 77,993</u>	<u>\$ 95,051</u>	<u>\$ 28,504</u>	<u>\$ 951,723</u>
Fund Balances						
264 Restricted for:						
Library	\$ 1,105	\$ -	\$ -	\$ -	\$ -	\$ 1,105
Promotion and economic development	-	-	77,993	-	-	77,993
Future projects	-	-	-	95,051	-	95,051
265 Committed for:						
Capital improvement	-	18,688	-	-	-	18,688
Capital outlay accumulations	163,000	275,000	-	-	-	438,000
266 Assigned	-	-	-	-	28,504	28,504
267 Unassigned	292,382	-	-	-	-	292,382
	<u>\$ 456,487</u>	<u>\$ 293,688</u>	<u>\$ 77,993</u>	<u>\$ 95,051</u>	<u>\$ 28,504</u>	<u>\$ 951,723</u>

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

	General Fund	2nd Penny Sales Tax Fund	3rd Penny Sales Tax Fund	Storm Drainage Fund	Library Fines Fund	Baseball Fund	Total Governmental Funds
Revenues							
310 Taxes							
311 General property taxes	\$ 913,820	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 913,820
313 General sales and use taxes	311,484	311,484	-	-	-	-	622,968
314 Gross receipts business taxes	-	-	27,476	-	-	-	27,476
315 Amusement taxes	228	-	-	-	-	-	228
319 Penalties and interest on delinquent taxes	2,737	-	-	-	-	-	2,737
Total taxes	<u>1,228,269</u>	<u>311,484</u>	<u>27,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,567,229</u>
320 Licenses and permits	<u>24,182</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,182</u>
330 Intergovernmental revenue							
331 Federal grants	9,821	-	-	-	-	-	9,821
334 State grants	40,000	-	-	-	-	-	40,000
335 State shared revenue							
335.01 Bank franchise tax	18,622	-	-	-	-	-	18,622
335.02 Motor vehicle commercial prorata	5,158	-	-	-	-	-	5,158
335.03 Liquor tax reversion	13,106	-	-	-	-	-	13,106
335.04 Motor vehicle licenses (5%)	15,816	-	-	-	-	-	15,816
335.08 Local government highway and bridge fund	27,228	-	-	-	-	-	27,228
338 County shared revenue							
338.01 County road tax (25%)	3,604	-	-	-	-	-	3,604
Total intergovernmental revenue	<u>133,355</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,355</u>
340 Charges for goods and services							
341 General government	27,320	-	-	-	-	-	27,320
342 Public safety	953	-	-	-	-	-	953
343 Highways and streets	1,840	-	-	-	-	-	1,840
344 Sanitation	5,098	-	-	-	-	-	5,098
345 Health	2,078	-	-	-	-	-	2,078
346 Culture and recreation	11,817	-	-	-	-	56,019	67,836
Total charges for good and services	<u>49,106</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,019</u>	<u>105,125</u>
350 Fines and forfeits							
354 Library	6,000	-	-	-	-	-	6,000
359 Other	1,603	-	-	-	-	-	1,603
Total fines and forfeits	<u>7,603</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,603</u>

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

	General Fund	2nd Penny Sales Tax Fund	3rd Penny Sales Tax Fund	Storm Drainage Fund	Library Fines Fund	Baseball Fund	Total Governmental Funds
360 Miscellaneous revenue							
361 Investment earnings	3,589	-	-	-	-	-	3,589
362 Rentals	5,742	-	-	-	-	-	5,742
363 Special assessments	52,798	-	-	119,196	-	-	171,994
367 Contributions and donations from private sources	1,149	-	-	-	-	400	1,549
369 Other	16,563	-	-	-	-	-	16,563
Total miscellaneous revenue	79,841	-	-	119,196	-	400	199,437
Total revenues	1,522,356	311,484	27,476	119,196	-	56,419	2,036,931
Expenditures							
410 General government							
411 Legislative	30,410	-	-	-	-	-	30,410
412 Executive	5,246	-	-	-	-	-	5,246
413 Elections	591	-	-	-	-	-	591
414 Financial administration	165,162	-	-	-	-	-	165,162
419 Other	109,126	-	-	-	-	-	109,126
Total general government	310,535	-	-	-	-	-	310,535
420 Public safety							
421 Police	297,248	-	-	-	-	-	297,248
422 Fire	53,727	-	-	-	-	-	53,727
Total public safety	350,975	-	-	-	-	-	350,975
430 Public works							
431 Highways and streets	264,947	28,382	-	-	-	-	293,329
432 Sanitation	8,985	-	-	-	-	-	8,985
Total public works	273,932	28,382	-	-	-	-	302,314
440 Health and welfare							
441 Health	4,296	-	-	-	-	-	4,296
Total health and welfare	4,296	-	-	-	-	-	4,296
450 Culture and recreation							
451 Recreation	51,959	-	-	-	-	36,062	88,021
452 Parks	31,387	-	-	-	-	-	31,387
455 Libraries	79,237	-	-	-	-	-	79,237
458 Museums	1,600	-	-	-	-	-	1,600
Total culture and recreation	164,183	-	-	-	-	36,062	200,245
460 Conservation and development							
465 Economic development and assistance	123,875	-	-	-	-	-	123,875
Total conservation and development	123,875	-	-	-	-	-	123,875

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

	General Fund	2nd Penny Sales Tax Fund	3rd Penny Sales Tax Fund	Storm Drainage Fund	Library Fines Fund	Baseball Fund	Total Governmental Funds
485 Capital outlay	590,938	-	-	1,954,903	-	-	2,545,841
Total expenditures	1,818,734	28,382	-	1,954,903	-	36,062	3,838,081
Excess of Revenue over Expenditures	(296,378)	283,102	27,476	(1,835,707)	-	20,357	(1,801,150)
Other Financing Sources							
391.01 Transfers in	1,105	-	-	300,000	-	-	301,105
511 Transfers out	(402,646)	(215,000)	-	-	(1,105)	-	(618,751)
391.04 Compensation for loss/damage to capital assets	2,961	-	-	-	-	-	2,961
391.20 Long-term debt issued	-	-	-	1,630,758	-	-	1,630,758
Total other financing sources	(398,580)	(215,000)	-	1,930,758	(1,105)	-	1,316,073
Change in Fund Balance	(694,958)	68,102	27,476	95,051	(1,105)	20,357	(485,077)
Fund Balance - Beginning, as Previously Stated	1,536,424	232,101	50,992	(207,184)	1,105	(5,040)	1,608,398
Change in Reporting (See Note 10)	(384,979)	(6,515)	(475)	207,184	-	13,187	(171,598)
Fund Balance - Beginning, Restated	1,151,445	225,586	50,517	-	1,105	8,147	1,436,800
Fund Balance - Ending	<u>\$ 456,487</u>	<u>\$ 293,688</u>	<u>\$ 77,993</u>	<u>\$ 95,051</u>	<u>\$ -</u>	<u>\$ 28,504</u>	<u>\$ 951,723</u>

City of Lennox
Statement of Net Position—Modified Cash Basis—Proprietary Funds
December 31, 2017

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Pool Fund	Ambulance Fund	
Assets					
Current Assets					
Cash and cash equivalents	\$ 543,653	\$ 284,614	\$ 274,448	\$ -	\$ 1,102,715
Total current assets	<u>543,653</u>	<u>284,614</u>	<u>274,448</u>	<u>-</u>	<u>1,102,715</u>
	<u>\$ 543,653</u>	<u>\$ 284,614</u>	<u>\$ 274,448</u>	<u>\$ -</u>	<u>\$ 1,102,715</u>
Liabilities and Net Position					
Current Liabilities					
Due to other funds	\$ -	\$ -	\$ -	\$ 163,294	\$ 163,294
Net Position					
253.20 Restricted net position for:					
Debt service	166,074	162,930	-	-	329,004
New pool	-	-	34,448	-	34,448
253.90 Unrestricted	<u>377,579</u>	<u>121,684</u>	<u>240,000</u>	<u>(163,294)</u>	<u>575,969</u>
Total net position	<u>543,653</u>	<u>284,614</u>	<u>274,448</u>	<u>(163,294)</u>	<u>939,421</u>
	<u>\$ 543,653</u>	<u>\$ 284,614</u>	<u>\$ 274,448</u>	<u>\$ -</u>	<u>\$ 1,102,715</u>

City of Lennox

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

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Pool Fund	Ambulance Fund	
Operating Revenue					
380 Charges for goods and services	\$ 538,670	\$ 516,683	\$ 12,356	\$ 93,486	\$ 1,161,195
Total operating revenue	<u>538,670</u>	<u>516,683</u>	<u>12,356</u>	<u>93,486</u>	<u>1,161,195</u>
Operating Expenses					
410 Personal services	79,995	102,177	14,608	123,740	320,520
420 Other current expense	190,232	314,344	30,446	33,747	568,769
430 Capital assets	-	524,143	10,500	122,890	657,533
Total operating expenses	<u>270,227</u>	<u>940,664</u>	<u>55,554</u>	<u>280,377</u>	<u>1,546,822</u>
Operating income (loss)	<u>268,443</u>	<u>(423,981)</u>	<u>(43,198)</u>	<u>(186,891)</u>	<u>(385,627)</u>
Nonoperating Revenue (Expense)					
334 Grants	-	370,432	-	-	370,432
440 Debt service (principal)	(542,038)	(69,118)	-	-	(611,156)
441 Interest expense	(63,378)	(93,412)	-	-	(156,790)
391.20 Long-term debt issued	425,000	-	-	-	425,000
Total nonoperating revenue (expense)	<u>(180,416)</u>	<u>207,902</u>	<u>-</u>	<u>-</u>	<u>27,486</u>
Income (loss) before transfers	88,027	(216,079)	(43,198)	(186,891)	(358,141)
391.06 Transfers in	-	-	317,646	-	317,646
Change in Net Position	88,027	(216,079)	274,448	(186,891)	(40,495)
Net Position - Beginning, as Previously Stated	4,705,580	4,238,662	(35,408)	404,754	9,313,588
Change in Reporting (See Note 10)	<u>(4,249,954)</u>	<u>(3,737,969)</u>	<u>35,408</u>	<u>(381,157)</u>	<u>(8,333,672)</u>
Net Position - Beginning, Restated	<u>455,626</u>	<u>500,693</u>	<u>-</u>	<u>23,597</u>	<u>979,916</u>
Net Position - Ending	<u>\$ 543,653</u>	<u>\$ 284,614</u>	<u>\$ 274,448</u>	<u>\$ (163,294)</u>	<u>\$ 939,421</u>

City of Lennox
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2017

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Pool Fund	Ambulance Fund	
Cash Flows from (used for) Operating Activities					
Receipt from customers	\$ 538,670	\$ 516,683	\$ 12,356	\$ 93,486	\$ 1,161,195
Payments to suppliers	(190,232)	(314,344)	(30,446)	(33,747)	(568,769)
Payments to employees	(79,995)	(102,177)	(14,608)	(123,740)	(320,520)
Internal activity - Due to other funds	-	-	-	163,294	163,294
Net Cash from (used for) Operating Activities	<u>268,443</u>	<u>100,162</u>	<u>(32,698)</u>	<u>99,293</u>	<u>435,200</u>
Cash Flows from Noncapital Financing Activities					
Transfer in	-	-	317,646	-	317,646
Net Cash from Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>317,646</u>	<u>-</u>	<u>317,646</u>
Cash Flows from (used for) Capital and Related Financing Activities					
Proceeds from capital debt	425,000	-	-	-	425,000
Purchase of capital assets	-	(524,143)	(10,500)	(122,890)	(657,533)
Principal paid on capital debt	(542,038)	(69,118)	-	-	(611,156)
Interest paid on capital debt	(63,378)	(93,412)	-	-	(156,790)
Grant receipts	-	370,432	-	-	370,432
Net Cash used for Capital and Related Financing Activities	<u>(180,416)</u>	<u>(316,241)</u>	<u>(10,500)</u>	<u>(122,890)</u>	<u>(630,047)</u>
Net Change in Cash and Cash Equivalents	88,027	(216,079)	274,448	(23,597)	122,799
Cash and Cash Equivalents - Beginning	455,626	500,693	-	23,597	979,916
Cash and Cash Equivalents - Ending	<u>\$ 543,653</u>	<u>\$ 284,614</u>	<u>\$ 274,448</u>	<u>\$ -</u>	<u>\$ 1,102,715</u>
Cash and Cash Equivalents Consist of:					
Cash and cash equivalents	<u>\$ 543,653</u>	<u>\$ 284,614</u>	<u>\$ 274,448</u>	<u>\$ -</u>	<u>\$ 1,102,715</u>
	<u>\$ 543,653</u>	<u>\$ 284,614</u>	<u>\$ 274,448</u>	<u>\$ -</u>	<u>\$ 1,102,715</u>
Reconciliation of Operating Income to Net Cash from:					
Operating activities					
Operating income	\$ 268,443	\$ (423,981)	\$ (43,198)	\$ (186,891)	\$ (385,627)
Adjustments to reconcile operating income to net cash from operating activities:					
Purchase of capital assets included in capital and related financing activities	-	524,143	10,500	122,890	657,533
Due to other funds	-	-	-	163,294	163,294
Net Cash from Operating Activities	<u>\$ 268,443</u>	<u>\$ 100,162</u>	<u>\$ (32,698)</u>	<u>\$ 99,293</u>	<u>\$ 435,200</u>

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

The reporting entity of the City of Lennox (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, those organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the City's financial statements to be misleading or incomplete.

The reporting entity is comprised of the primary government, City of Lennox, and two component units, The Housing and Redevelopment Commission and the Area Ambulance Squad, Inc.

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

The City's activities are presented using a modified cash basis of accounting while the component units use generally accepted accounting principles (GAAP). Based on the variance in the basis of accounting, the City has elected to present only the primary government activities. The component unit's financial statements are available upon request from each respective component unit.

B. Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

The funds of the City of Lennox are described below:

Governmental Funds

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

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

The City reports the following special revenue funds:

2nd Penny Sales Tax Fund – A fund to account for the receipts of the 2nd cent sales tax. It is used for capital needs and debt service. This is a major fund.

3rd Penny Sales Tax Fund – A fund to account for the proceeds of the 3rd cent sales tax imposed on liquor, lodging and dining sales. This fund is used for the promotion of the City. (SDCL 10-52-8) This is a major fund.

Storm Drainage Assessment Fund – A fund to account for the collection and disbursement of special assessments for storm drainage projects. This is a major fund.

Library Fines Fund – A fund to account for the collection and disbursement of money from library fines and donations. This is a major fund.

Baseball Fund – A fund to account for the collection and disbursement of money from baseball fees and donations. This is a major fund.

Proprietary Funds

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

The City reports the following enterprise funds:

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.

Pool Fund – Financed primarily by user charges, this fund accounts for the operations of a municipal swimming pool. (SDCL 9-28-60) This is a major fund.

Ambulance Fund – Financed primarily by user charges, this fund accounts for the operations of municipal ambulance services. (SDCL 34-9-1 and 28-18-7) This is a major fund.

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

Basis of Accounting

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

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

D. Deposits and Investments

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

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

E. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

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

- The City had one interfund receivables and payables that needed to be eliminated as of December 31, 2017 between the general fund and ambulance fund.
- The City did not have internal service fund activity which required elimination as of December 31, 2017.

F. Capital Assets

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

G. Long-Term Liabilities

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

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

H. Program Revenues

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

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

I. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's statement of revenues, expenses and changes in fund net position, revenues and expenses are classified as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

J. Cash and Cash Equivalents

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

K. Equity Classifications

Government-Wide Statements

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between nonspendable, restricted, committed, assigned and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

L. Application of Net Position and Fund Balance

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

M. Fund Balance Classification Policies and Procedures

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

- Nonspendable Fund Balance - Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance - Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance.
- Assigned Fund Balance - Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).
- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
2nd Penny Sales Tax Fund	Sales taxes
3rd Penny Sales Tax Fund	Sales taxes
Storm Drainage Assessment Fund	Special assessments
Baseball Fund	Charges
Library Fines Fund	Fines and donations

N. Rounding

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

Note 2 - Deficit Net Position Balance

As of December 31, 2017, the Ambulance Fund had a deficit net position balance of \$163,294 due to operating expenses exceeding operating revenues for the year then ended. The General Fund advanced the Ambulance Fund cash through the use of a pooled cash account to cover the Ambulance Fund net operating loss, thus creating an internal balance due from/to between the General Fund and Ambulance Fund of \$163,294 as of December 31, 2017. The City plans to continue to use the General Fund to support the Ambulance Fund’s operations as needed.

Note 3 - Violations of Finance Related Legal and Contractual Provisions

The City is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations:

	<u>12/31/2017</u>
2nd Penny Sales Tax Fund	
430 Public works	\$ 28,382

T

he City plans to more closely monitor actual expenditures compared to appropriated amounts and ensure supplemental appropriations are approved as necessary to prevent overdrafts in the future.

Note 4 - Deposits and Investments

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

Deposits

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

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

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

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

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 500,000
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	1,475,297
	<u>\$ 1,975,297</u>

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

Cash and cash equivalents	<u>\$ 1,891,144</u>
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Investments

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

As of December 31, 2017, the City did not hold any investments as defined by Governmental Accounting Standards Board. The City also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

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

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

Note 5 - Property Taxes

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of 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 6 - Significant Contingencies - Litigation

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

Note 7 - Restricted Net Position

The following table shows the net position restricted for other purposes as shown on the statement of net position:

Fund	Restricted By	Amount
General Fund	Statute	\$ 1,105
3rd Penny Sales Tax Fund	Statute	77,993
Storm Drainage Fund	Funding Source	95,051
Sewer Fund	Contractual Agreement	162,930
Water Fund	Contractual Agreement	166,074

Note 8 - Risk Management

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

Employee Health Insurance

The Municipality joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Municipality pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes a \$2,000,000 lifetime maximum payment per person.

The Municipality does not carry additional health insurance coverage to pay claims in excess of this upper limit. 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, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide coverage for law enforcement liability, general liability, officials liability, automobile and property insurance.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverages will be provided to varying limits depending on the coverage. 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. The City carries the following deductibles for the coverages listed below:

<u>Coverage</u>	<u>Deductible</u>
General liability	\$ -
Officials liability	-
Automobile liability	-
Property liability	-
Law enforcement liability	2,000

As of December 31, 2017, the City has vested balance in the cumulative reserve fund of \$35,224.

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.

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 City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per incident.

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.

Unemployment Benefits

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for employment 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 9 - Retirement Plan

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and 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.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

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

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

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

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by State statute to contribute the following percentages of their salary to the plan; Class A members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Member, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions made to the SDRS for the years ended December 31, 2017, 2016 and 2015 were \$45,428, \$39,845, and \$37,609, respectively, equal to the required contributions each year.

Pension Liabilities (Assets) and Pension Expense

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 SDRS, for the City as of June 30, 2017, are as follows:

Proportionate share of pension liability	\$ 4,306,856
Less proportionate share of net pension restricted for pension benefits	<u>4,310,215</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (3,359)</u></u>

At December 31, 2017, the City's proportionate share is a liability (asset) of \$(3,359) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the 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 0.0370165%, which is a decrease of 0.0062483% from its proportion measured as of June 30, 2016. The City's proportionate share of the net pension liability (asset) is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

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

Inflation	2.25%
Salary increases	Graded by years of service, from 6.50% at entry to 3.00%
Discount Rate	6.50% net of plan investment expense

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

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

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

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of Liability (Asset) to Change in the Discount Rate

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

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 615,253	\$ (3,359)	\$ (507,111)

Pension Plan Fiduciary Net Position

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

Note 10 - Interfund Transfers

Interfund transfers for the year ended December 31, 2017 were as follows:

	Transfers To:		
<u>Transfers From:</u>	<u>General Fund</u>	<u>Storm Drainage Fund</u>	<u>Pool Fund</u>
Library Fines Fund	\$ 1,105	\$ -	\$ -
2nd Penny Sales Tax Fund	-	-	215,000
General Fund	-	300,000	102,646

The transfer from the Library Fines Fund was to combine this fund with the General Fund. The transfer from the 2nd Penny Sales Tax Fund was to support Pool Fund operations. The transfer from the General Fund was to support Storm Drainage Fund and Pool Fund operations.

Note 11 - Significant Commitments

The City has a contract in place with a general contractor for completion of the main street project that is ongoing as of December 31, 2017. The total amount remaining on the contract as of December 31, 2017 is approximately \$560,000.

Note 12 - Change in Basis of Accounting

During 2017, the City elected, as permitted by state law, to present its financial statements 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, rather than on the accrual basis of accounting, as required by generally accepted accounting principles. As a result of the change in the basis of accounting, the City has restated balances as of January 1, 2017 for net position and fund balance.



Supplementary Information
December 31, 2017

City of Lennox

City of Lennox
Schedule of Changes in Notes and Bonds Payable
Year Ended December 31, 2017

<u>Notes and Bonds Payable</u>	<u>Notes and Bonds Payable 1/1/17</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Notes and Bonds Payable 12/31/17</u>
Governmental Long-Term Debt				
Clean Water SRF 06	\$ -	\$ 1,603,758	\$ -	\$ 1,603,758
Enterprise Notes and Bonds Payable				
2009 Water Revenue Bonds	450,000	-	450,000	-
2017 Water Revenue Bonds	-	425,000	25,000	400,000
Drinking Water SRF 01	1,561,145	-	54,539	1,506,606
Clean Water SRF 04	1,639,971	-	42,670	1,597,301
Drinking Water SRF 02	288,292	-	12,499	275,793
Clean Water SRF 05	1,270,680	-	26,501	1,244,179
	<u>\$ 5,210,088</u>	<u>\$ 2,028,758</u>	<u>\$ 611,209</u>	<u>\$ 6,627,637</u>

City of Lennox

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

Pension Plan	Fiscal Year Ending *	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2017	0.0370%	\$ (3,359)	\$ 687,781	0.49%	100.1%
SDRS	6/30/2016	0.0308%	103,932	525,809	19.77%	96.9%
SDRS	6/30/2015	0.0347%	(147,225)	567,635	25.94%	104.1%

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

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2017	\$ 45,428	\$ 45,428	\$ -	\$ 691,431	6.6%
SDRS	12/31/2016	39,845	39,845	-	602,015	6.6%
SDRS	12/31/2015	37,609	37,609	-	561,685	6.7%

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

City of Lennox
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 941,300	\$ 941,300	\$ 913,820	\$ (27,480)
313 General sales and use taxes	240,000	240,000	311,484	71,484
315 Amusement taxes	250	250	228	(22)
319 Penalties and interest on delinquent taxes	2,500	2,500	2,737	237
Total taxes	<u>1,184,050</u>	<u>1,184,050</u>	<u>1,228,269</u>	<u>44,219</u>
320 Licenses and permits	<u>22,450</u>	<u>22,450</u>	<u>24,182</u>	<u>1,732</u>
330 Intergovernmental revenue				
331 Federal grants	-	-	9,821	9,821
334 State grants	200,000	200,000	40,000	(160,000)
335 State shared revenue				
335.01 Bank franchise tax	10,000	10,000	18,622	8,622
335.02 Motor vehicle commercial prorated	5,000	5,000	5,158	158
335.03 Liquor tax reversion	13,500	13,500	13,106	(394)
335.04 Motor vehicle licenses (5%)	10,000	10,000	15,816	5,816
335.08 Local government highway and bridge fund	27,500	27,500	27,228	(272)
335.20 Other	2,500	2,500	-	(2,500)
338 County shared revenue				
338.01 County road tax (25%)	3,000	3,000	3,604	604
Total intergovernmental revenue	<u>271,500</u>	<u>271,500</u>	<u>133,355</u>	<u>(138,145)</u>
340 Charges for good and services				
341 General government	17,500	17,500	27,320	9,820
342 Public safety	-	-	953	953
343 Highways and Streets	1,250	1,250	1,840	590
344 Sanitation	6,000	6,000	5,098	(902)
345 Health	1,700	1,700	2,078	378
346 Culture and recreation	4,000	4,000	11,817	7,817
Total charges for goods and services	<u>30,450</u>	<u>30,450</u>	<u>49,106</u>	<u>18,656</u>
350 Fines and forfeits				
354 Library	-	-	6,000	6,000
359 Other	1,500	1,500	1,603	103
Total fines and forfeits	<u>1,500</u>	<u>1,500</u>	<u>7,603</u>	<u>6,103</u>
360 Miscellaneous revenue				
361 Investment earnings	5,000	5,000	3,589	(1,411)
362 Rentals	-	-	5,742	5,742
363 Special assessments	36,200	36,200	52,798	16,598
367 Contributions and donations from private sources	500	500	1,149	649
369 Other	16,000	16,000	16,563	563
Total miscellaneous revenue	<u>57,700</u>	<u>57,700</u>	<u>79,841</u>	<u>22,141</u>
Total revenues	<u>1,567,650</u>	<u>1,567,650</u>	<u>1,522,356</u>	<u>(45,294)</u>

City of Lennox
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	\$ 37,600	\$ 40,000	\$ 34,910	\$ 5,090
411.5 Contingency	50,000	50,000		
Amount transferred	-	(50,000)	-	-
412 Executive	6,850	6,850	5,996	854
413 Elections	700	700	591	109
414 Financial administration	171,150	188,900	165,761	23,139
419 Other	58,050	107,950	124,404	(16,454)
Total general government	<u>324,350</u>	<u>344,400</u>	<u>331,662</u>	<u>12,738</u>
420 Public safety				
421 Police	319,700	319,800	300,708	19,092
422 Fire	156,500	239,000	80,647	158,353
Total public safety	<u>476,200</u>	<u>558,800</u>	<u>381,355</u>	<u>177,445</u>
430 Public works				
431 Highways and streets	1,154,800	1,242,550	739,874	502,676
432 Sanitation	8,925	9,225	8,985	240
Total public works	<u>1,163,725</u>	<u>1,251,775</u>	<u>748,859</u>	<u>502,916</u>
440 Health and welfare				
441 Health	6,600	6,600	4,296	2,304
Total health and welfare	<u>6,600</u>	<u>6,600</u>	<u>4,296</u>	<u>2,304</u>
450 Culture and recreation				
451 Recreation	81,050	97,350	62,988	34,362
452 Parks	37,600	83,600	76,223	7,377
455 Library	85,900	136,400	87,117	49,283
458 Museum	5,050	9,300	1,600	7,700
Total culture and recreation	<u>209,600</u>	<u>326,650</u>	<u>227,928</u>	<u>98,722</u>
460 Conservation and development				
465 Economic development and assistance	165,600	177,700	124,634	53,066
Total conservation and development	<u>165,600</u>	<u>177,700</u>	<u>124,634</u>	<u>53,066</u>
Total expenditures	<u>2,346,075</u>	<u>2,665,925</u>	<u>1,818,734</u>	<u>847,191</u>
Other Financing Sources				
391.01 Transfers in	135,000	135,000	1,105	(133,895)
511 Transfers out	(47,200)	(47,200)	(402,646)	(355,446)
391.04 Compensation for loss/damage to capital assets	-	-	2,961	2,961
Total other financing sources	<u>87,800</u>	<u>87,800</u>	<u>(398,580)</u>	<u>(486,380)</u>
Excess of Revenue over (under) Expenditures	(690,625)	(1,010,475)	(694,958)	315,517
Fund Balance - Beginning	<u>1,151,445</u>	<u>1,151,445</u>	<u>1,151,445</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 460,820</u>	<u>\$ 140,970</u>	<u>\$ 456,487</u>	<u>\$ 315,517</u>

City of Lennox
 Budgetary Comparison Schedule—2nd Penny Sales Tax Fund
 Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 240,000	\$ 240,000	\$ 311,484	\$ 71,484
Total taxes	240,000	240,000	311,484	71,484
Total revenue	240,000	240,000	311,484	71,484
Expenditures				
430 Public works				
431 Highways and streets	-	-	28,382	(28,382)
Total expenditures	-	-	28,382	(28,382)
Other financing uses				
511 Transfers out	(135,000)	(135,000)	(215,000)	(80,000)
Total other financing uses	(135,000)	(135,000)	(215,000)	(80,000)
Excess of Revenue over (under) Expenditures	105,000	105,000	68,102	(36,898)
Fund Balance - Beginning	225,586	225,586	225,586	-
Fund Balance - Ending	\$ 330,586	\$ 330,586	\$ 293,688	\$ (36,898)

City of Lennox
 Budgetary Comparison Schedule—3rd Penny Sales Tax Fund
 Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 17,500	\$ 17,500	\$ -	\$ (17,500)
314 Gross receipts business taxes	-	-	27,476	27,476
Total taxes	17,500	17,500	27,476	9,976
Total revenue	17,500	17,500	27,476	9,976
Other financing sources (uses)				
511 Transfers out	(17,500)	(17,500)	-	17,500
Total other financing sources (uses)	(17,500)	(17,500)	-	17,500
Excess of Revenue over Expenditures	-	-	27,476	27,476
Fund Balance - Beginning	50,517	50,517	50,517	-
Fund Balance - Ending	\$ 50,517	\$ 50,517	\$ 77,993	\$ 27,476

City of Lennox
 Budgetary Comparison Schedule—Storm Drainage Assessment Fund
 Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
319 Penalties and interest on delinquent taxes	\$ 250	\$ 250	\$ -	\$ (250)
Total taxes	250	250	-	(250)
360 Miscellaneous revenue				
363 Special assessments	119,000	119,000	119,196	196
Total miscellaneous revenue	119,000	119,000	119,196	196
Total revenue	119,250	119,250	119,196	(54)
Expenditures				
420 Public safety				
422 Fire	-	300,000	319,607	(19,607)
430 Public works				
432 Sanitation	1,973,000	1,973,000	1,635,296	337,704
Total expenditures	1,973,000	2,273,000	1,954,903	318,097
Other financing sources (uses)				
391.01 Transfers in	-	-	300,000	300,000
391.20 Long-term debt issued	1,873,000	1,873,000	1,630,758	(242,242)
Total other financing sources (uses)	1,873,000	1,873,000	1,930,758	57,758
Excess of Revenue over (under) Expenditures	19,250	(280,750)	95,051	375,801
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	\$ 19,250	\$ (280,750)	\$ 95,051	\$ 375,801

City of Lennox
 Budgetary Comparison Schedule—Baseball Fund
 Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
340 Charges for goods and services				
346 Culture and recreation	\$ 23,000	\$ 23,000	\$ 56,019	\$ 33,019
Total charges for goods and services	23,000	23,000	56,019	33,019
360 Miscellaneous revenue				
367 Contributions and donations from private sources	-	-	400	400
Total miscellaneous revenue	-	-	400	400
Total revenue	23,000	23,000	56,419	33,419
Expenditures				
450 Culture and recreation				
451 Recreation	17,250	37,250	36,062	1,188
Total expenditures	17,250	37,250	36,062	1,188
Excess of Revenue over Expenditures	5,750	(14,250)	20,357	34,607
Fund Balance - Beginning	8,147	8,147	8,147	-
Fund Balance - Ending	\$ 13,897	\$ (6,103)	\$ 28,504	\$ 34,607

Note 1 - Budgets and Budgetary Accounting

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

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

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

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

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

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

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

Note 3 - Pension Schedules

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



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

The City Commission
City of Lennox
Lennox, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Lennox as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated August 30, 2018. In our report, we issued an adverse opinion on the discretely presented component units because the statements included only the primary government and not the City’s legally separate component units. The statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as 2017-B to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2017-B.

City of Lennox's Response to Finding

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
August 30, 2018

Finding 2017-A – Auditor Preparation of Financial Statements Including Footnotes and Material Audit Adjustments

Material Weakness

Criteria: The City of Lennox’s internal control structure should be designed to provide for the preparation of the financial statements and footnotes in accordance with the modified cash basis of accounting. Additionally, a system of accounting control contemplates accurate recording and presentation of amounts and disclosures in the financial statements being audited.

Condition: The City does not have an internal control system designed to provide for the full preparation of the financial statements being audited and the related footnotes. During the course of our engagement, we proposed material audit adjustments to the City’s recorded account balances which, if not recorded, would have resulted in a material misstatement of the City’s financial statements.

Cause: The City has requested the auditor to prepare financial statements and the related footnotes and could cause the need for auditors to at times propose adjusting journal entries.

Effect: This condition may affect the City’s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements and interim financial information being relied upon may be materially misstated.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that the basis of accounting described in Note 1 has been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.

Finding 2017-B – Compliance with South Dakota Codified Law (SDCL) and Related Controls over Compliance

Significant Deficiency and Compliance

Criteria: The respective SDCL sections of 9-12-11, 9-21-9 through 9-21-9.2, 9-21-10, 9-21-15, and 9-21-26.1 indicate the state laws that municipalities must follow relating to gifting funds to nonprofit organizations for promotion of the municipality, refraining from spending in excess of amounts appropriated, and transferring of surplus money from one fund to another.

Condition: During the course of our engagement performing tests over the City’s compliance with SDCL’s, it was noted that the City (a) did not obtain a certified audit or financial statement of the nonprofit organization’s records to which money was gifted for promotion of the city, (b) overspent approved appropriations in the 2nd Penny Sales Tax Fund, and (c) not all transfers that were made between funds were approved by a two-thirds vote of the City Council.

Cause: Turnover of certain management positions contributed to management not exercising sufficient oversight with respect to ensuring compliance with these specific and applicable SDCL provisions.

Effect: Non-compliance with the aforementioned SDCL provisions could result in unauthorized spending or unauthorized transfers between funds being made and inadequate or inaccurate reporting of fund information to constituents.

Recommendation: We recommend management of the City review the applicable SDCL's and revise monitoring controls to as necessary to ensure that compliance with these provisions of SDCL law are met going forward.

Views of Responsible Officials: Management agrees with the finding.

Finding 2016-01 – General Fund and 2nd Penny Budget Overdraft

Initial Fiscal Year Finding Occurred: 2015

Finding Summary: The City expenditures exceeded their appropriations in the general and 2nd penny sales tax fund.

Status: Not corrected. We identified recurring instances of overspending appropriations in the baseball and 2nd penny sales tax fund in the current year.

Finding 2016-02 – Auditor Preparation of Financial Statements

Initial Fiscal Year Finding Occurred: 2012

Finding Summary: The City has elected not to have an internal control system designed to provide for the full preparation of financial statements and footnotes being audited.

Status: Not corrected. Finding repeated as 2017-A.