

CITY OF CLEAR LAKE
CLEAR LAKE, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE ONE YEAR ENDING DECEMBER 31, 2016
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

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

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AS OF AND FOR THE ONE YEAR ENDING DECEMBER 31, 2016

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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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To the Honorable Mayor and
Members of Clear Lake City Council
Clear Lake, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of governmental activities, business-type activities, and each major fund of the City of Clear Lake (City), Deuel County, South Dakota, as of December 31, 2016 and for the one year then ended, and related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

I did not audit financial statements of the Clear Lake Housing and Redevelopment Commission, which represents 100% of the assets, liabilities, net position, revenue and expenses of the discretely presented component unit on the government-wide statement of net position and statement of activities.

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 and each major fund.

Basis for Disclaimer of Opinion

The financial statements of the Clear Lake Housing and Redevelopment Commission (Commission), have not been audited. I was not engaged to audit the Commission's financial statements as part of my audit of the City of Clear Lake's basic financial statements. The Commission's financial activities are included in the City's basic financial statement as a discretely presented component unit and represents 100% of the assets, net position, revenues and expenses of the City's discretely presented component unit.

Disclaimer of Opinion

The financial statements, referred to above, of the financial position and changes in financial position of the discretely presented component unit of the City of Clear Lake, South Dakota as of December 31, 2016 and for the one year then ended were not audited by me and, accordingly, I do not express an opinion on them.

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, and each major fund of the City of Clear Lake, South Dakota, as of December 31, 2016, 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 (No Opinion)

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (page 4 to 9), the budgetary comparison schedules (page 39 to 42), schedule of net pension liability (asset) (page 43), and schedule of pension contributions (page 43) 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 - Other Information (Opinion)

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 schedule of expenditures of federal awards (page 48) is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other

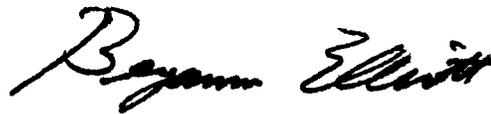
records used to prepare the basic financial statements. Such information has been subject to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 44) dated March 21, 2018 on my tests of City of Clear Lake's compliance with certain provisions of laws, regulations, contracts 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

March 21, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the City of Clear Lake's (City) annual financial report presents our discussion and analysis of the City's financial performance for the one year ending December 31, 2016. Please read it in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Revenue:	
Charges for goods and services	659,035
Operating grants	763
Capital grants, contributions	258,133
General revenue	1,121,027

Total	2,038,958

Expenses:	
Governmental	1,026,198
Business-type	496,869

Total	1,523,067

Increase in Net Position	515,891
Net Position:	
January 1, 2016	5,572,325

December 31, 2016	6,088,216
	=====
Governmental Funds:	
General	1,682,985
3rd Cent	35,621
Health Care	1,271
Library Fines	10,914
Sale Tax Debt Service	95,273
Capital Assets	1,067,113
Long-term Debt	(76,626)
Business-Type Funds:	
Water	1,026,180
Sewer	2,245,485

Total	6,088,216
	=====

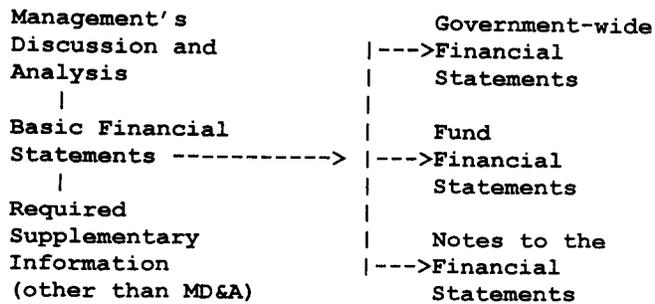
During the year ending December 31, 2016, the City:

- * Purchased a 2004 Chev Silverado for \$7,100.
- * Purchase library books for \$6,856.
- * Purchased a mower for the park for \$4,843.
- * Purchased a boiler for swimming pool for \$9,606.
- * Purchased a roto-tiller for \$9,500.
- * Purchased a storm siren for \$20,863 with proceeds from a federal grant.
- * Made street improvements for \$35,704.
- * Made sewer line improvements for \$1,128,523.
- * Received a state sewer project grant for \$237,270.
- * Issued sewer revenue project bond for \$2,056,000.
- * Paid-off interim construction loan for \$1,911,399.
- * Paid down governmental debt by \$39,050.
- * Paid down business-type debt by \$1,973,780.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This financial report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement-34.

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



The financial report consists of three parts: (1) management's discussion and analysis (page 4 to 9), (2) the basic financial statements (page 10 to 38) and (3) required supplementary information (page 39 to 44). 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 (if any) activities of the City.

The governmental fund financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. Governmental funds operated by the City are the general fund, 3rd cent fund, health care fund, library fines fund, and the sales tax revenue bond debt service fund.

The enterprise fund financial statements offer short-term and long-term financial information about the activities of the City that operate like a business. Enterprise funds operated by the City are the water and sewer funds.

The fiduciary fund financial statements provide information about the financial status of activities (like a Sec. 125 Cafeteria Plan) in which the City acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. In 2016 the City did not maintain any fiduciary funds.

The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of required supplementary information that presents a budgetary analysis for the general fund, 3rd cent fund, health care fund, and library fines fund.

Required Supplementary Information:

This Management's Discussion and Analysis (page 4 to 9), the Budgetary Comparison Schedules (page 39 to 42), Schedule of Net Pension Liability (Asset) (page 43), and Schedule of Pension Contributions (page 43) are financial information required to be presented by GASB. Such information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

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

	Government-wide Statements	Fund Statements-----		
		Governmental Funds	Enterprise Funds	Fiduciary Funds (if any)
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, Expenditures and Changes in Fund Balances	Statement of Revenues, Expenses and Changes in Net Position Statement of Cash Flows	
Basis of Accounting	Accrual	Modified accrual	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 30 days of year-end Expenditures when goods or services are received and payment is due during year or soon after year-end	All - regardless of when cash is received	All - regardless of when cash is received

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

The government-wide statements (page 10 and 11) 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 the, property tax base and sales tax revenue, sales tax revenue 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 operation of the government such and City Council, public safety, streets and highway, snow removal, debt service, and recreational programs. Property taxes, sales taxes, revenue from the state, user fees and interest earnings finance most of these activities.

Business-type activities account for the City's water and sewer operations. These operations are financed by user fees and grants for certain capital projects.

FUND FINANCIAL STATEMENTS

(Reporting the City's most significant funds)

The fund financial statements (page 12 to 17) 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's 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 (if any).

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, governmental funds statements provide you a detailed short-term view to help you determine whether there are more or fewer financial resources available for spending in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements to reconcile the differences between the governmental fund statements and the government-wide statements.

Enterprise fund: Services for which the City charges the customer a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both short-term and a long-term financial information. Water and sewer funds are the enterprise fund maintained by the City.

Fiduciary funds: The City can be the agent (or fiduciary) for various internal and external parties. As such, the City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position. Fiduciary funds are excluded from the City's government-wide financial statements because the City cannot use these assets to finance City operations. In 2016 the City did not have any fiduciary funds.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

Year Ending December 31, 2016

(Material changes for governmental activities = changes greater than \$100,000)
 (Material changes for business-type activities = changes greater than \$ 50,000)

	Increase (Decrease)	Principal Reason
Governmental Activities:		
Current assets	177,000	Excess revenues.
Business-type Activities:		
Current assets	488,000	Excess revenues and grant receivable.
Capital assets	954,000	Sewer improvements.
Current liabilities	(823,000)	Fewer sewer project payables.
Long-term debt	1,974,000	New sewer loan.
Capital contributions	(152,000)	Fewer grants for sewer project.
Sewer expenditures	132,000	Depreciation related to sewer project.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

The City's 2016 general fund budget of \$881,600 is an increase of \$11,529 or 1.33% from 2015. The increase was spread across several budget line items. There were two supplemental appropriations affecting streets and health. See page 39 for information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

At December 31, 2016, the City had invested \$5,889,750 in a broad range of capital assets, including land, buildings, improvements, and equipment. This amount represents a net increase (including additions and deductions) of \$981,754 or 20.00% from December 31, 2015.

Significant capital asset activity is reported above. See page 36 for more information.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

Significant long-term debt activity is reported above. The City is current on all long-term debt. See page 37 for more information.

The City has guaranteed 25% of Clear Lake Housing & Redevelopment Commission's Essential Function Housing Development Revenue Bond, Series 2000, which had a balance of \$361,753 at December 31, 2016.

CURRENTLY KNOWN FACTS

In January 2017 the City adopted the cash basis of accounting.

In February 2017 the City received a Water and Waste System grant for \$164,030.

In February 2018 settled with the sewer project contractor for \$105,000.

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 of Clear Lake 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: City of Clear Lake Finance Office, P.O. Box 107, Clear Lake, SD 57226 or call us at 605-874-2121.

Complete financial statements for the Clear Lake Housing and Redevelopment Commission may be obtained at Clear Lake City Hall.

CITY OF CLEAR LAKE

TABLE 1 - NET POSITION (condensed and in thousands)
 FULL ACCRUAL - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 AS OF DECEMBER 31, 2016 AND DECEMBER 31, 2015

	Governmental Activities		Business-Type Activities		Total Government	
	2016	2015	2016	2015	2016	2015
Assets and deferred:						
Current assets	1,807	1,630	1,595	1,107	3,402	2,737
Capital assets	1,067	1,040	4,822	3,868	5,889	4,908
Other assets	15	42	4	23	19	65
Deferred	79	46	44	32	123	78
Total	2,968	2,758	6,465	5,030	9,433	7,788
Liabilities and deferred:						
Current liabilities	64	50	503	1,326	567	1,376
Long-term debt outstanding	59	72	2,676	702	2,735	774
Deferred	28	40	15	27	43	67
Total	151	162	3,194	2,055	3,345	2,217
Net Position:						
Net invested in capital ass	995	933	2,071	1,900	3,066	2,833
Restricted	185	181	141	102	326	283
Unrestricted	1,637	1,482	1,059	973	2,696	2,455
Total	2,817	2,596	3,271	2,975	6,088	5,571

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, 2016

	Governmental Activities		Business-Type Activities		Total Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	108	114	551	556	659	670
Operating grants	1	1			1	1
Capital grants	21		237	389	258	389
General revenues:						
Revenue from taxes	991	948			991	948
Revenue from state sources	59	57			59	57
Revenue from county sources	6	2			6	2
Interest earnings	3	2	4	4	7	6
Rents and franchise fees	23	25			23	25
Miscellaneous	28	55			28	55
Pension related		1		1	0	2
Total revenues	1,240	1,205	792	950	2,032	2,155
Expenses:						
General government	127	116			127	116
Public safety	103	102			103	102
Public works	319	258			319	258
Health and welfare	285	275			285	275
Culture and recreation	175	183			175	183
Economic development	11	11			11	11
Interest and fees	5	7			5	7
Water			220	211	220	211
Sewer			276	144	276	144
Total expenses	1,025	952	496	355	1,521	1,307
Revenues over (under) expense	215	253	296	595	511	848
Sale of assets	6				6	0
Net position increase (decrea	221	253	296	595	517	848
Net position:						
December 31, 2014		2,343		2,380		4,723
December 31, 2015	2,596	2,596	2,975	2,975	5,571	5,571
December 31, 2016	2,817		3,271		6,088	

CITY OF CLEAR LAKE

GOVERNMENT-WIDE
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2016

	Primary Government			Component Unit UNAUDITED 12-31-2016
	Governmental Activities	Business- Type Activities	Total	
Assets:				
Current assets:				
Cash and cash equivalents	1,505,444	1,334,477	2,839,921	7,264
Certificates of deposit	215,000	118,000	333,000	
Receivables:				
Property taxes - delinquent	17,675		17,675	
Other governments	26,837	82,468	109,305	
Accounts	18,006	46,061	64,067	
Note receivable - HRC	15,071		15,071	
Internal balances	0	0	0	
Inventories	9,054	14,471	23,525	
Total current assets	1,807,087	1,595,477	3,402,564	7,264
Capital assets:				
Land	137,731	71,922	209,653	25,165
Buildings	1,128,735	3,500	1,132,235	443,941
Improvements	210,043	5,704,781	5,914,824	5,777
Equipment	685,027	217,120	902,147	16,618
Accumulated depreciation	(1,094,423)	(1,174,686)	(2,269,109)	(188,540)
Total capital assets	1,067,113	4,822,637	5,889,750	302,961
Other asset:				
Insurance deposit	15,204	4,542	19,746	
Total assets	2,889,404	6,422,656	9,312,060	310,225
DEFERRED OUTFLOW OF RESOURCES:				
Pension related deferred outflows	78,534	44,271	122,805	
Total deferred outflow of resources	78,534	44,271	122,805	0
Liabilities:				
Current liabilities:				
Accounts payable	21,869	357,879	379,748	
Customer deposits	2,200	49,905	52,105	4,513
Leave liability	4,141	6,802	10,943	
Current portion of:				
Long-term obligations	35,321	88,459	123,780	19,200
Total current liabilities	63,531	503,045	566,576	23,713
Noncurrent liabilities:				
Noncurrent portion of:				
Pension liability	22,680	12,786	35,466	
Note payable				15,071
Long-term obligations	37,164	2,663,640	2,700,804	342,553
Total liabilities	123,375	3,179,471	3,302,846	381,337
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows	28,012	15,791	43,803	
Total deferred inflows of resources	28,012	15,791	43,803	0
Net position (deficit):				
Net invested in capital assets,	994,628	2,070,538	3,065,166	(58,792)
Restricted for:				
Debt service	95,273	120,894	216,167	
3rd cent activities	35,621		35,621	
Library activities	10,914		10,914	
Insurance deposit	15,204	4,542	19,746	
Pension related	27,842	15,694	43,536	
Unrestricted	1,637,069	1,059,997	2,697,066	(12,320)
Total net position	2,816,551	3,271,665	6,088,216	(71,112)

See accompanying notes.

CITY OF CLEAR LAKE
 GOVERNMENT-WIDE
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDING DECEMBER 31, 2016

Functions/Programs:	Program Revenues				Net Revenue (Expense) and Changes in Net Position			Component Unit UNAUDITED 12-31-2016
	Expenses	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Primary government:								
<i>Governmental activities:</i>								
General government	127,423	3,795			(123,628)		(123,628)	
Public safety	103,466				(103,466)		(103,466)	
Public works	319,041	83,468		20,863	(214,710)		(214,710)	
Health and welfare	284,808		763		(284,045)		(284,045)	
Culture and recreation	175,325	20,426			(154,899)		(154,899)	
Economic development	11,100				(11,100)		(11,100)	
Interest (all)	5,035				(5,035)		(5,035)	
Total governmental activities	1,026,198	107,689	763	20,863	(896,883)	0	(896,883)	0
<i>Business-type activities:</i>								
Water	220,491	250,361				29,870	29,870	
Sewer	276,378	300,985		237,270		261,877	261,877	
Total business-type activities	496,869	551,346	0	237,270	0	291,747	291,747	0
Total primary government	1,523,067	659,035	763	258,133	(896,883)	291,747	(605,136)	0
Component Unit:								
Housing and Redevelopment Comm.	41,820	53,105						11,285
General revenues:								
<i>Taxes:</i>								
Property taxes					423,163		423,163	
Sales taxes					563,508		563,508	
Gross receipts tax					4,152		4,152	
Amusement taxes					276		276	
State shared revenue					59,086		59,086	
County shared revenue					5,894		5,894	
Interest earnings					2,641	4,434	7,075	
Rents and franchise fee					23,323		23,323	
Donations					6,778		6,778	
Liquor operating agreement					19,185		19,185	
Miscellaneous revenue					2,232		2,232	
Sale of surplus property					6,355		6,355	
Total general revenues					1,116,593	4,434	1,121,027	0
Change in net position					219,710	296,181	515,891	11,285
Net position:								
January 1, 2016					2,596,841	2,975,484	5,572,325	(82,397)
December 31, 2016					2,816,551	3,271,665	6,088,216	(71,112)

See accompanying notes.

CITY OF CLEAR LAKE

BALANCE SHEET -- GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2016

	General Fund	3rd Cent Fund	Health Care Fund	Library Fines Fund	Sales Tax Revenue Bond Debt Service Fund	Total Governmental Funds
Assets:						
Cash and cash equivalents	1,371,443	27,814	0	10,914	95,273	1,505,444
Certificates of deposit	215,000					215,000
Property taxes - delinquent	17,675					17,675
Due from other governments	17,759	349	8,729			26,837
Due from health care fund		7,458				7,458
Accounts receivable	18,006					18,006
Note receivable - HRC	15,071					15,071
Inventories	9,054					9,054
Deposits (insurance)	15,204					15,204
Total assets	1,679,212	35,621	8,729	10,914	95,273	1,829,749
Deferred outflow of resources:						
None	0	0	0	0	0	0
Total assets and deferred outflow of resources	1,679,212	35,621	8,729	10,914	95,273	1,829,749
Liabilities:						
Accounts payable	21,869					21,869
Due to 3rd cent fund			7,458			7,458
Customer deposits	2,200					2,200
Total liabilities	24,069	0	7,458	0	0	31,527
Deferred inflow of resources:						
Unavailable revenue:						
Property taxes	17,675					17,675
Total deferred inflow of resources	17,675	0	0	0	0	17,675
Fund balances:						
Nonspendable:	39,329					39,329
Restricted		35,621		10,914	95,273	141,808
Committed			1,271			1,271
Assigned	154,512					154,512
Unassigned	1,443,627					1,443,627
Total fund balance	1,637,468	35,621	1,271	10,914	95,273	1,780,547
Total liabilities, deferred inflow of resources and fund balance	1,679,212	35,621	8,729	10,914	95,273	1,829,749

Reconciliation of the above governmental funds balance sheet to the government-wide statement of net position:

Total fund balance - governmental funds (above)	1,780,547
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Therefore: Add the cost of capital assets	2,161,536
Subtract related accumulated depreciation	(1,094,423)
These pension related amounts are not an available financial resource and therefore are not reported in the funds.	
Deferred outflow of resources	78,534
Deferred inflow of resources	(28,012)
Net pension liability	(22,680)
Long-term liabilities are not due and payable in the current period. Therefore: Subtract sales tax revenue bond	(72,485)
Subtract accrued leave	(4,141)
Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and are deferred in the funds. Therefore: Add property taxes receivable	17,675
Total net position on government-wide statement of net position	2,816,551

See accompanying notes.

CITY OF CLEAR LAKE

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2016

	General Fund	3rd Cent Fund	Health Care Fund	Library Fines Fund	Sales Tax Revenue Bond Debt Service Fund	Total Governmental Funds
Revenue:						
Revenue from local sources:						
Taxes:						
Ad valorem taxes	424,434					424,434
General sales and use taxes	236,489	13,320	275,094		38,605	563,508
Gross receipts tax	4,152					4,152
Amusement taxes	276					276
Penalties and interest	3,097					3,097
Licenses and permits:	3,795					3,795
Intergovernmental revenue:						
Federal grant:	20,863					20,863
State shared revenue:						
Grants	763					763
Bank franchise tax	1,160					1,160
Motor vehicle - commercial	3,904					3,904
Liquor tax reversion	9,018					9,018
Motor vehicle licenses (5%)	19,392					19,392
Highway and bridge	25,612					25,612
County shared revenue:	5,894					5,894
Charges for goods and services:						
Solid waste collection	77,062					77,062
Rubble site	6,406					6,406
Recreation - pool	10,077					10,077
Park fees	9,890					9,890
Fines and forfeits:	0			459		459
Miscellaneous revenue:						
Interest earned	2,594				47	2,641
Rental and franchise	23,323					23,323
Donations				6,778		6,778
Liquor operating agreement	19,185					19,185
Other	2,232					2,232
Total revenues	909,618	13,320	275,094	7,237	38,652	1,243,921
Expenditures:						
General government:						
Mayor and Council	28,834					28,834
Elections	16					16
Financial administration	70,576					70,576
Government buildings	17,826					17,826
Public safety:						
Police	68,578					68,578
Fire	34,199					34,199
Inspections	38					38
Public works:						
Highways and streets	199,639					199,639
Solid waste disposal	91,805					91,805
Airport	5,570					5,570
Transit	200					200
Health and welfare:						
Health	4,152		277,016			281,168
Ambulance	3,640					3,640
Culture and recreation:						
Recreation	9,822					9,822
Recreation - pool	43,219					43,219
Parks	26,454					26,454
Library	27,221			5,720		32,941
Community center	21,086					21,086
Historic preservation	2,500					2,500
Economic development	6,100	5,000				11,100
Debt service: principal					33,570	33,570
interest					5,035	5,035
Capital outlay:	94,701					94,701
Total expenditures	756,176	5,000	277,016	5,720	38,605	1,082,517

CITY OF CLEAR LAKE

STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS (continued)
 FOR THE YEAR ENDING DECEMBER 31, 2016

	General Fund	3rd Cent Fund	Health Care Fund	Library Fines Fund	Sales Tax Revenue Bond Debt Service Fund	Total Governmental Funds
Excess of revenues over (under) expenditures	153,442	8,320	(1,922)	1,517	47	161,404
Other financing sources (uses): Sale of surplus property	6,355					6,355
Net change in fund balance	159,797	8,320	(1,922)	1,517	47	167,759
Fund balance: January 1, 2016	1,477,671	27,301	3,193	9,397	95,226	1,612,788
December 31, 2016	1,637,468	35,621	1,271	10,914	95,273	1,780,547

Reconciliation of the above statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities:

Net change in fund balances - total governmental funds (above)	167,759
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: 2016 capitalized cost are 2016 depreciation is	94,701 (67,265)
Revenues and reductions of expenses related to pensions do not provide current financial resources and, therefore, are not reported in the funds.	(6,026)
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.	(4,368)
Repayment of debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Therefore: Add reduction on Sales tax revenue bond Add decrease in accrued leave	33,570 1,339
Change in net assets on government-wide statement of activities	219,710

See accompanying notes.

CITY OF CLEAR LAKE

STATEMENT OF NET POSITION - ENTERPRISE FUNDS
AS OF DECEMBER 31, 2016

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
Assets:			
Current assets:			
Cash and cash equivalents	485,782	848,695	1,334,477
Certificates of deposit	78,000	40,000	118,000
Receivables:			
Other governments		82,468	82,468
Accounts	19,929	26,132	46,061
Inventories	10,994	3,477	14,471
	-----	-----	-----
Total current assets	594,705	1,000,772	1,595,477
	-----	-----	-----
Capital assets:			
Land	5,830	66,092	71,922
Buildings	3,500		3,500
Improvements	1,021,684	4,683,097	5,704,781
Equipment	168,051	49,069	217,120
Accumulated depreciation	(400,547)	(774,139)	(1,174,686)
	-----	-----	-----
Total capital assets	798,518	4,024,119	4,822,637
	-----	-----	-----
Other assets:			
Deposits (insurance)	2,567	1,975	4,542
	-----	-----	-----
Total assets	1,395,790	5,026,866	6,422,656
	=====	=====	=====
DEFERRED OUTFLOW OF RESOURCES			
Pension related deferred outflows	22,731	21,540	44,271
	-----	-----	-----
Total outflow of resources	22,731	21,540	44,271
	=====	=====	=====
Liabilities:			
Current liabilities:			
Accounts payable	10,230	347,649	357,879
Customer deposits	49,905		49,905
Leave liability	5,823	979	6,802
Current portion of:			
Long-term obligations	18,201	70,258	88,459
	-----	-----	-----
Total current liabilities	84,159	418,886	503,045
	-----	-----	-----
Noncurrent liabilities:			
Pension liability	6,565	6,221	12,786
Noncurrent portion of long-term obligations	293,509	2,370,131	2,663,640
	-----	-----	-----
Total liabilities	384,233	2,795,238	3,179,471
	=====	=====	=====
DEFERRED INFLOW OF RESOURCES			
Pension related deferred inflows	8,108	7,683	15,791
	-----	-----	-----
Total inflow of resources	8,108	7,683	15,791
	=====	=====	=====
Net position:			
Net invested in capital assets	486,808	1,583,730	2,070,538
Restricted:			
Debt service	27,349	93,545	120,894
Deposits	2,567	1,975	4,542
Pension related	8,058	7,636	15,694
Unrestricted	501,398	558,599	1,059,997
	-----	-----	-----
Total net position	1,026,180	2,245,485	3,271,665
	=====	=====	=====

See accompanying notes.

CITY OF CLEAR LAKE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET POSITION - ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2016

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
Operating revenue:			
Charges for goods and services	250,361	300,985	551,346
	-----	-----	-----
Total operating revenue	250,361	300,985	551,346
	-----	-----	-----
Operating expenses:			
Personal services	53,245	51,858	105,103
Other current services	50,478	22,015	72,493
Cost of goods sold	80,452	-	80,452
Depreciation	23,396	157,910	181,306
Pension related expense	3,236	4,333	7,569
	-----	-----	-----
Total operating expense	210,807	236,116	446,923
	-----	-----	-----
Total operating income	39,554	64,869	104,423
Nonoperating revenue (expense):			
Interest earnings	2,330	2,104	4,434
Interest expense and fees	(9,684)	(19,702)	(29,386)
Bond counsel fee	-	(20,560)	(20,560)
	-----	-----	-----
Total nonoperating revenue (expense)	(7,354)	(38,158)	(45,512)
Income (loss) before contribution	32,200	26,711	58,911
Capital grants	-	237,270	237,270
	-----	-----	-----
Change in net position	32,200	263,981	296,181
Net position:			
January 1, 2016	993,980	1,981,504	2,975,484
	-----	-----	-----
December 31, 2016	1,026,180	2,245,485	3,271,665
	=====	=====	=====

See accompanying notes.

CITY OF CLEAR LAKE

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2016

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
Cash flows from:			
Operating activities:			
Receipts from customers	250,299	297,198	547,497
Interfund services, estimate	4,000		4,000
Payments to employees	(51,942)	(51,697)	(103,639)
Payments to suppliers	(129,451)	(20,669)	(150,120)
Net cash provided (used) by operating activities	----- 72,906	----- 224,832	----- 297,738
Noncapital financing activities:			
None			0
Capital financing activities:			
Capital grant		167,760	167,760
USDA-RD bond proceeds		2,056,000	2,056,000
Interim bank loan proceeds		756,101	756,101
Cash paid for:			
Improvements		(834,760)	(834,760)
Equipment	(7,100)		(7,100)
Interim bank financing		(1,911,399)	(1,911,399)
Principal on debt	(17,666)	(39,377)	(57,043)
Interest/fees on debt	(12,154)	(23,145)	(35,299)
Bond counsel fee		(20,560)	(20,560)
Investing activities:			
Interest earnings	2,330	2,104	4,434
Net increase (decrease) in cash	----- 38,316	----- 377,556	----- 415,872
Cash:			
January 1, 2016	447,466	471,139	918,605
December 31, 2016	=====	=====	=====
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	39,554	64,869	104,423
Depreciation	23,396	157,910	181,306
Pension expense	3,236	4,333	7,569
(Increase) decrease in:			
Accounts receivable	1,408	(3,787)	(2,379)
Inventory	(2,106)	193	(1,913)
Prepaid expenses	765	947	1,712
Accounts payable	2,820	206	3,026
Customer deposits	2,530		2,530
Leave liability	1,303	161	1,464
Net cash provided (used) by operating activities	----- 72,906 =====	----- 224,832 =====	----- 297,738 =====
Noncash investing, capital and financing activities:			
None			
See accompanying notes.			

CITY OF CLEAR LAKE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity:

The City of Clear Lake (City) is a municipality chartered under the constitution of the State of South Dakota and is governed by a Council, including a part-time Mayor who is vested with the executive and administrative powers of the City, as well as six part-time Council members who serve in a policymaking and legislative capacity.

The City's officials at December 31, 2016 are:

Governing Board:	Finance Officer:
Gordon Lee, Mayor	Ellen Schmahl
Carey Holt, President	
Kelli Bauman	Attorney:
Ramona Drake	Todd Boyd
Gary Eide	
Tim Hulscher	
John Keimig	

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

Financial Reporting Entity:

Primary Government: - The City of Clear Lake
Component Unit: - Clear Lake Housing and Redevelopment Commission

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 Clear Lake 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.

The discretely presented component unit is reported in a separate column to emphasize it is legally separate from the City.

Component unit activity accounts for the Clear Lake Housing and Redevelopment Commission (Commission). The Commission was organized pursuant to the Municipal Housing and Redevelopment Act of South Dakota as a public housing agency formed to provide financial assistance for low income public housing pursuant to the United States Housing Act of 1937, (42 U.S.C. 1401, *et seq.*).

Although legally separate, the Commission is a "component unit" of the City because the Mayor and the City's governing board appoint the five members to the Commission's governing board and because the City can impose its will on the Commission. For example, by statute the Commission is required to get the City's approval before it can start any specific project or issue debt. (SDCL 11-7-24, 11-7-49, and 11-7-53)

Complete financial statements of the Commission may be obtained from the Clear Lake City Hall.

b. Basis of Presentation:

The financial statements of the City of Clear Lake have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Government Accounting Standards Board (GASB). GASB is the standard-setting body for governmental accounting and financial reporting.

Government-wide Financial Statements:

The statement of net position and the statement of activities display information about the primary government and its component unit as a whole. These statements include the financial activities of the overall government. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type funds activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated, except for the net residual amount due between governmental and business-type activities, which is presented as Internal Balances (if any).

The statements distinguish between governmental and business-type activities and between the City and its discretely presented component unit. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for good and services. Discretely presented component units are legally separate organizations that meet certain criteria, as described in footnote 1(a) above and may be classified as either governmental or business-type activities.

The statement of net position reports all financial and capital resources, in a net position format (assets minus liabilities equal net position). Net position is displayed in three components, as applicable: net invested 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. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the 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 of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, net position, 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.

The City has elected to classify all of its funds as major funds.

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.

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

3rd Cent Sales Tax Fund - A fund allowed by SDCL 10-52A-2 to account for the receipts from the 3rd cent sales tax imposed on liquor, lodging and dining sales. The 3rd cent can be spent on promotion of the city. The 3rd cent sales tax fund is a major fund.

Health Care Fund - A fund to allocate sales tax receipts for the support of health care activities. The health care fund is a major fund.

Library Fines Fund - A fund allowed by SDCL 14-2-42 to account for library related fines, similar charges and donations to be used for library activities. The library fines fund is a major fund.

Debt Service Funds - debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The City has the following debt service funds:

Sales Tax Revenue Bond Debt Service Fund - A fund to account for the payment of debt principal, interest, and related costs associated with the construction of a community center facility. The sales tax revenue bond debt service fund is a major fund.

Enterprise Funds (Business-Type)

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

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

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

In 2016 the City did not have any fiduciary funds.

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:

In the government-wide statement of net position and statement of activities, governmental, business-type, and component unit 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:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the modified accrual basis of accounting are applied to enterprise and fiduciary funds.

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.

Basis of Accounting

Government-wide Financial Statements:

In the government-wide statement of net position and statement of activities, governmental, business-type and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets 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 considers significant revenues reported in the governmental funds to be available if the revenues are collected within 30 days after year end. Revenue which is accrued at December 31, 2016 are amounts due from other governments and 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 (30 days) 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 are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due. However, the City budgets for, and makes payment of, debt obligations due on January 1st as of December 31st, the end of the City's fiscal year. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance such programs. It is the City's policy to first apply cost-reimbursement grant resources to such programs, then followed by general revenues.

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 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:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by 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 one year ending December 31, 2016, all enterprise fund deposits and investments are considered to be cash and cash equivalent for purposes of the statement of cash flow except for specific certificates of deposit in the water fund totaling \$78,000 and in the sewer fund totaling \$40,000 because their maturity when purchased was longer than three months and they are not part of a pool.

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, 2016 balance of capital assets for governmental activities include approximately 30% for which the costs were determined by estimates of the original costs. The total December 31, 2016 balance of capital assets for business-type activities 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 fund 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 36.

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	25,000	Straight-line	30-50
Improvements	25,000	Straight-line	40
Equipment	5,000	Straight-line	4-50
Utility improvements	10,000	Straight-line	25-100

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 governments, organizations, 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 (expenses/expenditures) until the applicable future period. The City only has two items that qualify for reporting in this category which is reported in the government-wide statement of net position. They are (1) contributions made to pension plans after the pension plan's measurement date and prior to the City's fiscal year-end and (2) changes in net pension asset/liability not included in pension expense.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources (if any). Deferred inflows of resources is a separate financial statement element that represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources (revenue) until the applicable future period. The City only has two items that qualify for reporting in this category which is reported in the government-wide statement of net position. They are (1) unavailable revenues from sales and use taxes, grants, delinquent property taxes, and delinquent special assessments and (2) changes in the net pension asset/liability not included in pension expense.

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 bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position - Consists of net position with constraints placed on 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 - All other net position that does not meet the definition of "net investment in capital assets" or "restricted".

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. 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.

m. 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 (such as inventory) or because of legal or contractual constraints.
- * Restricted - includes fund balance amounts that are constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or enabling legislation.
- * Committed - includes fund balance amounts that are constrained to specific purposes by the City itself, using its highest level of decision making authority (ie: City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. A committed fund balance does not lapse at year-end.
- * Assigned - includes fund balance amounts that are intended to be used for a specific purpose that are neither considered restricted or committed. Fund balance may be assigned by the City Council or by an official or body to which the City Council delegates the authority.
- * Unassigned - includes positive fund balance amounts within the general fund which are available for any purpose and negative fund balance amounts of other governmental funds.

The City of Clear Lake fund balance classifications are made up of:

<u>Fund Balance Classifications</u>	<u>Account or Fund</u>	<u>Authority or Action</u>	<u>Amount</u>
Nonspendable	General - Inventory		9,054
	General - Insurance deposit	SDPAA Contract	15,204
	General - HRC note receivable		15,071

			39,329

Restricted	3rd Cent	Statute	35,621
	Library Fines	Statute	10,914
	Sales Tax - Debt service	Covenant	95,273

			141,808

Committed	Health Care	Ordinance	1,271

Assigned	General - Capital outlay	Resolution	70,000
	- Building improvements	Resolution	6,000
	- Pool memorial	Resolution	1,512
	- Street equipment	Resolution	20,503
	- Playground equipment	Resolution	4,182
	- Community center	Resolution	17,225
	- Ambulance	Resolution	10,000
	- Other	Resolution	25,090

			154,512

Unassigned	General		1,443,627

			1,780,547

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 purpose of each special revenue fund and revenue source is:

Special Revenue Fund:	Revenue Source: (see page 13)
* 3rd Cent - City promotion	Sales tax
* Health Care - Hospital subsidy	Sales tax
* Library Fines - Library uses	Fines and donations
* Sales Tax Revenue Bond - Debt Service	Sales tax

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 Health Care fund went over its budget by \$17,016 and the Library Fines fund went over its budget by \$1,720. However, these are not considered significant overdrafts 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 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, 2016 were as follows: Insured \$378,285, Collateralized ** \$2,873,036 for a total of \$3,251,321.

** 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 at December 31, 2016 was \$3,172,921.

Certificates of deposit, with a term to maturity of greater than 90 days when purchased, are insured or collateralized and are considered deposits.

Deposit Credit Risk - State law limits eligible deposits for the City, as discussed above. The City has no deposit policy that would further limit its deposit choices.

Deposit Custodial Risk - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. At December 31, 2016, the City's deposits in financial institutions were not exposed to custodial deposit risk.

Concentration of Credit Risk - The City places no limit on the amount that may be deposited in any one institution. All of the City's deposits are with Deuel County National Bank.

Assignment of Deposit Income - State law allows income from deposits to be credited to either the general fund or the fund making the deposit. The City's policy is to credit all income from deposits to the fund having the deposit.

4. INVESTMENTS AND RELATED RISKS

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 did not have investments during the year ending December 31, 2016.

Investment Risk - State law limits eligible investments of 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. For the one year ending December 31, 2016 the City had no investments.

Assignment of Investment Income - State law allows income from 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 investments to the fund making the investment.

5. 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.

6. 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 recorded at cost. 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 recorded at cost. Donated items are valued at estimated market value at the date of receipt. The cost valuation method is first-in first-out.

7. CHANGES IN CAPITAL ASSETS (see schedule one on page 36)

A summary of the changes in capital assets is presented in schedule one at the end of these notes. In 2016 interest related to the construction of sewer improvements of \$45,101 was capitalized. There is no construction-in-progress at December 31, 2016.

8. LONG-TERM DEBT AND INTEREST EXPENSE (see schedule two on page 37)

A summary of changes in long-term liabilities is presented in schedule two at the end of these notes. The City did have a short-term bond anticipation note of up to \$2,364,000 in 2016 which was paid-off in 2016.

In 2016 the Sales Tax Revenue Debt Service Fund had interest expense of \$5,035.

9. FUTURE REVENUES PLEDGED TO SECURE DEBT

All water fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure the water fund's SRF loan which has a remaining balance of \$311,710. The bond was incurred to cover the cost of water improvements as described on page 37. The bonds will mature in 2030. In 2016 the bonds had pledged revenue of \$66,186 before depreciation and pension expenses and total bond payments of \$29,820.

All sewer fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure the sewer fund's 2004 SRF loan which has a remaining balance of \$390,268 and the sewer fund's 2014 Sewer Project Revenue Bond which has a remaining balance of \$2,050,121. The debt was incurred to cover the cost of sewer improvements as described on page 37. The SRF loan will mature in 2026 and the revenue bond will mature in 2056. In 2016 the debt had pledged revenue of \$227,112 before depreciation and pension expense and total loan and bond payments of \$62,522.

10. INTERFUND BALANCES TRANSFERS

At December 31, 2016 the health care fund owed the 3rd cent sales tax fund \$7,458 to cover an overdraft.

There were no transfers between funds in 2016.

11. 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
Debt	Covenants	95,273	120,894
3rd cent	Statute	35,621	
Library	Statute	10,914	
Insurance deposit	Contact	15,204	4,542
Pension	GASB-68	27,842	15,694
		-----	-----
		184,854	141,130

12. COMPONENT UNIT AND CONTINGENCIES

The City has guaranteed payment of a Revenue Bond issued to the Clear Lake Housing and Redevelopment Commission (HRC) (a component unit of the City) for up to 25% of \$361,753.

In 2013 the City loaned the HRC \$7,000 to support debt service obligations against a non-interest bearing note with an open due date. This brings to \$15,071 the total amount the City has loaned the HRC.

13. PENSION PLAN

Summary of Significant Accounting Policies:

For purpose of measuring the net pension liability (assets), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS.

For this purpose, pension plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description:

All employees, working more than 20 hours per week during the calendar year, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. 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://www.sdrs.sd.gov/publications/> 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, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of the employee's final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 thereafter of the employee's final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefit are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

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

- If the SDRS market value funded ratio is 100% or more - 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
> 90.0% to 99.9% funded - 2.1% minimum and 2.8% maximum COLA
> 80.0% to 89.9% funded - 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% - 2.1% COLA

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

Contributions:

Per SDRS 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 statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the years ending December 31, 2016, 2015, and 2014 were \$11,930, \$11,856, and \$11,553 (employer's share) respectively, equal to the required contribution each year.

There are no deferred contributions.

Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflow of Resources and Deferred Inflow of Resources to Pensions:

At June 30, 2016, SDRS is 96.9% funded and accordingly has a net pension liability. The proportionate share of the components of the net pension liability of the South Dakota Retirement System for the City as of the measurement period ending June 30, 2016 and reported by the City as of December 31, 2016 are as follows:

Proportionate share of SDRS net position	
restricted for pension benefits	\$ 1,103,819
Less: proportionate share of total pension liability	1,139,284

Proportionate share of net pension liability (asset)	\$ 35,465

At December 31, 2016 the City reported a liability (asset) of \$35,465 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2016 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016 the City's proportion was .000104991.

For the year ended December 31, 2016 the City recognized pension expense (revenue) of \$13,595.

At December 31, 2016 the City reported deferred outflow of resources and deferred inflow of resources related to the pension from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ 12,346	
Change in assumptions	21,242	
Net difference between projected and actual earnings on pension plan investments	83,252	\$ 43,803
Changes in proportion and difference between City contributions and proportionate share of contributions	500	
City contributions subsequent to the measurement date	5,965	
	-----	-----
	\$ 123,305	\$ 43,803
	(5,965)	
	(43,803)	

To be amortized over 4 years	\$ 73,537	
	=====	

There is \$5,965 reported as deferred outflow of resources related to pensions resulting from City contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflow of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ending December 31, 2017	\$ 19,840
December 31, 2018	12,001
December 31, 2019	25,157
December 31, 2020	16,539

	\$ 73,537
	=====

Actuarial Assumptions:

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

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Discount rate	7.25% through 2017 and 7.50% thereafter, net of pension plan investment expense

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

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

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 Standard (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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see discussion of the pension plan's investment policy above) 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%	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25% through 2017 and 7.50% thereafter. The projection of cash flow used to determine the discount rate assumed that plan member 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 to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of Asset to Changes in the Discount Rate:

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

	1% Decrease	Current Discount Rate	1% Increase
City's share of SDRS net pension liability (asset)	\$ 198,461 liability	\$ 35,465 liability	\$ (97,476) asset

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in the separately issued South Dakota Retirement System financial report.

14. 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 therefore 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 12 and 14.

15. RISK MANAGEMENT

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

Employee Health Insurance

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

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

Property and Liability Insurance

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

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide coverage for general liability, officials liability, automobile insurance, and law enforcement liability.

The agreement with the SDPAA provides that the above coverage's will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The City carries a \$500 deductible for the officials liability and a \$25 to \$250 deductible for automobile coverage depending on the area of claim.

The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower cost for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed above, under a claims-made policy and the premiums are accrued on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage.

A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve on the following formula:

End of the City's:

First Full Year (50%), Second Full Year (60%), Third Full Year (70%)
Fourth Full Year (80%), Fifth Full Year (90%), Sixth Full Year (100%)

As of December 31, 2016, the City has a vested balance in the cumulative reserve fund of \$19,745.

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

Worker's Compensation

The City joined the South Dakota Municipal League Workers' Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

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 retrospective rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The City may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs.

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

Unemployment Benefits

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota. No unemployment payments were made in 2016 and none are expected to be paid in 2017.

16. OTHER DISCLOSURES

The City does not operate a landfill.

The City is not involved in any significant litigation.

The City does not offer any Other Post Employment Benefits.

In January 2017 the City adopted the cash basis of accounting.

In February 2017 the City received a Water and Waste System grant for \$164,030.

In February 2018 settled with the sewer project contractor for \$105,000.

CITY OF CLEAR LAKE

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
 CHANGES IN CAPITAL ASSETS
 FOR THE TWO YEARS ENDING DECEMBER 31, 2016

	Beginning 12-31-15	2016 Adjustments	2016 Additions	2016 (Deletions)	Ending 12-31-16	Accumulated Depreciation 12-31-15	2016 Adjustments	2016 (Additions)	2016 Deletions	Accumulated Depreciation 12-31-16	Remaining Cost 12-31-16
General capital assets:											
Land	137,731				137,731	0					137,731
Buildings	1,128,735				1,128,735	(630,651)	1	(30,625)		(661,275)	467,460
Improvements	174,340	(1)	35,704		210,043	(53,213)		(7,227)		(60,440)	149,603
Equipment	633,946		58,997	(7,916)	685,027	(351,211)		(29,413)	7,916	(372,708)	312,319
Construction-in-progress	0				0	0				0	0
Totals	2,074,752	(1)	94,701	(7,916)	2,161,536	(1,035,075)	1	(67,265)	7,916	(1,094,423)	1,067,113
Allocation of Depreciation:											
								4,144			
								651			
								23,167			
								39,303			
								<u>67,265</u>			
Business-type capital assets:											
Land	71,922				71,922					0	71,922
Buildings	3,500				3,500	(3,500)				(3,500)	0
Improvements	2,790,355		2,914,426		5,704,781	(920,676)		(169,413)		(1,090,089)	4,614,692
Equipment	210,019	1	7,100		217,120	(69,204)	(1)	(11,892)		(81,097)	136,023
Construction-in-progress	1,785,903		1,128,523	(2,914,426)	0	0				0	0
Totals	4,861,699	1	4,050,049	(2,914,426)	5,997,323	(993,380)	(1)	(181,305)	0	(1,174,686)	4,822,637

(1) Sewer project

CITY OF CLEAR LAKE

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO
 CHANGES IN LONG-TERM DEBT
 FOR THE ONE YEAR ENDING DECEMBER 31, 2016

	Beginning 12-31-15	2016 Additions	2016 (Deletions)	Governmental Ending 12-31-16	Business-Type Ending 12-31-16	Principal Payments Due In 2017
GOVERNMENTAL						
2003 Sales Tax Revenue Bond:						
Original Loan Amount of \$400,000						
Maturing August 2018, Interest at 5.15%						
Secured by sales tax collections						
Paid by the Sales Tax Revenue Bond F	106,055		(33,570)	72,485		35,321
Leave liability:						
Paid by General Fund	5,480	4,141	(5,480)	4,141		4,141
Totals	111,535	4,141	(39,050)	76,626		39,462
BUSINESS-TYPE						
1998 Drinking Water Revenue Bond (SRF):						
Original Loan Amount of \$538,250						
Maturing October 2030, Interest at 3.00%						
Paid by the Water Fund	329,376		(17,666)		311,710	18,201
2004 Clean Water Revenue Bond (SRF):						
Original Loan Amount of \$687,227						
Maturing July 2026, Interest at 3.25%						
Paid by the Sewer Fund	423,766		(33,498)		390,268	34,600
2015 Interim Bond Anticipation Note:						
Approved up to \$2,364,000						
Draw down at December 31, 2015 of \$1,155,298						
Maturing October 2016, Interest at 4.0%						
Paid by the Sewer Fund	1,155,298	756,101	(1,911,399)		0	0
2014 Sewer Project Revenue Bond:						
Original Loan Amount of \$2,056,000						
Maturing June 2056, Interest at 1.85%						
Paid by the Sewer Fund	0	2,056,000	(5,879)		2,050,121	35,658
Leave liability:						
Paid by the Water Fund	4,520	5,823	(4,520)		5,823	5,823
Paid by the Sewer Fund	818	979	(818)		979	979
Totals	1,913,778	2,818,903	(1,973,780)		2,758,901	95,261

CITY OF CLEAR LAKE

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO (continued)
 CHANGES IN LONG-TERM DEBT
 FOR THE ONE YEAR ENDING DECEMBER 31, 2016

SCHEDULE OF PAYMENTS FOR LONG-TERM DEBT
 AT DECEMBER 31, 2016

	Total Payment	Principal	Interest	Balance
2003 Sales Tax Revenue Bond:				
2017	38,605	35,321	3,284	37,164
2018	38,605	37,164	1,441	0
Totals	<u>77,210</u>	<u>72,485</u>	<u>4,725</u>	
1998 Drinking Water Revenue Bond (SRF):				
2017	27,349	18,201	9,148	293,509
2018	27,349	18,754	8,595	274,755
2019	27,349	19,323	8,026	255,432
2020	27,349	19,909	7,440	235,523
2021	27,349	20,513	6,836	215,010
2022-2026	136,746	112,285	24,461	102,725
2027-2030	109,396	102,725	6,671	0
Totals	<u>382,887</u>	<u>311,710</u>	<u>71,177</u>	
2004 Clean Water Revenue Bond (SRF):				
2017	46,865	34,600	12,265	355,668
2018	46,865	35,738	11,127	319,930
2019	46,865	36,914	9,951	283,016
2020	46,865	38,128	8,737	244,888
2021	46,865	39,383	7,482	205,505
2022-2026	222,609	205,505	17,104	0
Totals	<u>456,934</u>	<u>390,268</u>	<u>66,666</u>	
2014 Sewer Project Revenue Bond:				
2017	73,284	35,658	37,626	2,014,463
2018	73,284	36,323	36,961	1,978,140
2019	73,284	37,001	36,283	1,941,139
2020	73,284	37,691	35,593	1,903,448
2021	73,284	38,395	34,889	1,865,053
2022-2026	366,420	202,990	163,430	1,662,063
2027-2031	366,420	222,647	143,773	1,439,416
2032-2036	366,420	244,207	122,213	1,195,209
2037-2041	366,420	267,854	98,566	927,355
2042-2046	366,420	293,792	72,628	633,563
2047-2051	366,420	322,241	44,179	311,322
2052-2056	324,486	311,322	13,164	0
Totals	<u>2,889,426</u>	<u>2,050,121</u>	<u>839,305</u>	

CITY OF CLEAR LAKE
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2016

GENERAL FUND	Budgeted Amounts				Actual	Variance Positive (Negative)
	Original	Contingency Transfers	Supplementals	Final		
Revenue:						
Revenue from local sources:						
Taxes:	656,000			656,000		(656,000)
Ad valorem taxes				0	427,531	427,531
Sales and use tax				0	236,489	236,489
Gross receipts				0	4,152	4,152
Amusement tax				0	276	276
Licenses and permits:	4,750			4,750	3,795	(955)
Intergovernmental revenue:	58,100			58,100		(58,100)
Federal shared revenue - grant			20,864	20,864	20,863	(1)
State shared revenue:						
Grants			763	763	763	0
Bank franchise tax				0	1,160	1,160
Motor vehicle - commercial				0	3,904	3,904
Liquor tax reversion				0	9,018	9,018
Motor vehicle licenses (5%)				0	19,392	19,392
Highway and bridge				0	25,612	25,612
County shared revenue:				0	5,894	5,894
Charges for goods and services	99,900			99,900		(99,900)
Highways and streets				0		0
Solid waste collection				0	77,062	77,062
Rubble site				0	6,406	6,406
Parks and recreation, pool				0	10,077	10,077
Parks fees				0	9,890	9,890
Fines and forfeits:	50			50	0	(50)
Miscellaneous revenue:	41,750			41,750		(41,750)
Interest earned				0	2,594	2,594
Rentals and franchise				0	23,323	23,323
Donations				0		0
Liquor operating agreement				0	19,185	19,185
Other				0	2,232	2,232
Total revenues	860,550	0	21,627	882,177	909,618	27,441
Expenditures:						
General government:						
Mayor and Council	37,601			37,601	28,834	8,767
Contingency	43,742			43,742		43,742
Amount transferred		(14,250)		(14,250)		(14,250)
Elections	1,000			1,000	16	984
Financial administration	80,320			80,320	76,086	4,234
Government buildings	25,390			25,390	19,645	5,745
Public safety:						
Police	68,165	750		68,915	68,578	337
Fire	34,375			34,375	34,199	176
Inspections	640			640	38	602
Public works:						
Highways and streets	258,010	11,000	20,864	289,874	265,706	24,168
Solid waste collection	92,400	2,500		94,900	91,805	3,095
Airport	6,445			6,445	5,570	875
Transit	200			200	200	0
Health and welfare:						
Health	6,310		763	7,073	4,152	2,921
Ambulance	3,700			3,700	3,640	60
Culture and recreation:						
Recreation	14,365			14,365	9,822	4,543
Recreation (pool)	68,255			68,255	52,825	15,430
Parks	46,375			46,375	31,297	15,078
Library	36,275			36,275	34,077	2,198
Community Center	26,905			26,905	21,086	5,819
Historic preservation	2,500			2,500	2,500	0
Economic development:	7,000			7,000	6,100	900
Total expenditures	859,973	0	21,627	881,600	756,176	125,424
Excess of revenues over (under) expenditures	577	0	0	577	153,442	152,865
Other financing sources (uses):						
Sale of surplus property				0	6,355	6,355
Net change in fund balance	577	0	0	577	159,797	159,220
Fund balance:						
January 1, 2016	1,477,671			1,477,671	1,477,671	0
December 31, 2016	1,478,248	0	0	1,478,248	1,637,468	159,220

CITY OF CLEAR LAKE

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2016

3RD CENT FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplemental:	Final		
Revenue:					
Revenue from local sources:					
Taxes:					
General sales and use tax:	5,000		5,000	13,320	8,320
Total revenue	5,000	0	5,000	13,320	8,320
Expenditures:					
Economic development	5,000		5,000	5,000	0
Total expenditures	5,000	0	5,000	5,000	0
Excess of revenue over (under) expenditures	0	0	0	8,320	8,320
Other financing sources (uses):					
None			0	0	0
Net change in fund balance	0	0	0	8,320	8,320
Fund balance:					
January 1, 2016	27,301		27,301	27,301	0
December 31, 2016	27,301	0	27,301	35,621	8,320

HEALTH CARE FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplemental:	Final		
Revenue:					
Revenue from local sources:					
Taxes:					
General sales and use tax:	260,000		260,000	275,094	15,094
Total revenue	260,000	0	260,000	275,094	15,094
Expenditures:					
Health care	260,000		260,000	277,016	(17,016)
Total expenditures	260,000	0	260,000	277,016	(17,016)
Excess of revenue over (under) expenditures	0	0	0	(1,922)	(1,922)
Other financing sources (uses):					
None			0	0	0
Net change in fund balance	0	0	0	(1,922)	(1,922)
Fund balance:					
January 1, 2016	3,193		3,193	3,193	0
December 31, 2016	3,193	0	3,193	1,271	(1,922)

CITY OF CLEAR LAKE

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2016

LIBRARY FINES FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplemental:	Final		
Revenue:					
Revenue from local sources:					
Fines	1,000		1,000	459	(541)
Donations	3,000		3,000	6,778	3,778
Total revenue	4,000	0	4,000	7,237	3,237
Expenditures:					
Library	4,000		4,000	5,720	(1,720)
Total expenditures	4,000	0	4,000	5,720	(1,720)
Excess of revenue over (under) expenditures	0	0	0	1,517	1,517
Other financing sources (uses):					
None			0	0	0
Net change in fund balance	0	0	0	1,517	1,517
Fund balance:					
January 1, 2016	9,397		9,397	9,397	0
December 31, 2016	9,397	0	9,397	10,914	1,517

CITY OF CLEAR LAKE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND
AND SPECIAL REVENUE FUNDS
FOR THE ONE YEAR ENDING DECEMBER 31, 2016

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 2016 there were two supplemental appropriations to increase the general fund's budget. See page 39.
- e. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board. No appropriations were encumbered at year end.

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

- f. Formal budgetary integration is employed as a management control device for the general fund and special revenue funds.
- g. Budgets for the general fund and special revenue funds are 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 CLEAR LAKE
FOR THE THREE YEARS ENDING DECEMBER 31, 2016

SUPPLEMENTARY INFORMATION

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

SDRS Measurement Date Year Ended (1)	City's Percentage of the Net Pension Asset	City's Proportionate Share of Net Pension Liability (Asset)	City's Covered Employee Payroll for its 6-30 Year End	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2016	0.0104991%	35,465	199,633	17.77%	96.9%
June 30, 2015	0.0106333%	(45,099)	194,133	(23.23%)	104.1%
June 30, 2014	0.0109371%	(78,797)	191,267	(41.20%)	107.3%

(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 CLEAR LAKE
FOR THE THREE YEARS ENDING DECEMBER 31, 2016

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, 2016	11,930	11,930	0	198,833	6.00%
December 31, 2015	11,856	11,856	0	197,600	6.00%
December 31, 2014	11,553	11,553	0	192,550	6.00%

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

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*

To the Honorable Mayor and
Members of Clear Lake City Council
Clear Lake, 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, and each major fund, of the City of Clear Lake (City), Deuel County, South Dakota, as of December 31, 2016 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 March 21, 2018 which was unmodified except for a disclaimer of opinion on the discretely presented component unit, which I was not engaged to audit.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether City of Clear Lake's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

However, I did note minor matters involving compliance that I reported to the governing body and management of the City of Clear Lake in a separate Letter of Comments dated March 21, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Clear Lake'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 Clear Lake'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 Clear Lake'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.

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 identify deficiencies in internal control, described in the accompanying schedule of audit findings and questioned costs that I consider to be significant deficiencies. I consider the deficiencies described in the accompanying schedule of audit findings and questioned costs as item 2016-001 and 2016-002 to be significant deficiencies.

Management response to the findings identified in my audit are described in the accompanying letter from the City of Clear Lake, "Management's Response to Auditor's Findings: Summary Schedule of Prior Audit Findings and Corrective Action Plan". I did not audit management responses and, accordingly, I express no opinion on them.

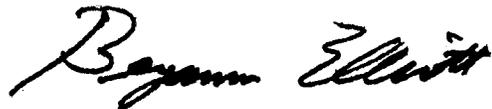
I did note other matters involving internal control that I reported to the governing body and management of the City of Clear Lake in a separate Letter of Comments dated March 21, 2018.

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's compliance and internal control over financial reporting. Accordingly this communication is not suitable for any other purpose.

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

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



March 21, 2018

REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and
Members of Clear Lake City Council
Clear Lake, South Dakota

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for the Major Federal Program

I have audited the City of Clear Lake's, Deuel County, South Dakota, (City) compliance with the types of compliance requirements described in OMB Compliance Supplement that could have a direct and material effect on the City's major federal program for the one year ended December 31, 2016. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. (page 49)

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on the City's compliance for the City's major federal program based on my audit of the types of compliance requirements referred to above.

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

I believe that my audit provides a reasonable basis for my opinion on the City's compliance for its major federal program. However, my audit does not provide a legal determination of the City's compliance.

Opinion on the City's Major Federal Program

In my opinion, the City of Clear Lake, Deuel County, South Dakota complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the City's major federal program for the one year ended December 31, 2016.

Other Matters

The result of my auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of audit findings and questioned costs as item 2016-002. My opinion on its major federal program is not modified with respect to this matters.

Report on Internal Control Over Compliance

Management of the City of Clear Lake is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred above. In planning and performing my audit of compliance, I

considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

I did identify a deficiency in internal control over compliance, which is described in the accompanying schedule of audit findings and questioned costs as item 2016-002 that I consider to be a significant deficiency.

The City of Clear Lake's response to finding 2016-002 is described in the accompanying letter from the City of Clear Lake, "Management's Response to Auditor's Findings: Summary Schedule of Prior Audit Findings and Corrective Action Plan". I did not audit the management response and, accordingly, I express no opinion on it.

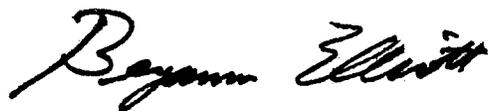
Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other 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

March 21, 2018



CITY OF CLEAR LAKE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE ONE YEAR ENDING DECEMBER 31, 2016

Grantor Program Name	CFDA Number	2016 Expenditure

<u>Direct Federal Funding:</u>		
Department of Agriculture:		
Rural Development:		
Water and Waste Disposal Systems for Rural Communities:		
Loan (sewer project) (47-020-0102) (note 2)	10.760	850,715

Total Department of Agriculture		850,715

<u>Indirect Federal Funding:</u>		
General Services Administration:		
SD Federal Property Agency, Donation of Federal Surplus Personal Property (note 3)		
	39.003	1,654

Total General Services Administration		1,654

Department of Homeland Security:		
Pass-through State of South Dakota Department of Public Safety, Office of Emergency Management Disaster Grants		
	97.067	20,863

Total Department of Homeland Security		20,863

Grand Total of Expenditures of Federal Awards		873,232
=====		
Federal loans outstanding at December 31, 2016:		
1998 Drinking Water State Revolving Loan Fund		311,710
2004 Clean Water State Revolving Loan Fund		390,268
2014 Sewer Project Revenue Bond (USDA-RD)		2,050,121

		2,752,099
=====		

Note 1:

This schedule of expenditures of federal awards includes federal grant activity for the City of Clear Lake. It is presented on a GAAP basis of accounting, the same as the City's financial statements, which is presented in footnote 1 of these financial statements. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.

The City has not elected to use the 10% de minimis cost rate.

Note 2:

This represents a major federal financial assistance program, which was obligated May 9, 2014.

Note 3:

The amounts reported represent 23.3% of the original acquisition cost of the federal surplus property received by the City of Clear Lake.

CITY OF CLEAR LAKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified on: Governmental Activities Business-Type Activities Major Funds
Noncompliance material to financial statements 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?	Findings 2016-001 and 2016-002

Federal Awards

Noncompliance material to financial statements noted?	None Reported
Internal control over major programs: * Material weakness(es) identified?	None Reported
* Significant deficiency(ies) identified that are not considered to be material weaknesses?	Finding 2016-002
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516?	Finding 2016-002
Identification of major programs: * CFDA 10.760 Department of Agriculture Rural Development	
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee:	No

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COST (continued)

Section II - Financial Statement Findings

Finding 2016-001: Preparation of Financial Statements and Footnotes
(internal control)

Criteria:

An organization's internal control structure should provide for the recording of all necessary material adjustments and the preparation of financial statements and footnotes in accordance with generally accepted accounting principles.

Condition:

The City does not have an internal control system designed to provide for the complete preparation of the financial statements, footnotes and disclosures, including a system to identify all relevant and material adjustments necessary to ensure that financial statements are in accordance with generally accepted accounting principles.

Cause:

The City has elected not to have an internal control system designed to provide for the preparation of the financial statements and footnotes being audited. As the auditor, I was requested to draft these financial statements and related footnotes.

Effect:

This internal control deficiency could result in a misstatement of the financial statements that would not be prevented or detected.

Recommendation:

This situation is not unusual for an entity of this City's size. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials:

Management agrees with this finding.

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COST (continued)

Section III - Federal Award Findings and Questioned Costs

Finding 2016-002: Late Filing of Data Collection Form
(compliance and internal control)

Criteria:

Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires the Data Collection Form (SF-SAC) to be filed within 9 months of the end of the last year audited. This is a reporting requirement.

Condition:

The City did not file the Data Collection Form for this audit within the required 9 months.

Cause:

The City's internal control system was deficient in adhering to the 9 month Single Audit filing requirement.

Questioned Costs:

None

Effect:

The City's financial statement is not affected by the late filing of the Data Collection Form.

Recommendation:

I recommend the City file its audit and Data Collection Form with the Federal Audit Clearinghouse within the required 9 months of year-end when more than \$750,000 of federal awards is expended in a year.

Views of Responsible Officials:

Management agrees with this finding.

PO Box 107 - - 125 Third Ave. S.
Clear Lake, SD 57226-0107



Phone 605-874-2121
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OFFICE OF THE FINANCE OFFICER

Management's Response to Auditor's Findings:

Summary Schedule of Prior Audit Findings

Corrective Action Plan

December 31, 2016

**Prepared by Management of
City of Clear Lake**

Summary Schedule of Prior Audit Findings

Finding 2015-001: Preparation of Financial Statements and Footnotes

Initial Year Finding Occurred: 2013

Finding Summary:

The City does not have an internal control system designed to provide for the preparation of the financial statements including required footnotes and disclosures, including all necessary audit material audit adjustments to the City's financial statements. The auditor was requested to draft the financial statements and accompanying footnotes and the auditor proposed material audit adjustments to the City's recorded account balances.

Status:

This finding has not been resolved as of December 31, 2016. The reason for recurrence of this finding is that the City's staffing model does not allow for a cost effective solution. Planned actions include management to annually review the draft financial statements and footnotes prepared by the auditor and to review all recommended adjusting entries proposed by the auditor.

City of Clear Lake – Corrective Action Plans

Finding 2016-001: Preparation of Financial Statements and Footnotes

Finding Summary:

The auditor assisted in the preparation and presentation of our draft financial statements and accompanying footnotes and disclosures to our financial statements.

Corrective Action Plan:

It is not cost effective at this time to have an internal control system designed to provide for the preparation of the financial statements and accompanying footnotes and disclosures. We requested our auditor to prepare the financial statements and accompanying footnotes and disclosures to our financial statements as part of our auditor's annual audit.

Anticipated Completion Date:

Ongoing

Finding 2016-002: Late Filing of Data Collection Form

Finding Summary:

The City did not file its audit and Data Collection Form (SF-SAC) with the Federal Audit Clearinghouse within 9 months of the last year audited as required by Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Corrective Action Plan:

Ellen Schmahl, the City's Finance Officer will be responsible for implementing this recommendation the next time more than \$750,000.00 of federal awards is expended in a year.

Anticipated Completion Date:

Ongoing.