

**MUNICIPALITY OF WAGNER
WAGNER, SOUTH DAKOTA**

AUDIT REPORT

**FOR THE YEAR JANUARY 1, 2015 TO DECEMBER 31, 2015
AND
FOR THE YEAR JANUARY 1, 2016 TO DECEMBER 31, 2016**

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF WAGNER

MUNICIPAL OFFICIALS
DECEMBER 31, 2016

MAYOR:

Don Hosek

GOVERNING BOARD:

Roger Schroeder, President
Tom F. Beeson, Vice-President
Ron Cuka
Ron Fredrich
Scott Honomichl
Todd Johannsen

FINANCE OFFICER:

Rebecca Brunsing

ATTORNEY:

Ken Cotton

Schoenfish & Co., Inc.

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

Governing Board
Municipality of Wagner
Wagner, 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 Municipality of Wagner, South Dakota (Municipality), as of December 31, 2016 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated June 30, 2017, which was a disclaimer of opinion on the aggregate discretely presented component unit because of unaudited financial information being presented.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2016-001 to be a material weakness.

Compliance and Other Matters

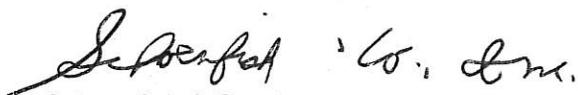
As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, noncompliance with which could have a direct and material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

Municipality's Response to Findings

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

Purpose of this Report

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



Schoenfish & Co., Inc.
Certified Public Accountants
June 30, 2017

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board
Municipality of Wagner
Wagner, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the Municipality of Wagner, South Dakota (Municipality) compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Municipality's major federal programs for the biennial period ended December 31, 2016. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on our audit of the types of compliance requirements referred to above.

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

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

Opinion on Each Major Federal Program

In our opinion, the Municipality of Wagner complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the biennial period ended December 31, 2016.

Report on Internal Control Over Compliance

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

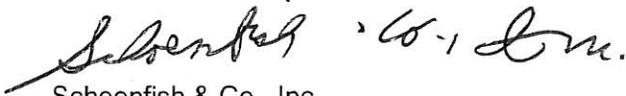
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, and therefore, material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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2016-001 to be a material weakness.

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

Purpose of this Report

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



Schoenfish & Co., Inc.
 Certified Public Accountants
 June 30, 2017

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR AUDIT FINDINGS:

Finding Number 2014-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2016-001.

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SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

Summary of the Independent Auditor's Results:

Financial Statements:

- a. An unmodified opinion was issued on the financial statements of each opinion unit except for a disclaimer of opinion on the aggregate discretely presented component unit because of unaudited financial information.
- b. A material weakness was disclosed by our audit of the financial statements for errors and omissions in the financial statements as discussed in finding number 2016-001.
- c. Our audit did not disclose any noncompliance which was material to the financial statements.

Federal Awards:

- d. A material weakness was disclosed for internal control over major federal programs for a lack of segregation of duties affecting the other compliance requirement category as discussed in finding number 2016-001.
- e. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- f. Our audit did not disclose any audit findings that need to be disclosed in accordance with 2 CFR 200.516(a), except for the lack of segregation of duties for revenues as discussed in finding number 2016-001.
- g. The federal awards tested as major programs were:
 - 1. Community Facilities Loans and Grants CFDA No. 10.766
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- i. The Municipality of Wagner did not qualify as a low-risk auditee.

CURRENT FEDERAL AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2016-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. The major programs affected are Community Facilities Loans and Grants, CFDA No. 10.766. This affects the reporting compliance requirement. This is a continuing audit comment since 1998.

Criteria:

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

SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)

Condition:

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

Effect:

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

Recommendation:

1. We recommend that the Municipality of Wagner 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.

Corrective Action Plan:

The Municipality of Wagner Mayor, Don Hosek, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Wagner, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to develop policies and provide compensating controls.

CURRENT OTHER AUDIT FINDINGS:

There are no current other audit findings to report except for the lack of segregation of duties as stated in Current Federal Audit Finding Number 2016-001.

CLOSING CONFERENCE

The audit was discussed with the mayor and the finance officer on July 13, 2017.

Schoenfish & Co., Inc.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Wagner
Wagner, 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 Municipality of Wagner, South Dakota, (Municipality) as of December 31, 2016 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality's management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 Municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Disclaimer of Opinion

We were not engaged to audit and we were unable to obtain audited financial statements supporting the financial balances and activities of the Wagner Housing and Redevelopment Commission, and we did not attempt to satisfy ourselves as to those amounts by other auditing procedures. Those financial activities are included on the financial statements referred to above as a component unit of the Municipality of Wagner and represent one hundred percent of the December 31, 2016 balances and activities for the years in the biennial period then ended of the component unit columns.

Disclaimer of Opinion

Because of the effects of the item discussed in the above paragraph, we were not able to apply other auditing procedures to satisfy ourselves as to the component unit, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the aggregately discretely presented component unit.

Unmodified Opinions

In addition, 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 Municipality of Wagner as of December 31, 2016, and the respective changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in 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 Municipality's financial statements. The Budgetary Comparison Schedules, the Schedule of the Municipal Contributions, the Schedule of the Municipality's Proportionate Share of Net Pension Liability (Asset), the Schedule of Expenditures of Federal Awards, which is required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards

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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 June 30, 2017 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
Certified Public Accountants
June 30, 2017

Schoenfish & Co., Inc.

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MUNICIPALITY OF WAGNER
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2016

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	1,284,994.17	819,042.99	2,104,037.16	122,474.96
Investments	68,972.42	135,754.43	204,726.85	
TOTAL ASSETS	1,353,966.59	954,797.42	2,308,764.01	122,474.96
NET POSITION:				
Restricted for:				
Library Fines	10,543.23		10,543.23	
Equipment Repair & Replacement		71,055.07	71,055.07	
Unrestricted	1,343,423.36	883,742.35	2,227,165.71	122,474.96
TOTAL NET POSITION	1,353,966.59	954,797.42	2,308,764.01	122,474.96

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

MUNICIPALITY OF WAGNER
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 For the Year Ended December 31, 2016

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Total
					Governmental Activities	Business-Type Activities		
Primary Government:								
Governmental Activities:								
General Government	267,889.43	36,873.83			(231,015.60)	(231,015.60)		
Public Safety	352,930.05	14,387.41			(338,542.64)	(338,542.64)		
Public Works	469,810.14	39,541.60	57,283.07	162,504.11	(210,481.36)	(210,481.36)		
Health and Welfare	5,488.91		2,500.00		(2,988.91)	(2,988.91)		
Culture and Recreation	262,744.42	56,156.07			(206,588.35)	(206,588.35)		
Conservation and Development	89,146.43	60,248.36			(89,146.43)	(89,146.43)		
Miscellaneous					60,248.36	60,248.36		
Payment on Long-Term Debt	34,556.56				(34,556.56)	(34,556.56)		
Total Governmental Activities	1,482,565.94	207,207.27	59,783.07	162,504.11	(1,053,071.49)	(1,053,071.49)		
Business-type Activities:								
Water	369,223.03	435,554.97			66,331.94	66,331.94		
Sewer	2,218,466.78	334,421.65		200,000.00	(1,684,045.13)	(1,684,045.13)		
Total Business-Type Activities	2,587,689.81	769,976.62	0.00	200,000.00	(1,617,713.19)	(1,617,713.19)		
Total Primary Government	4,070,255.75	977,183.89	59,783.07	362,504.11	(1,053,071.49)	(2,670,784.68)		
Component Units (Unaudited):								
Housing and Redevelopment Commission	99,899.11	86,854.79	21,732.48				8,688.16	
General Revenues:								
Taxes:								
Property Taxes					390,238.29	390,238.29		
Sales Taxes					773,010.84	773,010.84		
State Shared Revenues					14,723.16	14,723.16		
Grants and Contributions not Restricted to Specific Programs					5,025.00	5,025.00		
Unrestricted Investment Earnings					13,727.10	13,727.10		
Debt Issued					427.46	427.46	119.83	
Miscellaneous Revenue					1,756,935.82	1,756,935.82		
Total General Revenues					5,351.92	5,351.92		
Total General Revenues					1,202,076.31	1,757,363.28	119.83	
Change in Net Position					149,004.82	139,650.09	8,807.99	
Net Position - Beginning					1,204,961.77	815,147.33	113,666.97	
NET POSITION - ENDING					1,353,966.59	954,797.42	122,474.96	

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

**MUNICIPALITY OF WAGNER
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2016**

	General Fund
ASSETS:	
Cash and Cash Equivalents	1,284,994.17
Investments	68,972.42
TOTAL ASSETS	1,353,966.59
FUND BALANCES:	
Restricted for Library Fines	10,543.23
Assigned for Armory Operations	19,444.72
Assigned for Next Year's Budget	252,164.40
Unassigned	1,071,814.24
TOTAL FUND BALANCES	1,353,966.59

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

MUNICIPALITY OF WAGNER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	General Fund
Revenues:	
Taxes:	
General Property Taxes	387,957.41
General Sales and Use Taxes	773,010.84
Amusement Tax	1,548.00
Penalties & Interest on Delinquent Taxes	732.88
Total Taxes	1,163,249.13
Licenses and Permits	19,851.00
Intergovernmental Revenue:	
Federal Grants	151,022.32
State Grants	10,890.12
State Shared Revenue:	
Bank Franchise Tax	4,506.48
Liquor Tax Reversion	10,216.68
Motor Vehicle Licenses	18,399.03
Local Government Highway and Bridge Fund	23,881.67
Other	4,257.53
County Shared Revenue:	
County Road Tax	3,265.11
County Wheel Tax	7,479.73
Total Intergovernmental Revenue	233,918.67
Charges for Goods and Services:	
Public Safety	12,834.94
Highways and Streets	7,920.00
Culture and Recreation	3,603.58
Other	24,784.66
Total Charges for Goods and Services	49,143.18
Fines and Forfeits:	
Court Fines and Costs	1,552.47
Library	784.33
Total Fines and Forfeits	2,336.80
Miscellaneous Revenue:	
Investment Earnings	13,727.10
Rentals	75,627.93
Special Assessments	3,091.67
Contributions and Donations from Private Sources	5,025.00
Liquor Operating Agreement Income	60,248.36
Other	2,508.99
Total Miscellaneous Revenue	160,229.05
Total Revenue	1,628,727.83
Expenditures:	
General Government:	
Executive	35,644.41
Financial Administration	105,575.59
Other	126,669.43
Total General Government	267,889.43

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

MUNICIPALITY OF WAGNER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	General Fund
Expenditures (Continued):	
Public Safety:	
Police	352,479.03
Other Protection	451.02
Total Public Safety	352,930.05
Public Works:	
Highways and Streets	216,690.74
Sanitation	13,565.31
Airport	239,554.09
Total Public Works	469,810.14
Health and Welfare:	
Health	5,488.91
Total Health and Welfare	5,488.91
Culture and Recreation:	
Recreation	95,881.70
Parks	26,361.73
Libraries	69,735.19
Auditorium	70,265.80
Museums	500.00
Total Culture and Recreation	262,744.42
Conservation and Development:	
Urban Redevelopment and Housing	17,283.21
Economic Development and Assistance (Industrial Development)	71,863.22
Total Conservation and Development	89,146.43
Debt Service	34,556.56
Total Expenditures	1,482,565.94
Excess of Revenue Over (Under) Expenditures	146,161.89
Other Financing Sources (Uses):	
Sale of Municipal Property	100.00
Compensation for Loss or Damage to Capital Assets	2,742.93
Total Other Financing Sources (Uses)	2,842.93
Net Change in Fund Balance	149,004.82
Fund Balance - Beginning	1,204,961.77
FUND BALANCE - ENDING	1,353,966.59

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

MUNICIPALITY OF WAGNER
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2016

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	378,598.87	440,444.12	819,042.99
Investments	111,307.60	24,446.83	135,754.43
Total Current Assets	489,906.47	464,890.95	954,797.42
TOTAL ASSETS	489,906.47	464,890.95	954,797.42
NET POSITION:			
Restricted Net Position, Restricted for:			
Equipment Repair and/or Replacement	71,055.07		71,055.07
Unrestricted Net Position	418,851.40	464,890.95	883,742.35
TOTAL NET POSITION	489,906.47	464,890.95	954,797.42

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

MUNICIPALITY OF WAGNER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2016

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Charges for Goods and Services	426,315.70	246,878.99	673,194.69
Revenue Dedicated to Servicing Debt	8,164.85	87,392.66	95,557.51
Miscellaneous	1,074.42	150.00	1,224.42
Total Operating Revenue	435,554.97	334,421.65	769,976.62
Operating Expenses:			
Personal Services	68,850.15	66,837.66	135,687.81
Other Current Expense	70,211.32	97,733.07	167,944.39
Materials	189,031.10		189,031.10
Capital Assets	2,500.00	209,647.55	212,147.55
Total Operating Expenses	330,592.57	374,218.28	704,810.85
Operating Income (Loss)	104,962.40	(39,796.63)	65,165.77
Nonoperating Revenue (Expense):			
Investment Earnings	427.46		427.46
Debt Service	(33,614.49)	(1,784,309.75)	(1,817,924.24)
Interest Expense	(5,015.97)	(59,938.75)	(64,954.72)
Long-Term Debt Issued		1,756,935.82	1,756,935.82
Total Nonoperating Revenue (Expense)	(38,203.00)	(87,312.68)	(125,515.68)
Income (Loss) Before Contributions	66,759.40	(127,109.31)	(60,349.91)
Capital Contributions		200,000.00	200,000.00
Change in Net Position	66,759.40	72,890.69	139,650.09
Net Position - Beginning	423,147.07	392,000.26	815,147.33
NET POSITION - ENDING	489,906.47	464,890.95	954,797.42

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

MUNICIPALITY OF WAGNER
STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
December 31, 2016

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalentts	<u>2,220.69</u>
TOTAL ASSETS	<u>2,220.69</u>
NET POSITION	
Net Position Held In Agency Capacity	<u>2,220.69</u>
TOTAL NET POSITION	<u><u>2,220.69</u></u>

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

MUNICIPALITY OF WAGNER
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2015

	Primary Government		Component Units
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	1,136,750.31	679,738.71	1,816,489.02
Investments	68,211.46	135,408.62	203,620.08
TOTAL ASSETS	1,204,961.77	815,147.33	113,666.97
NET POSITION:			
Restricted for:			
Library Fines	9,758.90		9,758.90
Equipment Repair & Replacement		58,816.01	58,816.01
Unrestricted	1,195,202.87	756,331.32	1,951,534.19
TOTAL NET POSITION	1,204,961.77	815,147.33	113,666.97

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

MUNICIPALITY OF WAGNER
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 For the Year Ended December 31, 2015

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	
Primary Government:							
Governmental Activities:							
General Government	377,920.99	34,585.22			(343,335.77)		(343,335.77)
Public Safety	389,379.77	1,894.65			(387,485.12)		(387,485.12)
Public Works	378,441.06	43,503.98	54,910.37	203,875.98	(76,150.73)		(76,150.73)
Health and Welfare	6,212.14		2,090.00		(4,122.14)		(4,122.14)
Culture and Recreation	304,307.77	43,391.91		84,954.41	(175,961.45)		(175,961.45)
Conservation and Development	57,276.88				(57,276.88)		(57,276.88)
Miscellaneous	270,777.79	332,304.49			61,526.70		61,526.70
Payment on Long-Term Debt	34,556.56				(34,556.56)		(34,556.56)
Total Governmental Activities	1,818,872.96	455,680.25	57,000.37	288,830.39	(1,017,361.95)		(1,017,361.95)
Business-type Activities:							
Water	889,760.91	448,526.63		86,814.51		(354,419.77)	(354,419.77)
Sewer	2,235,252.97	254,266.08		470,685.49		(1,510,301.40)	(1,510,301.40)
Total Business-Type Activities	3,125,013.88	702,792.71	0.00	557,500.00	(1,864,721.17)		(1,864,721.17)
Total Primary Government	4,943,886.84	1,158,472.96	57,000.37	846,330.39	(1,017,361.95)		(2,882,083.12)
Component Units (Unaudited):							
Housing and Redevelopment Commission	103,307.80	83,977.98	21,903.48				2,573.66
General Revenues:							
Taxes:							
Property Taxes					399,712.34		399,712.34
Sales Taxes					749,742.82		749,742.82
State Shared Revenues					13,186.52		13,186.52
Unrestricted Investment Earnings					270.99		270.99
Debt Issued					1,751,064.18		1,751,064.18
Miscellaneous Revenue					37,342.34		37,342.34
Total General Revenues					1,206,498.69		1,206,498.69
Change in Net Position					189,136.74	(113,386.00)	75,750.74
Net Position - Beginning					1,015,825.03	928,533.33	1,944,358.36
NET POSITION - ENDING					1,204,961.77	815,147.33	2,020,109.10

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

**MUNICIPALITY OF WAGNER
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2015**

	General Fund
ASSETS:	
Cash and Cash Equivalents	1,136,750.31
Investments	68,211.46
TOTAL ASSETS	1,204,961.77
FUND BALANCES:	
Restricted for Library Fines	9,758.90
Assigned for Armory Operations	18,683.76
Unassigned	1,176,519.11
TOTAL FUND BALANCES	1,204,961.77

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

MUNICIPALITY OF WAGNER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	<u>General Fund</u>
Revenues:	
Taxes:	
General Property Taxes	394,405.18
General Sales and Use Taxes	749,742.82
Amusement Tax	1,464.00
Tax Deed Revenue	1,051.00
Penalties & Interest on Delinquent Taxes	2,792.16
Total Taxes	1,149,455.16
Licenses and Permits	20,490.00
Intergovernmental Revenue:	
Federal Grants	233,103.13
State Grants	12,817.26
State Shared Revenue:	
Bank Franchise Tax	3,448.63
Liquor Tax Reversion	9,737.89
Motor Vehicle Licenses	17,211.79
Local Government Highway and Bridge Fund	24,087.98
County Shared Revenue:	
County Road Tax	3,265.11
County Wheel Tax	6,225.99
Other	4,119.50
Total Intergovernmental Revenue	314,017.28
Charges for Goods and Services:	
Public Safety	78.00
Highways and Streets	5,860.00
Sanitation	1,170.00
Culture and Recreation	3,216.00
Other	28,929.78
Total Charges for Goods and Services	39,253.78
Fines and Forfeits:	
Court Fines and Costs	1,816.65
Library	240.25
Total Fines and Forfeits	2,056.90
Miscellaneous Revenue:	
Investment Earnings	6,514.67
Rentals	80,460.08
Contributions and Donations from Private Sources	45,000.00
Liquor Operating Agreement Income	313,419.49
Other	2,217.83
Total Miscellaneous Revenue	447,612.07
Total Revenue	1,972,885.19

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

MUNICIPALITY OF WAGNER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	<u>General Fund</u>
Expenditures:	
General Government:	
Executive	35,528.00
Elections	240.10
Financial Administration	108,392.23
Other	233,760.66
Total General Government	377,920.99
Public Safety:	
Police	388,551.59
Other Protection	828.18
Total Public Safety	389,379.77
Public Works:	
Highways and Streets	214,960.23
Sanitation	12,335.00
Airport	151,145.83
Total Public Works	378,441.06
Health and Welfare:	
Health	6,212.14
Total Health and Welfare	6,212.14
Culture and Recreation:	
Recreation	63,901.79
Parks	107,426.00
Libraries	70,156.38
Auditorium	62,323.60
Museums	500.00
Total Culture and Recreation	304,307.77
Conservation and Development:	
Urban Redevelopment and Housing	8,738.01
Economic Development and Assistance	
(Industrial Development)	48,538.87
Total Conservation and Development	57,276.88
Debt Service	34,556.56
Miscellaneous:	
Liquor Operating Agreements	270,777.79
Total Miscellaneous	270,777.79
Total Expenditures	1,818,872.96
Excess of Revenue Over (Under) Expenditures	154,012.23

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

MUNICIPALITY OF WAGNER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	General Fund
Other Financing Sources (Uses):	
Sale of Municipal Property	4,261.48
Compensation for Loss or Damage to Capital Assets	30,863.03
Total Other Financing Sources (Uses)	35,124.51
Net Change in Fund Balance	189,136.74
Fund Balance - Beginning	1,015,825.03
FUND BALANCE - ENDING	1,204,961.77

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

MUNICIPALITY OF WAGNER
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2015

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	312,185.28	367,553.43	679,738.71
Investments	110,961.79	24,446.83	135,408.62
Total Current Assets	423,147.07	392,000.26	815,147.33
TOTAL ASSETS	423,147.07	392,000.26	815,147.33
NET POSITION:			
Restricted Net Position, Restricted for:			
Equipment Repair and/or Replacement	58,816.01		58,816.01
Unrestricted Net Position	364,331.06	392,000.26	756,331.32
TOTAL NET POSITION	423,147.07	392,000.26	815,147.33

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

MUNICIPALITY OF WAGNER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS

For the Year Ended December 31, 2015

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Charges for Goods and Services	440,292.70	238,666.21	678,958.91
Revenue Dedicated to Servicing Debt	7,579.05	15,599.87	23,178.92
Miscellaneous	654.88		654.88
Total Operating Revenue	448,526.63	254,266.08	702,792.71
Operating Expenses:			
Personal Services	64,216.71	84,178.58	148,395.29
Other Current Expense	274,529.67	268,437.94	542,967.61
Materials	187,884.30		187,884.30
Capital Assets	324,499.77	1,857,372.39	2,181,872.16
Total Operating Expenses	851,130.45	2,209,988.91	3,061,119.36
Operating Income (Loss)	(402,603.82)	(1,955,722.83)	(2,358,326.65)
Nonoperating Revenue (Expense):			
Investment Earnings	270.99		270.99
Debt Service	(33,532.74)	(11,500.00)	(45,032.74)
Interest Expense	(5,097.72)	(13,764.06)	(18,861.78)
Long-Term Debt Issued	230,070.86	1,520,993.32	1,751,064.18
Total Nonoperating Revenue (Expense)	191,711.39	1,495,729.26	1,687,440.65
Income (Loss) Before Contributions	(210,892.43)	(459,993.57)	(670,886.00)
Capital Contributions	86,814.51	470,685.49	557,500.00
Change in Net Position	(124,077.92)	10,691.92	(113,386.00)
Net Position - Beginning	547,224.99	381,308.34	928,533.33
NET POSITION - ENDING	423,147.07	392,000.26	815,147.33

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

MUNICIPALITY OF WAGNER
STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
December 31, 2015

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	<u>2,219.65</u>
TOTAL ASSETS	<u>2,219.65</u>
NET POSITION	
Net Position Held In Agency Capacity	<u>2,219.65</u>
TOTAL NET POSITION	<u><u>2,219.65</u></u>

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c, these 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 Municipality of Wagner (Municipality) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The Municipality participates in a cooperative unit, the Southern Missouri Recycling & Waste Management District. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the Municipality.

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

The Housing and Redevelopment Commission of the Municipality of Wagner, South Dakota (Commission) is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from: Wagner Housing and Redevelopment Commission, P.O. Box 40, Wagner, SD 57380.

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 and discretely presented component units. 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. Discretely presented component units are legally separate organizations that meet certain criteria, as described in Note 1.a., above, any may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a., above.

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

Fund Financial Statements:

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

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

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

Governmental Funds:

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

Proprietary Funds:

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

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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.

Fiduciary Funds:

Fiduciary funds consist of the following sub-categories and are never considered to be major funds:

Agency Funds – agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Municipality is acting as the agent for an organization improving the Wagner Lake.

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 Municipality uses the modified cash basis of accounting, 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.

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 used, applied with the limitations of the 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 cash basis of accounting, the statement of financial position reports only cash and cash equivalents. 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. Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

- a. Recording long-term investments in marketable securities (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 Municipality 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 would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

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 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. 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. 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.

f. Program Revenues:

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

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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.

g. Proprietary Funds Revenue and Expense Classifications:

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

h. Equity Classifications:

Government-wide Statements:

Equity is classified as net position and is displayed in two components.

1. Restricted net position – Consists of net position with constraints placed on its 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 does 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. Agency Funds have no fund equity. The Net Position is reported as Net Position Held in Agency Capacity.

i. Application of Net Position:

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

j. Fund Balance Classification Policies and Procedures:

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

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

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

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

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

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

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

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

As of December 31, 2016, the Municipality did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

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

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

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

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

4. LONG-TERM COMMITMENTS

The Municipality of Wagner entered into a forty-year commitment with Randall Community Water District to provide water to the Municipality. A monthly charge in the amount of \$4,013.00 is paid by the Municipality to Randall Community Water District. The monthly charge represents a contribution by the Municipality to aid Randall Community Water District in the construction of the facilities necessary to provide the Municipality with water. The Municipality will not acquire ownership of any of these water facilities through lease payments. Payments are made from the Municipality's Water Fund.

The following are the minimum payments on this commitment:

2017	\$ 48,156.00
2018	\$ 48,156.00
2019	\$ 48,156.00
2020	\$ 48,156.00
2021	\$ 48,156.00
2022-2026	\$ 240,780.00
2027-2031	\$ 240,780.00
2032-2036	\$ 160,520.00

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

5. RESTRICTED NET POSITION

Restricted Net Position for the two years ended December 31, 2016 was as follows:

	2015	2016
Major Purposes:		
Library Fine Purposes	\$ 9,758.90	\$ 10,543.23
Equipment Repair/Replacement	58,816.01	71,055.07
Total Restricted Net Assets/Net Position	\$ 68,574.91	\$ 81,598.30

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

6. TAX ABATEMENTS

The Municipality enters into property tax abatement agreements with local businesses under SDCL 9-54 and 9-12-11. Under this agreement, the Municipality may grant sales tax abatements of up to 50 percent of the municipal sales tax collected on retail sales of the business. The agreement is for five years or until \$175,000.00 has been abated for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to the Municipality.

For the two years ended December 31, 2015 and 2016, the Municipality abated sales taxes totaling \$15,060.13 and \$23,456.75, respectively, under this program, including the following tax abatement agreements that are 100 percent of the total amount abated:

- A sales tax abatement to Shopko Stores Operating Co., LLC for purchasing and opening a store in an empty storefront in the business district.

7. PENSION PLAN

Plan Information:

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

Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2016, 2015, and 2014 were \$32,368.97, \$28,994.35, and \$29,192.10, respectively, equal to the required contributions each year.

Pension Liabilities (Assets):

At June 30, 2016, SDRS is 96.89% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of this measurement period ending June 30, 2016 and reported by the Municipality as of December 31, 2016 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 3,212,773.67
Less proportionate share of total pension liability	<u>\$ 3,112,762.79</u>
Proportionate share of net pension liability (asset)	<u>\$ 100,010.88</u>

The net pension liability (asset) was measured as of June 30, 2016 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016, the Municipality's proportion was 0.0296074%, which is a decrease of 0.0029156% from its proportion measured as of June 30, 2015.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions:

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

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2017 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	<u>100%</u>	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2017 and 7.50 percent thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

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

The following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$559,659.60	\$100,010.88	\$(274,882.00)

Pension Plan Fiduciary Net Position:

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

8. RISK MANAGEMENT

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2016, the Municipality managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

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

The Municipality joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members 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 Municipality's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the Municipality. The Municipality pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the 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 Municipality pays an annual premium to the pool to provide coverage

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

for: vehicle liability; liability coverage for torts, theft of or damage to property; and errors and omissions of public officials.

The agreement with the SDPAA provides that the above coverages will be provided to a \$6,620,399 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The Municipality would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of Municipality's First Full Year	50%
End of Municipality's Second Full Year	60%
End of Municipality's Third Full Year	70%
End of Municipality's Fourth Full Year	80%
End of Municipality's Fifth Full Year	90%
End of Municipality's Sixth Full Year and Thereafter	100%

As of December 31, 2015 and December 31, 2016, the Municipality has vested balance in the cumulative reserve fund of \$31,781.99 and \$31,781.99, respectively.

The Municipality carries a \$50/\$100 deductible for the vehicle coverage and \$500 deductible for the other property coverage.

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

Worker's Compensation:

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

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

Unemployment Benefits:

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

9. SIGNIFICANT CONTINGENCIES – LITIGATION

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

10. JOINT VENTURE

The Municipality participates in a joint venture, known as the Southern Missouri Recycling & Waste Management District, formed for the purpose of providing solid waste disposal services to participating members.

The members of the joint venture are as follows:

Municipality of Armour	Municipality of Bonesteel	Charles Mix County
Douglas County	Municipality of Geddes	Gregory County
Municipality of Gregory	Municipality of Lake Andes	Municipality of Pickstown
Municipality of Ravinia	Municipality of Springfield	Municipality of Tabor
Municipality of Wagner		

The joint venture's governing board is composed of 13 representatives. The board is responsible for adopting the budget and setting service fees adequate to fund the budget.

The Municipality retains no equity in the net position of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation.

No other information was available for this joint venture.

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF WAGNER
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes	394,909.00	394,909.00	387,957.41	(6,951.59)
General Sales and Use Taxes	700,000.00	700,000.00	773,010.84	73,010.84
Amusement Tax	0.00	0.00	1,548.00	1,548.00
Penalties and Interest on Delinquent Taxes	500.00	500.00	732.88	232.88
Total Taxes	1,095,409.00	1,095,409.00	1,163,249.13	67,840.13
Licenses and Permits	19,000.00	19,000.00	19,851.00	851.00
Intergovernmental Revenue:				
Federal Grants	508,500.00	508,500.00	151,022.32	(357,477.68)
State Grants	28,250.00	28,250.00	10,890.12	(17,359.88)
State Shared Revenue:				
Bank Franchise Tax	3,800.00	3,800.00	4,506.48	706.48
Liquor Tax Reversion	10,500.00	10,500.00	10,216.68	(283.32)
Motor Vehicle Licenses	13,000.00	13,000.00	18,399.03	5,399.03
Local Government Highway and Bridge Fund	21,000.00	21,000.00	23,881.67	2,881.67
Other	10,060.00	10,060.00	4,257.53	(5,802.47)
County Shared Revenue:				
County Road Tax	3,200.00	3,200.00	3,265.11	65.11
County Wheel Tax	5,000.00	5,000.00	7,479.73	2,479.73
Total Intergovernmental Revenue	603,310.00	603,310.00	233,918.67	(369,391.33)
Charges for Goods and Services:				
Public Safety	16,100.00	16,100.00	12,834.94	(3,265.06)
Highways and Streets	0.00	0.00	7,920.00	7,920.00
Culture and Recreation	4,000.00	4,000.00	3,603.58	(396.42)
Other	22,617.00	22,617.00	24,784.66	2,167.66
Total Charges for Goods and Services	42,717.00	42,717.00	49,143.18	6,426.18
Fines and Forfeits:				
Court Fines and Costs	500.00	500.00	1,552.47	1,052.47
Library	0.00	0.00	784.33	784.33
Total Fines and Forfeits	500.00	500.00	2,336.80	1,836.80
Miscellaneous Revenue:				
Investment Earnings	5,000.00	5,000.00	13,727.10	8,727.10
Rentals	66,450.00	66,450.00	75,627.93	9,177.93
Special Assessments	0.00	0.00	3,091.67	3,091.67
Contributions and Donations				
from Private Sources	5,000.00	5,000.00	5,025.00	25.00
Liquor Operating Agreement Income	50,000.00	50,000.00	60,248.36	10,248.36
Other	0.00	0.00	2,508.99	2,508.99
Total Miscellaneous Revenue	126,450.00	126,450.00	160,229.05	33,779.05
Total Revenue	1,887,386.00	1,887,386.00	1,628,727.83	(258,658.17)
Expenditures:				
General Government:				
Contingency	15,000.00	15,000.00		
Amount Transferred		(15,000.00)		0.00
Executive	39,400.00	39,400.00	35,644.41	3,755.59
Elections	1,000.00	1,000.00	0.00	1,000.00
Financial Administration	106,475.00	108,075.00	105,575.59	2,499.41
Other	87,250.00	126,750.00	126,669.43	80.57
Total General Government	249,125.00	275,225.00	267,889.43	7,335.57

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF WAGNER
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures (continued):				
Public Safety:				
Police	363,350.00	363,350.00	352,479.03	10,870.97
Other Protection	2,000.00	2,000.00	451.02	1,548.98
Total Public Safety	<u>365,350.00</u>	<u>365,350.00</u>	<u>352,930.05</u>	<u>12,419.95</u>
Public Works:				
Highways and Streets	225,576.00	232,376.00	216,690.74	15,685.26
Sanitation	13,000.00	13,000.00	13,565.31	(565.31)
Electricity	10,000.00	10,000.00	0.00	10,000.00
Airport	615,200.00	615,200.00	239,554.09	375,645.91
Total Public Works	<u>863,776.00</u>	<u>870,576.00</u>	<u>469,810.14</u>	<u>400,765.86</u>
Health and Welfare:				
Health	9,200.00	11,700.00	5,488.91	6,211.09
Total Health and Welfare	<u>9,200.00</u>	<u>11,700.00</u>	<u>5,488.91</u>	<u>6,211.09</u>
Culture and Recreation:				
Recreation	77,765.00	96,765.00	95,881.70	883.30
Parks	26,045.00	26,445.00	26,361.73	83.27
Libraries	75,275.00	75,275.00	69,735.19	5,539.81
Auditorium	68,550.00	71,550.00	70,265.80	1,284.20
Museums	500.00	500.00	500.00	0.00
Total Culture and Recreation	<u>248,135.00</u>	<u>270,535.00</u>	<u>262,744.42</u>	<u>7,790.58</u>
Conservation and Development:				
Urban Redevelopment and Housing Economic Development and Assistance (Industrial Development)	31,700.00	31,700.00	17,283.21	14,416.79
Total Conservation and Development	<u>85,500.00</u>	<u>85,500.00</u>	<u>71,863.22</u>	<u>13,636.78</u>
Debt Service	<u>34,600.00</u>	<u>34,600.00</u>	<u>34,556.56</u>	<u>43.44</u>
Total Expenditures	<u>1,887,386.00</u>	<u>1,945,186.00</u>	<u>1,482,565.94</u>	<u>462,620.06</u>
Excess of Revenue Over (Under) Expenditures	<u>0.00</u>	<u>(57,800.00)</u>	<u>146,161.89</u>	<u>203,961.89</u>
Other Financing Sources (Uses):				
Sale of Municipal Property	0.00	0.00	100.00	100.00
Compensation for Loss or Damage to Capital Assets	0.00	0.00	2,742.93	2,742.93
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>0.00</u>	<u>2,842.93</u>	<u>2,842.93</u>
Net Change in Fund Balances	<u>0.00</u>	<u>(57,800.00)</u>	<u>149,004.82</u>	<u>206,804.82</u>
Fund Balance - Beginning	<u>1,204,961.77</u>	<u>1,204,961.77</u>	<u>1,204,961.77</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>1,204,961.77</u>	<u>1,147,161.77</u>	<u>1,353,966.59</u>	<u>206,804.82</u>

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

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes	382,496.00	382,496.00	394,405.18	11,909.18
General Sales and Use Taxes	650,000.00	650,000.00	749,742.82	99,742.82
Amusement Tax	400.00	400.00	1,464.00	1,064.00
Tax Deed Revenue	0.00	0.00	1,051.00	1,051.00
Penalties and Interest on Delinquent Taxes	500.00	500.00	2,792.16	2,292.16
Total Taxes	<u>1,033,396.00</u>	<u>1,033,396.00</u>	<u>1,149,455.16</u>	<u>116,059.16</u>
Licenses and Permits	<u>17,000.00</u>	<u>17,000.00</u>	<u>20,490.00</u>	<u>3,490.00</u>
Intergovernmental Revenue:				
Federal Grants	161,500.00	161,500.00	233,103.13	71,603.13
State Grants	8,500.00	50,544.41	12,817.26	(37,727.15)
State Shared Revenue:				
Bank Franchise Tax	3,700.00	3,700.00	3,448.63	(251.37)
Liquor Tax Reversion	10,500.00	10,500.00	9,737.89	(762.11)
Motor Vehicle Licenses	12,000.00	12,000.00	17,211.79	5,211.79
Local Government Highway and Bridge Fund	20,000.00	20,000.00	24,087.98	4,087.98
County Shared Revenue:				
County Road Tax	3,200.00	3,200.00	3,265.11	65.11
County Wheel Tax	5,000.00	5,000.00	6,225.99	1,225.99
Other	3,500.00	3,500.00	4,119.50	619.50
Total Intergovernmental Revenue	<u>227,900.00</u>	<u>269,944.41</u>	<u>314,017.28</u>	<u>44,072.87</u>
Charges for Goods and Services:				
Public Safety	100.00	100.00	78.00	(22.00)
Highways and Streets	5,000.00	5,000.00	5,860.00	860.00
Sanitation	0.00	0.00	1,170.00	1,170.00
Culture and Recreation	4,000.00	4,000.00	3,216.00	(784.00)
Other	39,617.00	39,617.00	28,929.78	(10,687.22)
Total Charges for Goods and Services	<u>48,717.00</u>	<u>48,717.00</u>	<u>39,253.78</u>	<u>(9,463.22)</u>
Fines and Forfeits:				
Court Fines and Costs	500.00	500.00	1,816.65	1,316.65
Library	0.00	0.00	240.25	240.25
Total Fines and Forfeits	<u>500.00</u>	<u>500.00</u>	<u>2,056.90</u>	<u>1,556.90</u>
Miscellaneous Revenue:				
Investment Earnings	5,000.00	5,000.00	6,514.67	1,514.67
Rentals	64,500.00	64,500.00	80,460.08	15,960.08
Contributions and Donations from Private Sources	5,000.00	45,000.00	45,000.00	0.00
Liquor Operating Agreement Income	331,000.00	331,000.00	313,419.49	(17,580.51)
Other	0.00	0.00	2,217.83	2,217.83
Total Miscellaneous Revenue	<u>405,500.00</u>	<u>445,500.00</u>	<u>447,612.07</u>	<u>2,112.07</u>
Total Revenue	<u>1,733,013.00</u>	<u>1,815,057.41</u>	<u>1,972,885.19</u>	<u>157,827.78</u>
Expenditures:				
General Government:				
Contingency	15,000.00	15,000.00		
Amount Transferred		(15,000.00)		0.00
Executive	38,500.00	38,500.00	35,528.00	2,972.00
Elections	1,000.00	1,000.00	240.10	759.90
Financial Administration	112,050.00	119,550.00	108,392.23	11,157.77
Other	235,650.00	235,650.00	233,760.66	1,889.34
Total General Government	<u>402,200.00</u>	<u>394,700.00</u>	<u>377,920.99</u>	<u>16,779.01</u>

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (continued):				
Public Safety:				
Police	400,900.00	400,900.00	388,551.59	12,348.41
Other Protection	2,000.00	2,000.00	828.18	1,171.82
Total Public Safety	<u>402,900.00</u>	<u>402,900.00</u>	<u>389,379.77</u>	<u>13,520.23</u>
Public Works:				
Highways and Streets	268,600.00	276,100.00	214,960.23	61,139.77
Sanitation	13,500.00	13,500.00	12,335.00	1,165.00
Electricity	10,000.00	10,000.00	0.00	10,000.00
Airport	206,000.00	206,000.00	151,145.83	54,854.17
Total Public Works	<u>498,100.00</u>	<u>505,600.00</u>	<u>378,441.06</u>	<u>127,158.94</u>
Health and Welfare:				
Health	10,200.00	12,290.00	6,212.14	6,077.86
Total Health and Welfare	<u>10,200.00</u>	<u>12,290.00</u>	<u>6,212.14</u>	<u>6,077.86</u>
Culture and Recreation:				
Recreation	94,450.00	94,450.00	63,901.79	30,548.21
Parks	33,700.00	113,654.41	107,426.00	6,228.41
Libraries	75,900.00	75,900.00	70,156.38	5,743.62
Auditorium	69,800.00	69,800.00	62,323.60	7,476.40
Museums	500.00	500.00	500.00	0.00
Total Culture and Recreation	<u>274,350.00</u>	<u>354,304.41</u>	<u>304,307.77</u>	<u>49,996.64</u>
Conservation and Development:				
Urban Redevelopment and Housing	39,800.00	39,800.00	8,738.01	31,061.99
Economic Development and Assistance (Industrial Development)	50,500.00	50,500.00	48,538.87	1,961.13
Total Conservation and Development	<u>90,300.00</u>	<u>90,300.00</u>	<u>57,276.88</u>	<u>33,023.12</u>
Debt Service	<u>34,600.00</u>	<u>34,600.00</u>	<u>34,556.56</u>	<u>43.44</u>
Miscellaneous:				
Liquor Operating Agreements	287,500.00	287,500.00	270,777.79	16,722.21
Total Miscellaneous	<u>287,500.00</u>	<u>287,500.00</u>	<u>270,777.79</u>	<u>16,722.21</u>
Total Expenditures	<u>2,000,150.00</u>	<u>2,082,194.41</u>	<u>1,818,872.96</u>	<u>263,321.45</u>
Excess of Revenue Over (Under) Expenditures	<u>(267,137.00)</u>	<u>(267,137.00)</u>	<u>154,012.23</u>	<u>421,149.23</u>
Other Financing Sources (Uses):				
Sale of Municipal Property	0.00	0.00	4,261.48	4,261.48
Compensation for Loss or Damage to Capital Assets	0.00	0.00	30,863.03	30,863.03
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>0.00</u>	<u>35,124.51</u>	<u>35,124.51</u>
Net Change in Fund Balances	<u>(267,137.00)</u>	<u>(267,137.00)</u>	<u>189,136.74</u>	<u>456,273.74</u>
Fund Balance - Beginning	1,015,825.03	1,015,825.03	1,015,825.03	0.00
FUND BALANCE - ENDING	<u>748,688.03</u>	<u>748,688.03</u>	<u>1,204,961.77</u>	<u>456,273.74</u>

NOTES TO THE SUPPLEMENTARY INFORMATION

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

NOTE 1. Budgets and Budgetary Accounting:

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

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

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 and special revenue funds.

The Municipality did not encumber any amounts at December 31, 2015 and 2016.

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

NOTE 2. GAAP/Budgetary Accounting Basis Differences:

The Municipality's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenue and expenditures are recognized on a modified cash basis. Utilizing the modified cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE MUNICIPALITY CONTRIBUTIONS

South Dakota Retirement System

(Dollar Amounts in Thousands)

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 32	\$ 29
Contributions in relation to the contractually required contribution	<u>\$ 32</u>	<u>\$ 29</u>
Contribution deficiency (excess)	\$ -	\$ -
Municipality's covered-employee payroll	\$ 479	\$ 430
Contributions as a percentage of covered-employee payroll	6.76%	6.74%

SUPPLEMENTARY INFORMATION

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

South Dakota Retirement System

(Dollar Amounts in Thousands)

	<u>2016</u>	<u>2015</u>
Municipality's proportion of the net pension liability (asset)	0.0296074%	0.0266918%
Municipality's proportionate share of net pension liability (asset)	\$ 100	\$ (113)
Municipality's covered-employee payroll	\$ 437	\$ 432
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	22.91%	(26.17%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	96.89%	104.10%

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

MUNICIPALITY OF WAGNER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Two Years Ended December 31, 2016

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures 2015	Total Federal Expenditures 2016
Department of Agriculture:				
Direct Federal Funding:				
Community Facilities Loans and Grants (Note 3)	10.766			1,954,000.00
Total Department of Agriculture			0.00	1,954,000.00
Department of Housing and Urban Development:				
Indirect Federal Funding:				
SD Governor's Office of Economic Development, Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	14.228	1414-110	515,000.00	
Total Department of Housing and Urban Development			515,000.00	0.00
US Department of Interior:				
Indirect Federal Funding:				
SD Department of Game, Fish & Parks, Outdoor Recreation--Acquisition, Development and Planning	15.916	46-01466	39,954.41	
Total US Department of Justice			39,954.41	0.00
Department of Transportation:				
Indirect Federal Funding:				
SD Department of Public Transportation, Airport Improvement Program	20.106	12055174	193,148.72	151,022.32
Total Department of Transportation			193,148.72	151,022.32
General Services Administration:				
Indirect Federal Funding:				
SD Federal Property Agency: Donation of Federal Surplus Personal Property (Note 5)	39.003	N/A	290.33	
Total General Services Administration			290.33	0.00
GRAND TOTAL			748,393.46	2,105,022.32

Note 1: Basis of Presentation

This accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the years ended December 31, 2015 and 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Municipality.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Municipality has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

MUNICIPALITY OF WAGNER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Two Years Ended December 31, 2016
(Continued)

Note 3: Major Federal Financial Assistance Program

This represents a Major Federal Financial Assistance Program.

Note 4: Federal Loan Program

The Municipality had the following loan balances outstanding at December 31, 2016. These loan balances outstanding which have continuing compliance requirements are also included in the federal expenditures presented in the Schedule.

Cluster/Program Title	Federal CFDA Number	Amount Outstanding	Included as Federal Expenditure on this Schedule for 2015	Included as Federal Expenditure on this Schedule for 2016
USDA Rural Development Loan	10.766	1,735,555.35	0.00	1,954,000.00

Note 5: Federal Surplus Property

The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the Municipality.

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF WAGNER
(Continued)

The annual requirements to amortize all debt outstanding as of December 31, 2016, except for compensated absences, are as follows:

Annual Requirements to Maturity for Long-Term Debt
December 31, 2016

Year Ending December 31,	Notes Payable - Lots on CFD		Clean Water Revolving Loan - Series 2007		Drinking Water Revolving Loan # 1 - Series 2007	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	4,700.54	299.46	6,423.07	3,010.13	25,000.00	
2018	4,798.31	201.69	6,634.39	2,798.81	25,000.00	
2019	4,898.14	101.86	6,852.64	2,580.56	25,000.00	
2020			7,078.09	2,355.11	25,000.00	
2021			7,310.94	2,122.26	25,000.00	
2022-2026			40,324.66	6,841.34	125,000.00	
2027-2031			20,387.82	836.88	125,000.00	
2032-2036					125,000.00	
2037-2041					50,000.00	
2042-2046						
2047-2051						
2052-2056						
Totals	<u>14,396.99</u>	<u>603.01</u>	<u>95,011.61</u>	<u>20,545.09</u>	<u>550,000.00</u>	<u>0.00</u>

Year Ending December 31,	Drinking Water Revolving Loan # 2 - Series 2007		Water and Sewer Project Revenue Bond - Series 2010		Water and Wastewater Project Revenue Bond - Series 2015	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	5,833.32		8,682.99	14,945.01	27,965.93	38,766.07
2018	5,833.32		8,947.08	14,680.92	28,601.69	38,130.31
2019	5,833.32		9,219.22	14,408.78	29,251.91	37,480.09
2020	5,833.32		9,499.64	14,128.36	29,916.90	36,815.10
2021	5,833.32		9,788.58	13,839.42	30,597.02	36,134.98
2022-2026	29,166.60		53,594.15	64,545.85	163,740.45	169,919.55
2027-2031	29,166.60		62,255.86	55,884.14	183,218.10	150,441.90
2032-2036	29,166.60		72,317.45	45,822.55	205,012.70	128,647.30
2037-2041	7,292.05		84,005.17	34,134.83	229,399.85	104,260.15
2042-2046			97,581.81	20,558.19	256,687.97	76,972.03
2047-2051			86,210.61	4,363.39	287,222.13	46,437.87
2052-2056					263,940.70	8,548.30
Totals	<u>123,958.45</u>	<u>0.00</u>	<u>502,102.56</u>	<u>297,311.44</u>	<u>1,735,555.35</u>	<u>872,553.65</u>