

CITY OF ESTELLINE
ESTELLINE, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE ONE YEAR ENDING DECEMBER 31, 2018
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
P.O. Box 262
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CITY OF ESTELLINE
ESTELLINE, SOUTH DAKOTA

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FOR THE ONE YEAR ENDING DECEMBER 31, 2018

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NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, PC

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Governing Board
City of Estelline
Estelline, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Estelline (City), Hamlin County, South Dakota as of December 31, 2018 and for the one year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America - this includes the design, implementation, and maintenance of internal 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 amount and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I 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.

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my unmodified audit opinions on governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Estelline, South Dakota, as of December 31, 2018, and the respective changes in its financial position and, where applicable, cash flows thereof for the one year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (page 3 to 8), the budgetary comparison schedules (page 35 and 36), schedule of net pension (asset)/liability (page 37), and schedule of pension contributions (page 37) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the formation and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Matters - Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements.

The accompanying Combining Nonmajor Fund Financial Statements (page 38 to 40) are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The Combining Nonmajor Fund Financial Statements is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare these financial statements. This information has been subject to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

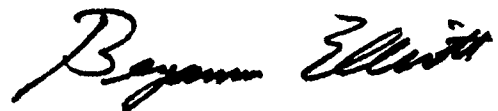
In my opinion, the Combining Nonmajor Fund Financial Statements is fairly stated in all material respects in relation to the financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 41) dated October 18, 2019 on my tests of City of Estelline's compliance with certain provisions of laws, regulations, contracts, grants and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

October 18, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the City of Estelline's (City) annual financial report presents our discussion and analysis of the City's financial performance during the one year ending December 31, 2018. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Revenue:	
Charges for goods and services	4,760,239
Operating grants	1,248
Capital grants	0
General receipts	639,319

Total	5,400,806

Expenses:	
Governmental	418,091
Business-type	4,673,013

Total	5,091,104

Increase in Net Position	309,702
Net Position:	
December 31, 2017	9,994,705

December 31, 2018	10,304,407
	=====
Governmental Fund	
General	1,167,968
Capital Assets	273,096
Long-term Debt	(12,851)
Business-Type Funds:	
Water	2,667,252
Electric	1,557,562
Sewer	1,051,326
Solid Waste	0
Swimming pool	6,599
Estelline Nursing Care Center (ENCC)	3,167,365
Ambulance	426,090

Total	10,304,407
	=====

During the year ending December 31, 2018 the City:

- * Improved city office building for \$11,650.
- * Improved clinic sprinkler system for \$5,304.
- * Purchased electrical equipment for \$129,088.
- * Purchased ambulance equipment for \$2,423.
- * Purchased various items of equipment for the nursing home for \$24,069.
- * Transferred \$59,194 from the electric fund to the pool fund to support operations.
- * Transferred \$894,457 from the general fund to the water fund to pay-off the water revenue bond of 928,280.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This annual report consists of three parts: (1) management's discussion and analysis (page 3 to 8), (2) the basic financial statements (page 9 to 34) and (3) supplementary information (page 35 to 40). The basic financial statements include two types of statements that present the City from two different financial points of view.

Government-wide financial statements (View #1):

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

Fund financial statements (View #2):

The remaining financial statements are fund financial statements that focus on significant operations of the governmental, enterprise, and fiduciary activities of the City.

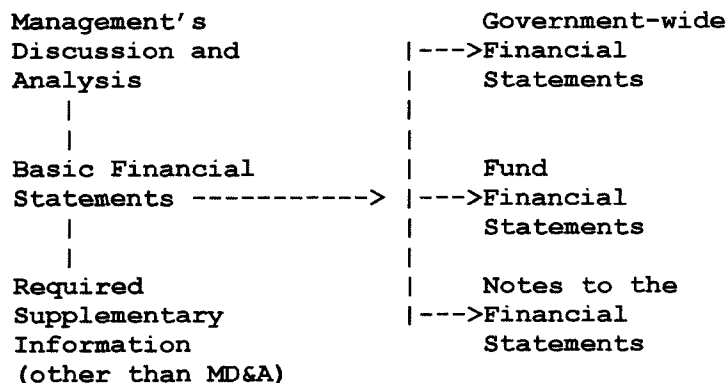
The governmental fund financial statements tell how governmental services were financed in the short-term, as well as what remains for future spending. The only governmental fund operated by the City is the general fund.

The enterprise fund financial statements tell how business-like activities of the City operated using both short-term and long-term financial information. Major enterprise funds operated by the City are the water, electric, sewer, and nursing home funds. Non-major enterprise funds operated by the City are the solid waste, pool, and ambulance funds.

The fiduciary fund statements tell how the City executed fiduciary responsibilities where the City acts solely as trustee or agent for others to whom the fund resources belong. The City has two fiduciary funds, a Flex-One agency fund for Sec. 125 payroll deductions and an insurance deductible fund.

The financial statements also include notes that explain in more detail some of the information found in the financial statements. The financial statements are followed by a section of required supplementary information which presents a budgetary analysis of the general fund and library fund.

Here is an overview of the required components of the City's annual financial statements.



This is a summary of the major features of these financial statement.

	Government-wide Statements	Fund Statements-----		
		Governmental Funds	Enterprise Funds	Fiduciary Funds
Scope	Entire City (except fiduciary funds)	City activities except Enterprise (ie: water) and Fiduciary	Activities operated like a private business (ie: water)	City's custody of money that belongs to others
Required Financial Statements	Statement of Net Position	Balance Sheet	Statement of Net Position	Statement of Fiduciary Net position
	Statement of Activities	Statement of Revenues, Expen- ditures and Changes in Fund Balances	Statement of Revenues, Expenses and Changes in Net Position	
Basis of Accounting	Accrual	Modified Accrual	Statement of Cash Flows Accrual	Accrual
Measurement Focus	Economic resources	Current financial resources	Economic resources	Economic resources
Types of Assets & Liabilities	All - financial and capital, short- and long-term	Only current financial assets and liabilities No capital assets	All - financial and capital, short- and long-term	All - financial and capital (if any), short- and long-term
Types of Revenue and Expenditures or Expense	All - regardless of when cash is received	Revenues when cash is received during year or within 60 days of year-end	All - regardless of when cash is received	All - regardless of when cash is received
		Expenditures when goods or services are received and payment is due during year or soon after year-end		

GOVERNMENT-WIDE STATEMENTS (Reporting the City as a whole)

The government-wide statements (page 9 and 10) report information about the City as a whole using accounting methods similar to those used for private companies. There are two government-wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position includes all of the government's assets and liabilities. Net Position is the difference between assets and liabilities. Changes in these accounts is one way to measure the City's financial health. Increases or decreases in net position measures improvements or declines in the City's financial health. To assess the City's overall financial health you also need to consider other factors such as changes in property tax base, sale of assets, and/or grant activity.

The Statement of Activities includes all of the year's revenues and expenses. You will notice that expenses are listed in the first column by program. Revenues related each program are reported to the right of the expense. The result is a net revenue/expense for each program. After listing program activity, general receipts of the City are listed, which include all taxes and interest earned.

The government-wide financial statements have two broad categories of information: governmental activity and business-type activity.

The governmental activities include operations of the government such and City Council, public safety, streets and highway, snow removal, debt service, recreational programs, and unemployment. Property taxes, sales taxes, revenue from the state, user fees and interest earnings finance most of these activities.

The business-type activities account for the City's water, electric, sewer, nursing home, solid waste, pool, and ambulance operations. These operations are funded mostly by user fees.

FUND FINANCIAL STATEMENTS

(Reporting the City's most significant funds)

The fund financial statements (page 11 to 16) provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting tools used to keep track of the receipt and disbursement of City resources. State law requires the use of some funds and the City Council establishes other funds to manage money for a specific purpose, like a capital project fund for a new building.

The fund financial statements show information in three broad categories: governmental, enterprise (business-type), and fiduciary.

Governmental funds: Most of the City's basic services are included in the governmental funds, which focus on (1) how cash, and other financial assets which can readily be converted into cash, flow in and out of that fund, and (2) the balances left at year-end that are available for spending in the next year. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources available for spending in the near future to finance City programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements to reconcile the differences between the governmental fund statements and the government-wide statements.

Enterprise funds: Services for which the City charges customers a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both short-term and long-term financial information. The City's enterprise funds provide water, electric, sewer, nursing home, solid waste, pool, and ambulance services.

Fiduciary funds: The City is the trustee (or fiduciary) for various external and internal parties. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The City's fiduciary activity is reported in a separate statement of fiduciary net position. (page 16) The fiduciary funds are excluded from the City's government-wide financial statements because the City cannot use those assets to finance City operations.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

In 2018 the City adopted a general fund budget of \$564,568 which is an increase of \$67,710 or 13.63% from 2017. The increase was largely in streets. There were no supplemental appropriations. See page 35 for more information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

At December 31, 2018, the City had invested \$4,423,376 in a broad range of capital assets, including land, buildings, improvements and equipment. This amount represents a net decrease (including additions and deductions) of \$74,054 or 1.65% from December 31, 2017.

Significant capital asset activity is reported above. See page 33 for more information.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

The City did not incur any new debt in 2018. The City paid-off it's water revenue bond in 2018. See page 34 for more information.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

(Material changes for governmental activities = changes greater than \$ 50,000)

(Material changes for business-type activities = changes greater than \$300,000)

	Increase (Decrease)	Reason
Governmental Activities:		
Current assets	(621,000)	Transferred \$894,457 to the water fund.
Transfers	(894,000)	Transferred \$894,457 to the water fund.
Business-type Activities:		
Current assets	365,000	An increase in cash from operations and transfer from general fund.
Long-term debt	(650,000)	Paid-off water revenue bond.
Pension related	(470,000)	South Dakota Retirement System's operati
Transfers	894,000	Transferred \$894,457 to the water fund.

CURRENTLY KNOWN FACTS

The City milled and added a 2 inch matt overlay to Main Street for \$148,830.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Estelline's business office at P.O. Box 278, Estelline, SD 57234.

CITY OF ESTELLINE

TABLE 1 - NET POSITION (condensed and in thousands)

FULL ACCRUAL - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018 AND DECEMBER 31, 2017

	Governmental Activities		Business-Type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Assets and deferred:						
Current assets	1,147	1,768	4,621	4,256	5,768	6,024
Capital assets	273	287	4,150	4,210	4,423	4,497
Other assets		1	14	75	14	76
Deferred	28	36	728	878	756	914
Total	1,448	2,092	9,513	9,419	10,961	11,511
Liabilities and deferred:						
Current liabilities	13	8	202	404	215	412
Long-term debt outstanding		17	262	912	262	929
Deferred	7	7	173	168	180	175
Total	20	32	637	1,484	657	1,516
Net Position:						
Net invested in capital assets	273	287	4,077	3,282	4,350	3,569
Restricted	21	30	557	778	578	808
Unrestricted	1,134	1,743	4,242	3,875	5,376	5,618
Total	1,428	2,060	8,876	7,935	10,304	9,995

TABLE 2 - CHANGES IN NET POSITION (condensed and in thousands)
FULL ACCRUAL - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDING DECEMBER 31, 2018

	Governmental Activities		Business-Type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	92	127	4,668	4,749	4,760	4,876
Operating grants	1	1		2	1	3
Capital grants				5	0	5
General revenues:						
Property taxes	264	263			264	263
Sales taxes	200	164			200	164
State sources	42	41			42	41
County sources	2	2			2	2
Interest earnings	33	22	48	26	81	48
Rents and franchise fee	44	48			44	48
Miscellaneous	2	2	4		6	2
Pension related	(8)	12	(162)	308	(170)	320
Total revenues	672	682	4,558	5,090	5,230	5,772
Expenses:						
General government	160	166			160	166
Public safety	89	93			89	93
Public works	140	95			140	95
Health and welfare	10	9			10	9
Culture and recreation	10	11			10	11
Economic development	1	1			1	1
Water			117	143	117	143
Electric			608	557	608	557
Sewer			59	59	59	59
Nursing home			3,573	3,567	3,573	3,567
Other			154	135	154	135
Total expenses	410	375	4,511	4,461	4,921	4,836
Revenues over (under) expenses	262	307	47	629	309	936
Transfers	(894)		894	0	0	0
Net position increase (decrease)	(632)	307	941	629	309	936
Net position:						
December 31, 2016		1,753		7,306		9,059
December 31, 2017	2,060	2,060	7,935	7,935	9,995	9,995
December 31, 2018	1,428		8,876		10,304	

CITY OF ESTELLINE

GOVERNMENT-WIDE
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2018

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	1,093,278	4,159,358	5,252,636
Certificates of deposit	5,581		5,581
Taxes receivable - delinquent	7,512		7,512
Due from other governments	9,861		9,861
Accounts receivable	5,629	393,108	398,737
Inventory of supplies	24,514	68,667	93,181
Internal balances	0	0	0
Capital assets:			
Land	34,000	96,930	130,930
Other capital assets, net of accumulated depreciation	239,096	4,053,350	4,292,446
Other assets:			
Cash - restricted		11,322	11,322
Net pension assets	88	2,289	2,377
Total assets	1,419,559	8,785,024	10,204,583
DEFERRED OUTFLOW OF RESOURCES:			
Pension related deferred outflows	27,960	727,709	755,669
Total deferred outflow of resources	27,960	727,709	755,669
LIABILITIES:			
Current liabilities:			
Accounts payable	(195)	108,929	108,734
Accounts payable - equipment		73,155	73,155
Customer deposits		8,650	8,650
Resident deposits (ENCC)		11,322	11,322
Noncurrent liabilities:			
Leave liability	12,851	261,415	274,266
Total liabilities	12,656	463,471	476,127
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	6,650	173,068	179,718
Total deferred inflows of resources	6,650	173,068	179,718
NET POSITION:			
Net investment in capital assets	273,096	4,077,125	4,350,221
Restricted for:			
SDRS pension purposes	21,398	556,930	578,328
Unrestricted	1,133,719	4,242,139	5,375,858
Total net position	1,428,213	8,876,194	10,304,407

See accompanying notes.

CITY OF ESTELLINE
GOVERNMENT-WIDE - STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING DECEMBER 31, 2018

Functions/Programs:	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Primary government:							
Governmental activities:							
General government	163,508	29,207			(134,301)		(134,301)
Public safety	88,818	32,934			(55,884)		(55,884)
Public works	144,078	4,119			(139,959)		(139,959)
Health and welfare	10,341	15,000	1,248		5,907		5,907
Culture and recreation	10,461	10,811			350		350
Economic development	885				(885)		(885)
Total governmental activities	418,091	92,071	1,248	0	(324,772)	0	(324,772)
Business-type activities:							
Water	120,444	138,123				17,679	17,679
Electric	610,387	728,041				117,654	117,654
Sewer	61,572	100,217				38,645	38,645
Solid waste	60,049	60,049				0	0
Pool	69,242	6,024				(63,218)	(63,218)
Nursing home (ENCC)	3,726,674	3,607,833				(118,841)	(118,841)
Ambulance	24,645	27,881				3,236	3,236
Total business-type activities	4,673,013	4,668,168	0	0	0	(4,845)	(4,845)
Total primary government	5,091,104	4,760,239	1,248	0	(324,772)	(4,845)	(329,617)
General revenues:							
Taxes:							
Property taxes					263,852		263,852
Sales taxes					200,023		200,023
Amusement tax					84		84
State shared revenue					42,388		42,388
County shared revenue					1,928		1,928
Interest earnings					33,083	47,777	80,860
Rents and franchise fees					44,331		44,331
Donations						3,358	3,358
Miscellaneous revenue					2,495		2,495
Transfers in (out)					(894,457)	894,457	0
Total general revenue and transfers					(306,273)	945,592	639,319
Change in net position					(631,045)	940,747	309,702
Net position:							
January 1, 2018					2,059,258	7,935,447	9,994,705
December 31, 2018					1,428,213	8,876,194	10,304,407

See accompanying notes.

CITY OF ESTELLINE

BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2018

	General Fund (1)
ASSETS:	
Cash and cash equivalents	1,093,278
Certificates of deposit	5,581
Property taxes receivable	7,512
Due from other governments	9,861
Accounts receivable	5,629
Inventory of supplies	24,514
Total assets	1,146,375
	=====
LIABILITIES:	
Accounts payable	(195)
Total liabilities	(195)

DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	7,512
Total deferred inflows of resources	7,512

FUND BALANCE:	
Nonspendable	24,514
Restricted	0
Committed	0
Assigned to:	
125th Celebration	5,581
Fire department (cash)	102,356
Unassigned	1,006,607
Total fund balance	1,139,058

Total liabilities, deferred inflows of resources and fund balance	1,146,375
	=====
Reconciliation of the above balance sheet - governmental funds to the government-wide statement of net position	
Total fund balance - governmental funds (above)	1,139,058
Amounts reported in the government-wide statement of net assets are different because:	
Capital assets and other assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Capital assets are:	766,730
Less: accumulated depreciation	(493,634)
These pension related amounts are not an available financial resource and therefore are not reported in the funds.	
Net pension asset	88
Deferred outflow of resources	27,960
Deferred inflow of resources	(6,650)
Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds.	7,512
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long term liabilities at year end consist of:	
Accrued leave payable	(12,851)
Total net position on government-wide statement of net position	1,428,213
	=====

(1) Only governmental fund.

See accompanying notes.

CITY OF ESTELLINE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2018

	General Fund (1)
Revenue from local sources:	
Taxes:	
Ad valorem taxes	265,109
General sales and use taxes	200,023
Penalties and interest	1,490
Amusement tax	84
Licenses and permits:	29,207
Intergovernmental revenue:	
State shared revenue:	
Grant - mosquito	1,248
Bank franchise tax	2,374
Commercial prorate	2,085
Liquor tax reversion	4,695
Motor vehicle licenses (5%)	15,049
Highway and bridge	18,185
County shared revenue: road taxes	1,928
Charges for goods and services:	
Fire	32,934
Landfill and refuse collection	3,565
Health and welfare	15,000
Recreation	10,811
Fines and forfeits:	0
Miscellaneous revenue:	
Interest earned	33,083
Rental and franchise	44,331
Special assessments	554
Other	2,495
Total revenues	<u>684,250</u>
Expenditures:	
General government:	
Mayor and Council	20,784
Election	0
Financial administration	83,526
Other	54,785
Public safety:	
Police	47,155
Fire	27,791
Public works:	
Highways and streets	129,226
Sanitation	6,457
Health and welfare:	
West Nile	2,116
Ambulance	2,034
Culture and recreation:	
Recreation	1,175
Parks	7,610
Economic development	885
Capital outlays	16,954
Total expenditures	<u>400,498</u>
Excess of revenues over (under) expenditures	283,752
Other financing sources (uses):	
Transfers out	(894,457)
Net change in fund balance	(610,705)
Fund balance:	
January 1, 2018	1,749,763
December 31, 2018	<u>1,139,058</u>
Reconciliation of the above statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities.	
Amounts reported in the government-wide statement of net position are different because:	
Net change in fund balances - total governmental funds (above)	(610,705)
Governmental funds report capitalized cost as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation. 2018 capitalized cost are	16,954
2018 depreciation is	(30,917)
Revenues and expenses related to pensions do not provide current financial resources or uses and, therefore, are not reported in the funds.	(8,243)
Some property taxes will not be collected for several months after the City's year-end. Therefore, they are not considered "available" revenues and are deferred in the governmental funds statement.	(2,747)
Governmental funds do not reflect the change in "accrued leave", but the statement of activities reflects the change in "accrued leave" through expenditures.	4,613
Change in net position on government-wide statement of activities	<u>(631,045)</u>

(1) Only governmental fund.
See accompanying notes.

CITY OF ESTELLINE

STATEMENT OF NET POSITION - ENTERPRISE FUNDS
AS OF DECEMBER 31, 2018

	Water Fund	Electric Fund	Sewer Fund	Nursing Home Fund	Other Enterprise Funds	Total Enterprise Funds
ASSETS:						
Current assets:						
Cash and cash equivalents	324,653	785,264	307,200	2,365,318	376,923	4,159,358
Accounts receivable	20,384	135,107	16,291	200,822	20,504	393,108
Due from other funds		5,242				5,242
Inventory of supplies	11,316	8,885	4,572	43,894		68,667
Total current assets	356,353	934,498	328,063	2,610,034	397,427	4,626,375
Capital assets:						
Land	2,000	1,500	66,500	26,930		96,930
Buildings	68,160	115,524	30,524	1,060,184	27,118	1,301,510
Improvements	2,885,930	1,334,482	1,314,872	351,645	155,530	6,042,459
Equipment	68,050	255,349	35,572	642,149	143,378	1,144,498
Accumulated depreciation	(718,039)	(967,991)	(727,103)	(1,741,387)	(280,597)	(4,435,117)
Total capital assets	2,306,101	738,864	720,365	339,521	45,429	4,150,280
Other assets:						
Cash - restricted				11,322		11,322
Net pension assets	20	24	22	2,223		2,289
Total assets	2,662,474	1,673,386	1,048,450	2,963,100	442,856	8,790,266
DEFERRED OUTFLOW OF RESOURCES						
Pension related deferred outflow	6,501	7,554	7,104	706,550		727,709
Total outflow of resources	6,501	7,554	7,104	706,550	0	727,709
LIABILITIES:						
Current liabilities:						
Accounts payable	177	37,401	164	66,262	4,925	108,929
Accounts payable - equipment		73,155				73,155
Due to other funds					5,242	5,242
Customer deposits		8,650		11,322		19,972
Total current liabilities	177	119,206	164	77,584	10,167	207,298
Noncurrent liabilities:						
Leave liability		2,375	2,375	256,665		261,415
Total noncurrent liabilities	0	2,375	2,375	256,665	0	261,415
Total liabilities	177	121,581	2,539	334,249	10,167	468,713
DEFERRED INFLOW OF RESOURCES						
Pension related deferred inflow	1,546	1,797	1,689	168,036		173,068
Total inflow of resources	1,546	1,797	1,689	168,036	0	173,068
NET POSITION						
Net investment in capital assets	2,306,101	665,709	720,365	339,521	45,429	4,077,125
Restricted:						
SDRS pension purposes	4,975	5,781	5,437	540,737		556,930
Unrestricted	356,176	886,072	325,524	2,287,107	387,260	4,242,139
Total net position	2,667,252	1,557,562	1,051,326	3,167,365	432,689	8,876,194

See accompanying notes.

CITY OF ESTELLINE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2018

	Water Fund	Electric Fund	Sewer Fund	Nursing Home Fund	Other Enterprise Funds	Total Enterprise Funds
Operating revenue:						
Charges for goods and services	138,123	728,041	100,217	3,607,833	93,954	4,668,168
Total operating revenue	138,123	728,041	100,217	3,607,833	93,954	4,668,168
Operating expenses:						
Personal services	26,763	25,765	25,009	2,799,386	20,229	2,897,152
Other current services	22,019	23,672	9,914	704,779	58,033	818,417
Cost of goods sold		515,090			60,049	575,139
Depreciation	63,899	43,782	24,076	68,288	15,625	215,670
Pension related	3,036	2,078	2,573	154,221	0	161,908
Total operating expenses	115,717	610,387	61,572	3,726,674	153,936	4,668,286
Total operating income (loss)	22,406	117,654	38,645	(118,841)	(59,982)	(118)
Nonoperating revenue (expense):						
Interest earnings	856	3,552	800	36,770	5,799	47,777
Donations					3,358	3,358
Interest expense and fees	(4,727)					(4,727)
Total nonoperating revenue (expense)	(3,871)	3,552	800	36,770	9,157	46,408
Income (loss) before transfers and capital contributions	18,535	121,206	39,445	(82,071)	(50,825)	46,290
Transfers in	894,457				59,194	953,651
Transfers (out)		(59,194)				(59,194)
Change in net position	912,992	62,012	39,445	(82,071)	8,369	940,747
Net position:						
January 1, 2018	1,754,260	1,495,550	1,011,881	3,249,436	424,320	7,935,447
December 31, 2018	2,667,252	1,557,562	1,051,326	3,167,365	432,689	8,876,194

See accompanying notes.

CITY OF ESTELLINE

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2018

	Water Fund	Electric Fund	Sewer Fund	Nursing Home Fund	Other Enterprise Funds	Total Enterprise Funds
Cash flows from:						
Operating activities:						
Receipts from customers	126,268	673,934	87,411	3,580,822	93,458	4,561,893
Estimated rec. from other fund	13,101	61,139	13,101			87,341
Payments to employees	(31,554)	(27,015)	(26,011)	(2,788,008)	(20,229)	(2,892,817)
Payments to suppliers	(19,079)	(547,904)	(8,807)	(631,046)	(115,888)	(1,322,724)
Estimated pymts. to other fund	(5,535)		(2,964)	(55,777)	(2,236)	(66,512)
Net cash provided (used) by operating activities	83,201	160,154	62,730	105,991	(44,895)	367,181
Noncapital financing activities:						
Transfers in	894,457				59,194	953,651
Transfers (out)		(59,194)				(59,194)
Due (from)/to other funds		(396)			396	0
Donations					3,358	3,358
Capital financing activities:						
Cash paid for equipment		(55,933)		(24,069)	(2,423)	(82,425)
Principal paid on debt	(928,280)					(928,280)
Interest paid on debt	(4,727)					(4,727)
Investing activities:						
Interest earnings	856	3,552	800	36,770	5,799	47,777
Net increase (decrease) in cash	45,507	48,183	63,530	118,692	21,429	297,341
Cash:						
January 1, 2018	279,146	737,081	243,670	2,257,948	355,494	3,873,339
December 31, 2018	324,653	785,264	307,200	2,376,640	376,923	4,170,680
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	22,406	117,654	38,645	(118,841)	(59,982)	(118)
Depreciation	63,899	43,782	24,076	68,288	15,625	215,670
Pension related	3,036	2,078	2,573	154,221		161,908
(Increase) decrease in:						
Receivables	1,246	7,182	295	(31,256)	(496)	(23,029)
Inventory	(1,948)	(600)	(1,472)	13,512		9,492
Increase (decrease) in:						
Accounts payable	(647)	(8,542)	(385)	4,445	(42)	(5,171)
Payroll deductions	113	(124)	124	(289)	0	(176)
Customer deposits		(150)		4,244		4,094
Leave liability	(4,904)	(1,126)	(1,126)	11,667		4,511
Net cash provided (used) by operating activities	83,201	160,154	62,730	105,991	(44,895)	367,181
Noncash investing, capital and financing activities:						
None						

See accompanying notes.

CITY OF ESTELLINE

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

- AGENCY FUND

AS OF DECEMBER 31, 2018

	Flex-One Fund	Insurance Fund	Total Agency Funds
	-----	-----	-----
Assets:			
Cash	9,163	16,675	25,838
	-----	-----	-----
Total assets	9,163	16,675	25,838
	=====	=====	=====
Liabilities:			
Due to others	9,163	16,675	25,838
	-----	-----	-----
Total liabilities	9,163	16,675	25,838
	=====	=====	=====

See accompanying notes.

CITY OF ESTELLINE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Estelline conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Reporting Entity:

The funds and account groups included in this report are controlled by or dependent upon the City of Estelline's (City) Governing Board.

The City's officials at December 31, 2018 are:

Governing Board:	Finance Officer:
Donald Zafft, Mayor	Mary Saathoff
Mike Gunderson, President	
Joshua Cokens	ENCC Administrator:
Chris Lilla	Michael Ward
Ryan Miller	
Julie Rieckman	Attorney:
Cheryl Squires	Todd Boyd

The City's financial reporting entity is composed of the following:

Financial Reporting Entity:
Primary Government: - The City of Estelline
Component Unit: - None

To determine the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The reporting entity of the City of Estelline consists of (1) 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; (2) those organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the City (the primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City unless that organization can, without the approval of the City: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

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

b. Basis of Presentation:

Government-wide Financial Statements:

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

The Statement of Net Position reports all financial and capital resources, in a net position form (assets minus liabilities equal net position). Net position is displayed in three components, as applicable: net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each segment of City's business-type activities. City expenses are associated with a specific program or function and are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the program 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 and interest, are presented as general revenues.

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, enterprise, and fiduciary. An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the City or if it meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues, or expenditures/expenses) for all funds of that category (that is, total governmental or total enterprise), and
- b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
- c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

Funds of the City are described below within their respective fund type:

Governmental Funds

General Fund - a fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the City except those required to be accounted for in another fund. The general fund is always a major fund.

Enterprise Funds - Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The City has the following enterprise funds:

Water Fund - A fund established by SDCL 9-47-1 to provide water to customers within the City of Estelline. The water fund is a major fund.

Electric Fund - A fund established by SDCL 9-39-1 and 26 to provide electric services to customers within the City of Estelline. The electric fund is a major fund.

Sewer Fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the City of Estelline. The sewer fund is a major fund.

Solid Waste Fund - A fund established by SDCL 9-32-11 and 34A-6 to account for the collection and disposal of solid waste from the municipality. The solid waste fund is not a major fund.

Swimming pool fund - A fund established by SDCL 9-28-60 and 69 to operate a municipal swimming pool. The swimming pool fund is not a major fund.

Health Care Funds:

Estelline Nursing & Care Center fund - A fund established by SDCL 28-18-7 to provide operation of a nursing facility in the City of Estelline. The Estelline Nursing & Care Center fund is a major fund.

Ambulance fund - A fund established by SDCL 34-9-11 and 28-18-7 to provide ambulance services. The ambulance fund is not a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

Agency funds: Agency funds are used to account for resources held by the City in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The City maintains an agency fund (Flex One) to account for employee withholdings for medical and daycare spending accounts under IRS code section 125 and an agency fund for insurance deductibles.

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus

Government-wide Financial Statements:

Both governmental and business-type activities are presented using the "economic resources" measurement focus, applied on the accrual basis of accounting.

The "economic resources" measurement focus includes all assets and liabilities (whether current or noncurrent, financial, or nonfinancial) on the balance sheet. Operating statements use the flow of all economic resources to present operating income, changes in net position, and cash flows during the accounting period. This measurement focus uses the term "net position" to describe its equity at the end of the accounting period.

Fund Financial Statements:

All governmental funds are presented using the "current financial resources" measurement focus and the modified accrual basis of accounting.

The "current financial resources" measurement focus includes only current financial assets and liabilities on the balance sheet. Operating statements present sources and uses of available spendable financial resources during the accounting period. This measurement focus uses the term "fund balance" to describe its equity at the end of the accounting period. It is a measure of available spendable financial resources.

Enterprise and fiduciary funds are presented using the "economic resources" measurement focus (described above) and the accrual basis of accounting.

Basis of Accounting

Government-wide Financial Statements:

In the government-wide financial statements, the accrual basis of accounting is used for both governmental and business-type activities in the Statement of Net Position and Statement of Activities. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

In the fund financial statements, all governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The City's availability period for accruing and recording revenues is 30 days. The revenues which are accrued at December 31, 2018 are state shared revenue and other accounts receivable.

Under the modified accrual basis of accounting, receivables may be measurable but "not available". Not available means not collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflow of resources are those where the asset recognition criteria has been met but for which the revenue recognition criteria has not been met because the receivable is not available.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due. However, the City of Estelline budgets for, and makes payment of, debt obligations due on January 1st as of December 31st, the end of the City's fiscal year.

All enterprise funds and fiduciary funds are accounted for using the accrual basis of accounting, the same as in the government-wide financial statements. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

e. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed. All other interfund transactions are reported as transfers.

f. Cash and Cash Equivalents:

In the enterprise funds' statement of cash flows, the City considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents. Those portions of the enterprise funds' cash resources that are included in the City's internal cash management pool are considered to be cash and cash equivalents, regardless of the form in which they are held, because use of the pool provides each enterprise fund with access to its cash resources essentially on demand.

For the year ending December 31, 2018, all enterprise fund deposits and investments are considered to be cash and cash equivalent for purposes of the statement of cash flow.

g. Capital Assets and Infrastructure assets:

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

Government-wide Financial Statements:

In the government-wide financial statements, capital assets are accounted for on the accrual basis of accounting. Capital asset purchases are capitalized and not expensed. Instead, capital purchases are expensed over the life of the asset as depreciation or amortization.

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. After an item has been capitalized, subsequent improvements or betterments that are significant, and which extend the useful life of the item, are also capitalized.

The total December 31, 2018 balance of capital assets for governmental activities include approximately 20% for which the costs were determined by estimates of the original costs. The total December 31, 2018 balance of capital assets for business-type activities includes approximately 10% for which the costs were determined by estimates of the original costs. Estimated original costs were established by basing the estimates on a comparison to historical costs of similar items.

Interest cost incurred during construction of general capital assets are not capitalized with other capital asset cost. Interest cost incurred during construction of enterprise capital assets are capitalized with other capital asset cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities and the enterprise fund statement of revenue, expenses and changes in net position. Accumulated depreciation is reported on the government-wide statement of net position and on the enterprise fund's statement of net position. See also page 33.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation method, and estimated useful lives of capital assets reported in the government-wide statements and enterprise funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Life in Years
	-----	-----	-----
Land	All		NA
Buildings	All	Straight-line	33-50
Improvements	5,000	Straight-line	10-50
Equipment	1,000	Straight-line	3-30

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

Capital assets and related depreciation expenses are not recorded in governmental funds of the fund financial statements because these funds have a "current financial resources" measurement focus. Instead, these funds report capital asset acquisitions as capital outlay expenditures.

Capital assets and related depreciation expenses are recorded on the accrual basis of accounting in the enterprise funds of the fund financial statements, the same as in the government-wide statements.

h. Long-term Liabilities:

Government-wide Financial Statements:

In the government-wide financial statement, all long-term liabilities to be repaid from governmental or business-type resources are reported as liabilities. Long-term liabilities primarily consist of revenue bonds and accrued leave payable.

Fund Financial Statements:

In the fund financial statements, governmental debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. Enterprise fund long-term debt is reported as a liability, the same as in the government-wide statements.

i. Program Revenues and General Revenues and Deferred Inflows and Deferred Outflows of Resources:

Program Revenue

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

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

2. Program-specific operating grants and contribution - 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 contribution - These arise from mandatory and voluntary non-exchange transactions with other government, organization, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

General Revenue

General revenues include all revenues not specifically earmarked for a specific program. General revenues include all taxes, interest earnings, unrestricted receipts from federal, state, or county governments, and miscellaneous revenues not related to a program. These revenues are not restricted and can be used for the regular operation of the City.

Deferred Outflows and Deferred Inflows of Resources

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

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

j. Enterprise Fund Revenue and Expense Classifications:

In the government-wide and fund financial statements, enterprise revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

k. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as "Net Position" and is displayed in three components:

1. Net Investment in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any capital outlay certificate payable, capitalized leases payable, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position - Consists of net position with constraints placed on its use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position - Other net position that does not meet the criteria of 1 or 2 above.

Fund Financial Statements:

Governmental fund equity is classified as "Fund Balance", and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Enterprise fund equity is classified as "Net Position", the same as in the government-wide financial statements. Fiduciary fund equity (except for agency funds, which have no fund equity) is reported as "Net Position" held in trust for a purpose.

1. 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 City classifies governmental fund balances as follows:

- * Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- * Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.
- * Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed (or modified or rescinded) by the government through formal action at 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 Council or Finance Officer.
- * Unassigned - includes positive fund balance within the general fund which has not been classified within the above categories and negative fund balances in other governmental funds.

The City of Estelline fund balance classifications are made up of:

<u>Fund Balance</u> <u>Classifications</u>	<u>Account</u> <u>or Fund</u>	<u>Authority</u> <u>or Action</u>	<u>Amount</u>
Nonspendable	Inventory		24,514
Restricted	None		0
Committed	None		0
Assigned	General:		
	125th Celebration	Finance Officer	5,581
	Fire department (cash)	Resolution	102,356
Unassigned	General		1,006,607

			1,139,058

The City uses "restricted" and "committed" amounts first when 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 City would first use "committed", then "assigned", and lastly "unassigned" amounts of unrestricted fund balance when expenditures are made.

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

The City does not have any special revenue funds.

m. Application of Net Position:

It is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred which can be charged to either restricted or unrestricted net position.

n. Allowance for Doubtful Accounts:

Because write-off of uncollected taxes and/or utility billings is minimal, is it not considered necessary to establish an estimated allowance for doubtful accounts.

o. Accounting Estimates:

The preparation of financial statements in conformity with U.S. generally

accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimates. Following are the estimates made by management during the year:

- * Allowance for doubtful accounts - estimated uncollectables
- * Inventory - estimated fair market value
- * Depreciation - estimated service lives
- * Cash Flows - interfund utility usage
- * SDRS Pension - actuarial assumptions

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

Budget Overdrafts:

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund.

The General fund/general government/other went over its budget by \$16,384 largely because of building improvements. Also, the General fund/health and welfare/ambulance went over its budget by \$2,035. However, these are not considered a significant violations of a departmental expenditure compared to appropriations.

In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation.

3. DEPOSITS, INVESTMENTS AND RELATED RISKS

The City follows the practice of aggregating deposits of its various funds for cash management efficiency and returns, except for restricted cash held by 3rd parties and certificates of deposits purchased for an individual fund.

The City's 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. 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 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.

Deposits are reported at cost, plus interest, if the account is the add-on type.

Actual bank balances at December 31, 2018 were as follows: Insured \$500,000, Collateralized ** \$4,869,010 for a total of \$5,369,010.

** Uninsured, collateral jointly held by state's/municipality's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits, including \$180 in petty cash, at December 31, 2018 was \$5,295,377.

Reconciliation of deposits to government-wide statement of net position is:

Statement of Net Position:	
Unrestricted: Cash	\$ 5,252,636
Certificates of deposits	5,581
Restricted: Cash	11,322
Fiduciary funds: (agency)	25,838

	\$ 5,295,377
	=====

Investments - In general, SDCL 4-5-6 permits City money 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) or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). 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.

The City had no investments during the year ending December 31, 2018.

Certificates of deposit, with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

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

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

Concentration of Credit Risk - the City places no limit on the amount that may be invested in any one institution. All City deposits are in Reliabank.

Custodial Risk (Deposits) - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. At December 31, 2018, the City's deposits in financial institutions were not exposed to custodial deposit risk.

Custodial Risk (Investments) - The risk that, in the event of a default by the counterparty to a transaction, the City will not be able to recover the value of an investment or collateral securities held by the counterparty. At December 31, 2018, the City was not exposed to custodial investment risk.

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

4. RECEIVABLES AND PAYABLES:

Receivables and payables are not aggregated in the financial statements. The City expects all receivables to be collected within one year. Allowances for estimated uncollectible accounts in the enterprise funds are not material to these financial statements.

5. INVENTORY OF SUPPLIES AND SMALL TOOLS:

Government-wide Statements: (consumption method)

In the government-wide financial statements inventory of supplies and small tools are recorded as assets when purchased and charged to expense when they are consumed. Inventory of supplies and small tools are valued at the lower of cost or market. Donated items are valued at estimated market value at the date of receipt. The cost valuation method is first-in first-out.

Fund Financial Statements: (consumption method)

In the fund financial statements inventory of supplies and small tools are recorded as assets when purchased and charged to expenditure/expense when they are consumed. Reported governmental inventories are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Inventory of supplies and small tools are valued at the lower of cost or market. Donated items are valued at estimated market value at the date of receipt. The cost valuation method is first-in first-out.

6. CHANGES IN CAPITAL ASSETS (see schedule one on page 33)

A summary of the changes in capital assets is presented in schedule one at the end of these notes. There was no construction-in-progress at the end of 2018.

7. CHANGES IN LONG-TERM DEBT (see schedule two on page 34)

A summary of changes in long-term debt is presented in schedule two at the end of these notes. The City did not have any short-term or conduit debt during the year ending December 31, 2018.

8. INTERFUND BALANCES

At December 31, 2018 the solid waste fund owed the electric fund \$5,242 to cover an overdraft.

9. INTERFUND TRANSFERS

Net transfers "in" and "(out)" between funds are:

	Governmental	Enterprise
For operations:		
Electric		(59,194)
Swimming pool		59,194
To pay-off debt:		
General	(894,457)	
Water		894,457
	-----	-----
	(894,457)	894,457

10. RESTRICTED NET POSITION

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

Purpose:	Restricted By:	Government-Wide	Business-Type
Pension	GASB-68	21,398	556,930

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

Benefits Provided:

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017 are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An

unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level.

Members that were hired on or after July 1, 2017 are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

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

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent 3rd quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2017 and exists again as of June 30, 2018. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.89% as of June 30, 2017 and is 2.03% as of June 30, 2018.

The changes in actuarial assumptions increased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 1.89% COLA, reflecting the current and assumed future restricted maximum COLA of 2.03%.

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, contributions requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the calendar years ending December 31, 2018, 2017 and 2016 were \$124,137, \$123,933, and \$120,109 respectively (employer's share) equal to the required contribution each year.

Pension (Assets)/Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflow of Resources to Pensions:

At June 30, 2018 SDRS is 100.02% funded and accordingly has net pension (asset). The proportionate shares of the components of the net pension (asset) of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2018 and reported by the City as of December 31, 218 are as follows:

Proportionate share of total pension liability	\$ 12,475,637.24
Less: Proportionate share of net position restricted for pension benefits	(12,473,259.28)

Proportionate share of net pension (asset)/liability	\$ (2,377.96)
	=====

At December 31, 2018 the City reported a (asset)/liability of \$(2,377.96) for its proportionate share of the net pension (asset)/liability. The net pension (asset) was measured as of June 30, 2018 and the total pension liability used to calculate the net pension (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the City's proportion was .001019608 which is an increase of .000016857 over its proportion measured as of June 30, 2017. For the year ended December 31, 2018, the City recognized net pension expense of \$170,151.

At December 31, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 89,878.21	
Change in assumptions	603,722.86	
Net difference between projected and actual earnings on pension plan investments	0.00	\$ 179,718.47
Changes in proportion and difference between client contribution and proportionate share of contributions	(8,941.53)	
City contributions subsequent to the measurement date	62,068.31	
	-----	-----
Totals	\$ 746,727.85	\$ 179,718.47
	(62,068.31)	=====
	(179,718.47)	

To be amortized over 4 years	\$ 504,941.07	
	=====	

The \$62,068.31 reported as deferred outflow of resources related to the Pension, results from the City's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending December 31, 2019.

The other amounts reported as deferred outflows of resources and deferred inflow of resources related to the pension will be recognized in pension expense (reduction of expense) as follows:

Year Ending December 31, 2019	\$ 318,617.82
December 31, 2020	237,019.34
December 31, 2021	(31,104.37)
December 31, 2022	(19,591.72)

	\$ 504,941.07

Actuarial Assumptions:

The total pension asset in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increases	Graded by years of service from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2017, white collar rates for females and total dataset rates for males.

Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2017.

A detailed experience analysis covering the period from June 30, 2011 to June 30, 2016, was conducted and appropriate modifications in the economic and demographic assumptions were made effective with the June 30, 2017 valuation.

Discount Rate:

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

Sensitivity of (Asset)/Liability to Changes in the Discount Rate:

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

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
City's proportionate share of the net pension (asset)/liability	\$1,796,028.00	\$(2,377.96)	\$(1,465,283.62)

Investments

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 (ie: the Council should use the same degree of care as a prudent man.) Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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

	100.0%	
	=====	

Pension Plan Fiduciary Net Position:

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

12. EMPLOYEE BENEFIT PLAN

The city offers eligible employees a "Flexible Benefits Plan" (also known as "Flex One" or a "cafeteria plan") under IRC Sec.125. The Plan allows eligible employees to use money provided by the City through employee salary redirection, to choose (and pay for) one or more benefits offered through the Plan. The Plan is accounted for in an agency fund.

13. PROPERTY TAX

Taxes are levied on or before October 1, attach as an enforceable lien on property, become due and payable on the following January 1, and are payable in two installment on or before the following April 30 and October 31. The county bills and collects the City's taxes and remits them to the City.

Property taxes are recognized to the extent they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is intended to be used to finance the current year's appropriations, but which will not be collected during the current fiscal year or within the "availability period" of 30 days has been deferred in the fund financial statements. Property tax revenues intended to finance the current year's appropriations, and therefor susceptible to accrual, has been reported as revenue in the government-wide financial statements, even though collection will occur in a future year.

Delinquent property taxes, from prior year tax levies, are included in "net position" in the government-wide statement of activities but are deferred in the fund financial statements. See reconciliations on page 11 and 12.

14. INSURANCE

The City is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ending December 31, 2018, the City of Estelline managed its risks as follows:

Health:

The City purchases health insurance for its employees from a commercial insurance carrier.

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

Liability Insurance:

The City purchases liability insurance for risks related to torts; theft or damage to property; errors and omissions of public officials from a commercial insurance carrier.

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

Worker's Compensation:

The City joined the South Dakota Municipal League Workers' 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 City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims.

The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

Unemployment Benefits:

The city has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the year ending December 31, 2018 no claims for unemployment benefits were paid and none are expected to be paid in 2019.

15. TAX ABATEMENTS

As of December 31, 2018 the City did not provide any tax abatement incentives through a Tax Increment Financing District Project (of which the City has none) or through other agreements that are considered tax abatements in accordance with the provisions of GASB Statement No. 77.

16. LITIGATION

The City can be a party to litigation. No determination can be made at this time regarding the potential outcome of such matters. However, as discussed in the risk management note above, the City has liability coverage for itself and its employees. Therefore, any litigation is not expected to have a potential material effect on the City's financial statements.

17. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The city has a rubble site. It does not have a landfill with any associated closure costs or liabilities.

There is no material unallowed related party activity and the City does not offer any Other Post Employment Benefits.

The City milled and added a 2 inch matt overlay to Main Street for \$148,830.

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDING DECEMBER 31, 2018

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CITY OF ESTELLINE

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO
 CHANGES IN LONG-TERM DEBT
 FOR THE YEAR ENDING DECEMBER 31, 2018

	Beginning Balance 12-31-17 -----	Additions -----	(Deletions) -----	Governmental Ending Balance 12-31-18 -----	Business-type Ending Balance 12-31-18 -----	Principal Due in 2019 -----
GOVERNMENTAL						
Accrued leave payable:						
Paid by the general fund	17,464	12,851	(17,464)	12,851		12,851
	<u> </u>	<u> </u>	<u> </u>	<u> </u>		
BUSINESS-TYPE						
2010 Rural Development Loan:						
Total amount of \$94,954 at 12-31-2010						
Total amount of \$1,019,000 at 12-31-2011						
Maturing in 2050						
Interest at 3.00%						
Monthly payments of \$3,699 starting 1-27-2012						
Callable on any installment date						
For new water tower, lines and meters						
Paid by the water fund	928,280		(928,280)		0	0
Accrued leave payable:						
Paid by enterprise funds	256,904	261,414	(256,904)		261,414	261,414
	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>
Total business-type	1,185,184	261,414	(1,185,184)		261,414	274,265
	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>

CITY OF ESTELLINE

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2018

GENERAL FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Contingency Transfers Supplemental:	Final		
Revenue:					
Revenue from local sources:					
Taxes:					
Ad valorem taxes	275,000		275,000	265,109	(9,891)
Sales and use tax	137,000		137,000	200,023	63,023
Penalties and interest			0	1,490	1,490
Amusement tax			0	84	84
Licenses and permits:	3,700		3,700	29,207	25,507
Intergovernmental revenue:					
State shared revenue:					
Grant - mosquito			0	1,248	1,248
Bank franchise tax	1,500		1,500	2,374	874
Commercial prorate			0	2,085	2,085
Liquor tax reversion	4,150		4,150	4,695	545
Motor vehicle licenses (5%)	14,750		14,750	15,049	299
Highway and bridge	16,000		16,000	18,185	2,185
County shared revenue	1,800		1,800	1,928	128
Charges for goods and services:					
Fire department	40,000		40,000	32,934	(7,066)
Landfill and refuse collection			0	3,565	3,565
Health and welfare			0	15,000	15,000
Recreation			0	10,811	10,811
Fines and forfeits			0	0	0
Miscellaneous revenue:					
Interest and dividends	20,500		20,500	33,083	12,583
Rentals and franchise			0	44,331	44,331
Special assessment			0	554	554
Other	73,700		73,700	2,495	(71,205)
Total revenues	588,100	0	588,100	684,250	96,150
Expenditures:					
General government:					
Mayor and Council	21,990		21,990	20,784	1,206
Contingency	50,000		50,000		50,000
Amount transferred			0		0
Elections	500		500	0	500
Financial administration	102,240		102,240	83,526	18,714
Other	55,355		55,355	71,739	(16,384)
Public safety:					
Police	48,600		48,600	47,155	1,445
Fire	60,200		60,200	27,791	32,409
Civil defense	100		100		100
Public works:					
Highways and streets	194,702		194,702	129,226	65,476
Sanitation	7,111		7,111	6,457	654
Health and welfare:					
West Niles	3,500		3,500	2,116	1,384
Ambulance			0	2,034	(2,034)
Culture and recreation:					
Recreation	2,500		2,500	1,175	1,325
Parks	12,270		12,270	7,610	4,660
Conservation and development:					
Economic development	5,500		5,500	885	4,615
Total expenditures	564,568	0	564,568	400,498	164,070
Excess of revenues over (under) expenditures	23,532	0	23,532	283,752	260,220
Other financing sources (uses):					
Transfer out			0	(894,457)	(894,457)
Net change in fund balance	23,532	0	23,532	(610,705)	(634,237)
Fund balance:					
January 1, 2018	1,749,763		1,749,763	1,749,763	0
December 31, 2018	1,773,295	0	1,773,295	1,139,058	(634,237)

CITY OF ESTELLINE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF BUDGETARY COMPARISON FOR THE
GENERAL FUND FOR THE YEAR ENDING DECEMBER 31, 2018

1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the required supplementary information:

- a. 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.
- b. 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 d.
- c. 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.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2018 there were no supplemental appropriations to increase the general fund's budget. See page 35.
- e. Unexpended 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 library fund. The City did not encumber any amounts at December 31, 2018.
- f. Formal budgetary integration is employed as a management control device for the general fund.
- g. The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

2. GAAP and Budgetary Accounting Basis Difference:

The financial statements prepared in conformity with U.S.GAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a road grader would be reported as a capital expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances. However, in the budgetary RSI schedule, the purchase of a road grader would be reported as an expenditure in the public works function of general fund, along with all other current public works expenditures.

CITY OF ESTELLINE
FOR THE FIVE YEARS ENDING DECEMBER 31, 2018

SUPPLEMENTARY INFORMATION

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

SDRS Measurement Date Year Ended (1)	City's Percentage of the Net Pension Asset	City's Proportionate Share of Net Pension (Asset) Liability	City's Covered Employee Payroll for its 6-30 Year End	Liability City's Proportionate Share of the Net Pension (Asset) Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2018	0.1019608%	(2,378)	2,119,667	(00.11%)	100.02%
June 30, 2017	0.1002751%	(9,100)	2,037,383	(00.45%)	100.10%
June 30, 2016	0.1029248%	347,670	1,957,117	17.76%	96.89%
June 30, 2015	0.1092612%	(463,408)	1,981,589	(23.39%)	104.10%
June 30, 2014	0.1037988%	(747,828)	1,800,149	(41.54%)	107.30%

(1) The amounts presented for each fiscal year were determined as of the collective net pension liability (asset) which is 6-30 of the City's current calendar year.

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF ESTELLINE
FOR THE FIVE YEARS ENDING DECEMBER 31, 2018

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S CONTRIBUTIONS
TO THE SOUTH DAKOTA RETIREMENT SYSTEM

City's Year Ended	Contractually Required Contribution	Contributions Related to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Employee Payroll for its Calendar Year End	Contributions as a Percentage of Covered Employee Payroll
December 31, 2018	124,137	124,137	0	2,068,943	6.00%
December 31, 2017	123,933	123,933	0	2,065,550	6.00%
December 31, 2016	120,109	120,109	0	2,001,817	6.00%
December 31, 2015	119,225	119,225	0	1,974,465	6.04%
December 31, 2014	116,280	116,280	0	1,920,836	6.05%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF ESTELLINE

COMBINING STATEMENT OF NET POSITION
 - NONMAJOR ENTERPRISE FUNDS
 AS OF DECEMBER 31, 2018

	Solid Waste Fund	Pool Fund	Ambulance Funds	Total Enterprise Funds
ASSETS:	-----	-----	-----	-----
Current assets:				
Cash and cash equivalents		952	375,971	376,923
Accounts receivable	9,985		10,519	20,504
	-----	-----	-----	-----
Total current assets	9,985	952	386,490	397,427
Capital assets:				
Land				0
Buildings			27,118	27,118
Improvements		155,530		155,530
Equipment		33,209	110,169	143,378
Accumulated depreciation		(182,981)	(97,616)	(280,597)
	-----	-----	-----	-----
Total capital assets	0	5,758	39,671	45,429
Other assets:				
None				0
	-----	-----	-----	-----
Total assets	9,985	6,710	426,161	442,856
	=====	=====	=====	=====
DEFERRED OUTFLOW OF RESOURCES				
None				0
	-----	-----	-----	-----
Total outflow of resources	0	0	0	0
	=====	=====	=====	=====
LIABILITIES:				
Current liabilities:				
Accounts payable	4,743	111	71	4,925
Due to other funds	5,242			5,242
	-----	-----	-----	-----
Total current liabilities	9,985	111	71	10,167
Noncurrent liabilities:				
Leave liability				0
	-----	-----	-----	-----
Total noncurrent liabilities	0	0	0	0
	-----	-----	-----	-----
Total liabilities	9,985	111	71	10,167
	=====	=====	=====	=====
DEFERRED INFLOW OF RESOURCES				
None				0
	-----	-----	-----	-----
Total inflow of resources	0	0	0	0
	=====	=====	=====	=====
NET POSITION				
Net investment in capital assets		5,758	39,671	45,429
Unrestricted	0	841	386,419	387,260
	-----	-----	-----	-----
Total net position	0	6,599	426,090	432,689
	=====	=====	=====	=====

CITY OF ESTELLINE

COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2018

	Solid Waste Fund	Pool Fund	Ambulance Funds	Total Enterprise Funds
Operating revenue:				
Charges for goods and services	60,049	6,024	27,881	93,954
Total operating revenue	60,049	6,024	27,881	93,954
Operating expenses:				
Personal services		20,229		20,229
Other current services		44,190	13,843	58,033
Cost of goods sold	60,049			60,049
Depreciation		4,823	10,802	15,625
Total operating expenses	60,049	69,242	24,645	153,936
Total operating income (loss)	0	(63,218)	3,236	(59,982)
Nonoperating revenue (expense):				
Interest earnings		2	5,797	5,799
Donations			3,358	3,358
Total nonoperating revenue (expense)	0	2	9,155	9,157
Income (loss) before transfers	0	(63,216)	12,391	(50,825)
Transfers in		59,194		59,194
Change in net position	0	(4,022)	12,391	8,369
Net position:				
January 1, 2018	0	10,621	413,699	424,320
December 31, 2018	0	6,599	426,090	432,689

CITY OF ESTELLINE

COMBINING STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2018

	Solid Waste Fund	Pool Fund	Ambulance Funds	Total Enterprise Funds
	-----	-----	-----	-----
Cash flows from:				
Operating activities:				
Receipts from customers	59,731	6,024	27,703	93,458
Estimated rec. from other funds				0
Payments to employees		(20,229)		(20,229)
Payments to suppliers	(60,127)	(41,953)	(13,808)	(115,888)
Estimated pymts. to other funds		(2,236)		(2,236)
Net cash provided (used) by operating activities	----- (396)	----- (58,394)	----- 13,895	----- (44,895)
Noncapital financing activities:				
Transfers in from electric		59,194		59,194
Due (from)/to other funds	396			396
Donations			3,358	3,358
Capital financing activities:				
Cash paid for equipment			(2,423)	(2,423)
Investing activities:				
Interest earnings		2	5,797	5,799
Net increase (decrease) in cash	----- 0	----- 802	----- 20,627	----- 21,429
Cash:				
January 1, 2018	0	150	355,344	355,494
December 31, 2018	----- 0	----- 952	----- 375,971	----- 376,923
	=====	=====	=====	=====
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)		(63,218)	3,236	(59,982)
Depreciation		4,823	10,802	15,625
Pension related				0
(Increase) decrease in:				
Receivables	(318)		(178)	(496)
Inventory				0
Increase (decrease) in:				
Accounts payable	(78)	1	35	(42)
Payroll deductions				0
Customer deposits				0
Leave liability				0
Net cash provided (used) by operating activities	----- (396)	----- (58,394)	----- 13,895	----- (44,895)
	=====	=====	=====	=====

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

Governing Board
City of Estelline
Estelline, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Estelline (City), Hamlin County, South Dakota, as of December 31, 2018 and for the one year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated October 18, 2019 which was unmodified.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether City of Estelline's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 my audit and, accordingly, I do not express such an opinion.

The results of my tests did not disclose an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

However, I did note a minor matter involving compliance that I reported to the governing body and management of the City of Estelline in a separate Letter of Comments dated October 18, 2019.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exist 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 City of Estelline's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Report on Compliance and Other Matters and on Internal Control
Page Two

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

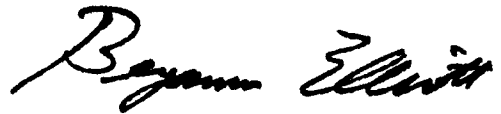
I did note minor matters involving internal control that I reported to the governing body and management of the City of Estelline in a separate Letter of Comments dated October 18, 2019.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on the effectiveness of the City's compliance or internal control over financial reporting. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Estelline's compliance and internal control over financial reporting. Accordingly this communication is not suitable for any other purpose.

However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

A handwritten signature in black ink, reading "Benjamin Elliott". The signature is written in a cursive, flowing style.

October 18, 2019

SCHEDULE OF PRIOR AUDIT FINDINGS AND RESPONSES

Prior Federal Compliance Audit finding:

The prior audit report had no federal compliance audit findings.

Prior Other Audit Findings:

The prior audit report audit findings are resolved.

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Part I - Summary of the Audit:

Financial Statements

Type of auditor's report issued:

Unqualified on:

Governmental Activities

Business-Type Activities

Major Funds

Aggregate Remaining Funds

Material noncompliance noted:

None Reported

Internal control over financial reporting:

* Material weakness(es) identified?

None Reported

* Significant deficiency(ies) identified
that are not considered to be material
weaknesses?

None Reported