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INSPECTION**

HAND COUNTY

AUDIT REPORT

For the Two Years Ended December 31, 2018



**State of South Dakota
Department of Legislative Audit
427 South Chapelle
c/o 500 East Capitol
Pierre, SD 57501-5070**

FILED

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[Signature]
AUDITOR, HAND CO., SD.

**HAND COUNTY
COUNTY OFFICIALS
December 31, 2018**

Board of Commissioners:

**Luke Wernsmann
Jim Iverson
Gilbert Rogers
Jim Jones
J.D. Wangsness**

**Auditor:
Sandra Selting**

**Treasurer:
Sheri Koeck**

**State's Attorney:
Elton Anson**

**Register of Deeds:
Suzy Wernsmann**

**Sheriff:
Doug DeBoer**

HAND COUNTY
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427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

County Commission
Hand County
Miller, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hand County, South Dakota (County), as of December 31, 2018, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated January 14, 2020.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Current Audit Findings, as item No. 2018-001, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

HAND COUNTY
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Audit Finding:

Finding No. 2016-001:

Internal accounting controls over financial reporting for the years ended December 31, 2015 and December 31, 2016 were inadequate resulting in inaccurate and incomplete information being presented to the users of the annual financial reports. This finding has not been resolved and has been restated as Current Audit Finding No. 2018-001.

SCHEDULE OF CURRENT AUDIT FINDINGS

Current Audit Finding:

Internal Control-Related Findings – Material Weakness:

Financial Reporting Errors

Finding No. 2018-001:

Criteria:

The County's internal control structure should be designed to provide for the preparation of the annual financial reports, which includes having an adequate system for recording and processing entries material to the annual financial reports being audited in accordance with the modified cash basis of accounting.

Condition:

The County does not have an internal control system designed to provide for the preparation of the annual financial reports in accordance with the modified cash basis of accounting. We noted numerous significant reporting errors within the annual reports prepared by the County.

Context:

We noted the following significant errors in the County's annual financial reports for the years ended December 31, 2017 and December 31, 2018.

a. The 2018 Statement of Net Position contained the following significant errors:

- Restricted for Emergency Management Purposes was overstated by \$22,612.20.
- Restricted for Other Purposes was overstated by \$616.42.
- Unrestricted Net Position was understated by \$23,228.62.

b. The 2018 Statement of Activities contained the following significant errors:

- Operating Grants – General Government was overstated by \$96,494.44.
- Operating Grants – Public Safety was overstated by \$11,432.63.
- Operating Grants – Public Works was overstated by \$22,083.83.
- Operating Grants – Health and Welfare was overstated by \$6,949.23.
- Operating Grants – Conservation of Natural Resources was overstated by \$1,329.89.
- Charges for Services – General Government was understated by \$96,494.44.

Cause:

The County does not have an internal control system designed to provide for the preparation of the annual financial reports in accordance with the modified cash basis of accounting.

Recommendation:

We recommend that the County strengthen internal controls over financial reporting.

Views of responsible officials:

The Hand County Commission will undertake to encourage our county officials to avail themselves of the latest available and affordable training and technology necessary to assure accuracy in public funds accounting.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, each major fund, and the aggregate remaining fund information of Hand County as of December 31, 2018, and the respective changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the County's basic financial statements. The Budgetary Comparison Schedules, the Schedule of the County's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of Changes in Long-Term Debt listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2020, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

January 14, 2020

HAND COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2018

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental Activities:				
General Government	\$ 835,757.71	\$ 109,570.34	\$ 8,716.46	\$ (717,470.91)
Public Safety	373,814.50	14,751.63	61,835.23	(297,227.64)
Public Works	2,211,938.02	22,083.83	1,314,003.79	(875,850.40)
Health and Welfare	267,670.89	278,576.07		10,905.18
Culture and Recreation	76,143.88	8,391.04		(67,752.84)
Conservation of Natural Resources	142,734.36		6,000.00	(136,734.36)
Urban and Economic Development	84,131.08			(84,131.08)
*Interest on Long-Term Debt	80,807.95			(80,807.95)
Total Primary Government	\$ 4,072,998.39	\$ 433,372.91	\$ 1,390,555.48	(2,249,070.00)
General Revenues:				
Taxes:				
Property Taxes				2,268,224.40
State Shared Revenues				89,361.41
Unrestricted Investment Earnings				31,014.86
Miscellaneous Revenue				20,551.17
Total General Revenues				2,409,151.84
Change in Net Position				160,081.84
Net Position - Beginning				2,714,596.11
NET POSITION - ENDING				\$ 2,874,677.95

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

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

HAND COUNTY
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
 December 31, 2018

	General Fund	Road and Bridge Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and Cash Equivalents	\$ 1,583,682.11	\$ 1,103,295.91	\$ 167,748.93	\$ 2,854,726.95
Investments			19,951.00	19,951.00
TOTAL ASSETS	\$ 1,583,682.11	\$ 1,103,295.91	\$ 187,699.93	\$ 2,874,677.95
FUND BALANCES: (See Note 1.j.)				
Nonspendable		\$	\$ 19,951.00	\$ 19,951.00
Restricted			144,520.31	144,520.31
Assigned	530,813.87	1,103,295.91	23,228.62	1,657,338.40
Unassigned	1,052,868.24			1,052,868.24
TOTAL FUND BALANCES	\$ 1,583,682.11	\$ 1,103,295.91	\$ 187,699.93	\$ 2,874,677.95

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

Driver's License Exam	2,772.00			2,772.00
Clerk of Courts Fees	4,268.40			4,268.40
Other Fees	8,351.36			8,351.36
Public Safety:				
Law Enforcement	9,419.10			9,419.10
Prisoner Care	1,070.53			1,070.53
Sobriety Testing		943.00		943.00
Public Works:				
Road Maintenance Contract Charges		11,584.72		11,584.72
Other	10,499.11			10,499.11
Health and Welfare:				
Economic Assistance:				
Poor Lien Recoveries	4,601.17			4,601.17
Veterans Service Officer	1,875.00			1,875.00
Social Services	2,348.06			2,348.06
Culture and Recreation		7,061.15		7,061.15
Conservation of Natural Resources	1,329.89			1,329.89
Fines and Forfeits:				
Costs	2,319.00			2,319.00
Forfeits	1,000.00			1,000.00
Miscellaneous Revenue:				
Investment Earnings	21,316.51	8,268.56	1,429.79	31,014.86
Rent	1,110.40		271,626.84	272,737.24
Refund of Prior Year's Expenditures	4,884.00			4,884.00
Other	1,243.35		300.00	1,543.35
Total Revenues	2,365,042.12	1,423,079.80	431,540.32	4,219,662.24

Expenditures:				
General Government:				
Legislative:				
Board of County Commissioners	65,979.91			65,979.91
Elections	21,772.01			21,772.01
Judicial System	14,904.76			14,904.76
Financial Administration:				
Auditor	119,056.33			119,056.33
Treasurer	122,617.78			122,617.78
Legal Services:				
State's Attorney	100,764.45			100,764.45

Mental Health Services:				
Mentally Ill	5,028.88			5,028.88
Developmentally Disabled	2,160.00			2,160.00
Mental Health Centers	9,450.00			9,450.00
Mental Illness Board	4,207.02			4,207.02
Other	400.00			400.00
Culture and Recreation:				
Culture:				
Public Library	69,667.24	6,476.64		76,143.88
Conservation of Natural Resources:				
Soil Conservation:				
County Extension	46,485.06			46,485.06
Weed and Pest Control	96,249.30			96,249.30
Urban and Economic Development:				
Urban Development:				
Planning and Zoning	2,684.42			2,684.42
Economic Development:				
Tourism, Industrial or Recreational Development		81,446.66		81,446.66
Debt Service		271,626.84		423,746.27
Total Expenditures	<u>1,393,482.56</u>	<u>472,558.36</u>	<u>152,119.43</u>	<u>4,072,998.39</u>
Excess of Revenues Over (Under) Expenditures	<u>971,559.56</u>	<u>(41,018.04)</u>	<u>(783,877.67)</u>	<u>146,663.85</u>
Other Financing Sources (Uses):				
Transfers In				
Transfers Out	(1,000,000.00)	25,000.00		1,000,000.00
Insurance Proceeds			1,249.50	(1,000,000.00)
Sale of County Property	1,245.21		10,923.28	1,249.50
Total Other Financing Sources (Uses)	<u>(998,754.79)</u>	<u>25,000.00</u>	<u>987,172.78</u>	<u>12,168.49</u>
Net Change in Fund Balance	(27,195.23)	(16,018.04)		13,417.99
Fund Balance - Beginning	1,610,877.34	203,717.97		160,081.84
FUND BALANCE - ENDING	\$ 1,583,682.11	\$ 187,699.93	\$ 1,103,295.91	\$ 2,874,677.95

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

Other Fees	9,386.60			9,386.60
Public Safety:				
Law Enforcement	9,518.36			9,518.36
Prisoner Care	2,246.75			2,246.75
Sobriety Testing		925.00		925.00
Public Works:				
Road Maintenance Contract Charges		6,965.64		6,965.64
Other	17,641.33			17,641.33
Health and Welfare:				
Economic Assistance:				
Poor Lien Recoveries	9,616.64			9,616.64
Veterans Service Officer	1,875.00			1,875.00
Social Services	2,177.93			2,177.93
Culture and Recreation		8,281.83		8,281.83
Conservation of Natural Resources	212.07			212.07
Fines and Forfeits:				
Costs	2,676.00			2,676.00
Miscellaneous Revenue:				
Investment Earnings	4,569.78	1,115.92	327.18	6,012.88
Rent	1,110.40		409,935.80	411,046.20
Contributions and Donations	50.00			50.00
Refund of Prior Year's Expenditures	3,405.00			3,405.00
Other	3,831.63	1,916.76	250.00	5,998.39
Total Revenues	2,351,573.51	1,383,836.22	589,834.81	4,325,244.54

Expenditures:				
General Government:				
Legislative:				
Board of County Commissioners	76,509.08			76,509.08
Elections	3,235.04			3,235.04
Judicial System	8,557.56			8,557.56
Financial Administration:				
Auditor	117,731.79			117,731.79
Treasurer	108,305.69			108,305.69
Legal Services:				
State's Attorney	101,992.34			101,992.34
Court Appointed Attorney	17,349.96			17,349.96
Abused and Neglected Child Defense	477.40			477.40

Mental Illness Board	705.48				705.48
Other	50.00				50.00
Culture and Recreation:					
Culture:					
Public Library	65,804.93		14,803.90		80,608.83
Conservation of Natural Resources:					
Soil Conservation:					
County Extension	46,242.14				46,242.14
Weed and Pest Control	113,121.22				113,121.22
Urban and Economic Development:					
Urban Development:					
Planning and Zoning	2,520.85				2,520.85
Economic Development:					
Tourism, Industrial or Recreational Development			91,987.14		91,987.14
Debt Service		262,570.18	409,935.80		672,505.98
Total Expenditures	<u>1,394,907.10</u>	<u>2,325,241.30</u>	<u>615,438.46</u>		<u>4,335,586.86</u>
Excess of Revenues Over (Under) Expenditures	956,666.41	(941,405.08)	(25,603.65)		(10,342.32)
Other Financing Sources (Uses):					
Transfers In		955,000.00	25,000.00		980,000.00
Transfers Out	(980,000.00)				(980,000.00)
Insurance Proceeds	7,795.00	68,750.00			76,545.00
Sale of County Property		3,643.20			3,643.20
Total Other Financing Sources (Uses)	<u>(972,205.00)</u>	<u>1,027,393.20</u>	<u>25,000.00</u>		<u>80,188.20</u>
Net Change in Fund Balance	(15,538.59)	85,988.12	(603.65)		69,845.88
Fund Balance - Beginning	1,626,415.93	814,012.68	207,403.62		2,647,832.23
Adjustments:					
Prior Year Sale of Library Stock (See Note 8)			(3,082.00)		(3,082.00)
Adjusted Fund Balance - Beginning	<u>1,626,415.93</u>	<u>814,012.68</u>	<u>204,321.62</u>		<u>2,644,750.23</u>
FUND BALANCE - ENDING	<u>\$ 1,610,877.34</u>	<u>\$ 900,000.80</u>	<u>\$ 203,717.97</u>		<u>\$ 2,714,596.11</u>

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

HAND COUNTY
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

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

The County and the Municipality of Miller jointly govern the Hand County Regional Railroad Authority. See detailed note entitled "Jointly Governed Organization" for specific disclosures.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

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

Fund Financial Statements:

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

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

Agency Funds – Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are used to account for the accumulation and distribution of property tax revenues and various pass-through funds.

c. Measurement Focus and Basis of Accounting:

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

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

Measurement Focus:

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

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

Basis of Accounting:

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

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

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

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

If the County applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

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

h. Equity Classifications:

Government-wide Financial Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. The Net Position is reported as Net Position Held in Agency Capacity.

i. Application of Net Position:

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

j. Fund Balance Classification Policies and Procedures:

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

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

A schedule of fund balances is provided as follows:

**HAND COUNTY
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General Fund	Road and Bridge Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances:				
Nonspendable:				
Library Investment-Nonspendable Purposes	\$	\$	\$ 19,951.00	\$ 19,951.00
Restricted For:				
911 Service Purposes			102,996.43	102,996.43
Library Purposes			12,712.27	12,712.27
24/7 Sobriety Purposes			1,405.50	1,405.50
Modernization and Preservation Relief Purposes			27,406.11	27,406.11
Assigned To:				
Applied to Next Year's Budget	480,813.87			480,813.87
Capital Outlay Purposes	50,000.00			50,000.00
Road and Bridge Purposes		1,103,295.91		1,103,295.91
Emergency Management Purposes			22,612.20	22,612.20
Domestic Abuse Purposes			616.42	616.42
Unassigned	1,052,868.24			1,052,868.24
Total Fund Balances	\$ 1,583,682.11	\$ 1,103,295.91	\$ 187,699.93	\$ 2,874,677.95

3. PROPERTY TAXES

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

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

4. OPERATING LEASES

Hand County entered into a lease agreement on May 23, 2016 with John Deere Financial to acquire a 2016 Crawler Dozer. This contract is to remain in effect for five years, until May 23, 2021. Annual lease payments of \$7,783.62 are due each May 23rd beginning at inception of the lease and are paid from the Road and Bridge Fund.

5. RESTRICTED NET POSITION

Restricted Net Position for the year ended December 31, 2018 was as follows:

Major Purposes:

911 Service Purposes	\$ 102,996.43
Library Purposes	12,712.27
Modernization and Preservation Relief Purposes	27,406.11
24/7 Sobriety Purposes	1,405.50

Permanently Restricted Purposes:

Library Purposes-Nonexpendable	<u>19,951.00</u>
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Total Restricted Net Position

\$ 164,471.31

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

6. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2018 were as follows:

	<u>Transfers To:</u>		<u>Total</u>
	<u>Road and Bridge Fund</u>	<u>Other Governmental Funds</u>	
<u>Transfers From:</u>			
Major Funds:			
General Fund	\$ 975,000.00	\$ 25,000.00	\$ 1,000,000.00

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

Benefits Provided:

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

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level.

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% 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

(see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	100%	

Discount Rate:

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

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
County's proportionate share of the net pension liability (asset)	\$ 879,456.71	\$ (1,164.41)	\$ (717,501.91)

Pension Plan Fiduciary Net Position:

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

10. JOINTLY GOVERNED ORGANIZATION

The County, in conjunction with the Municipality of Miller (members) created the Hand County Regional Railroad Authority (Authority). The Authority was created to maintain and improve the railroad to and in their respective jurisdictions. The Authority was created as allowed by SDCL 49-17A and was incorporated on March 1, 2011. The Authority's board is comprised of five commissioners, two commissioners appointed by each of the members and one commissioner appointed by the joint agreement of the members. The political subdivisions which are members of the Authority and their commissioners, officers and agents shall not be liable for any obligations of the Authority. The Authority shall have the authority to certify to any of the governing bodies of the amount of tax to be levied by said governing bodies for railroad purposes pursuant to SDCL 49-17A-27.

<u>Years</u>	<u>Percentage</u>
1	55%
2	50%
3	40%
4	35%
5	30%
6+	20%

All refunds shall be paid to the withdrawing Member over a five-year term.

The amount available for refund to the County is considered a deposit for financial reporting purposes.

As of December 31, 2018, the County's balance available to be refunded per the SDPAA was \$108,939.00, which was an increase of \$43,947.45 from the previous year.

The County carries a \$2,000 deductible for the Law Enforcement coverage.

The County 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 County joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The County'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 County pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

Unemployment Benefits:

The County has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. Unemployment claims are budgeted for and paid from the General Fund.

During the year ended December 31, 2018, no claims for unemployment benefits were paid. At December 31, 2018, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

**SUPPLEMENTARY INFORMATION
HAND COUNTY
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2018
(Continued)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
Other Administration:				
General Government Building	148,841.57	148,841.57	130,239.68	18,601.89
Director of Equalization	122,509.97	122,509.97	114,596.27	7,913.70
Register of Deeds	97,036.09	97,036.09	94,274.11	2,761.98
Veterans Service Officer	10,858.75	10,858.75	10,717.50	141.25
Predatory Animal	6,525.31	6,525.31	6,525.31	0.00
Public Safety:				
Law Enforcement:				
Sheriff	284,184.44	284,184.44	250,695.24	33,489.20
County Jail	52,500.00	52,500.00	22,462.04	30,037.96
Coroner	1,570.00	6,570.00	3,171.50	3,398.50
Public Works:				
Sanitation:				
Solid Waste	21,390.28	21,390.28	18,070.43	3,319.85
Health and Welfare:				
Economic Assistance:				
Support of Poor	60,350.00	60,350.00	5,565.70	54,784.30
Public Welfare	200.00	200.00	0.00	200.00
Health Assistance:				
County Nurse	35,967.54	35,967.54	35,450.52	517.02
Mental Health Services:				
Mentally Ill	2,400.00	6,400.00	5,028.88	1,371.12
Developmentally Disabled	2,160.00	2,160.00	2,160.00	0.00
Mental Health Centers	9,450.00	9,450.00	9,450.00	0.00
Mental Illness Board	2,400.00	2,885.90	4,207.02	(1,321.12)
Other	350.00	350.00	400.00	(50.00)
Culture and Recreation:				
Culture:				
Public Library	73,051.82	73,051.82	69,667.24	3,384.58
Conservation of Natural Resources:				
Soil Conservation:				
County Extension	59,381.85	59,381.85	46,485.06	12,896.79
Weed and Pest Control	133,221.88	133,221.88	96,249.30	36,972.58
Urban and Economic Development:				
Urban Development:				
Planning and Zoning	2,856.61	2,856.61	2,684.42	172.19
Total Expenditures	<u>1,701,337.29</u>	<u>1,701,337.29</u>	<u>1,393,482.56</u>	<u>307,854.73</u>
Excess of Revenues Over (Under) Expenditures	<u>642,424.33</u>	<u>642,424.33</u>	<u>971,559.56</u>	<u>329,135.23</u>
Other Financing Sources (Uses):				
Transfers In	3,500.00	3,500.00	0.00	(3,500.00)
Transfers Out	(1,005,750.00)	(1,005,750.00)	(1,000,000.00)	5,750.00
Insurance Proceeds	100.00	100.00	0.00	(100.00)
Sale of County Property	200.00	200.00	1,245.21	1,045.21
Total Other Financing Sources (Uses)	<u>(1,001,950.00)</u>	<u>(1,001,950.00)</u>	<u>(998,754.79)</u>	<u>3,195.21</u>
Net Change in Fund Balance	(359,525.67)	(359,525.67)	(27,195.23)	332,330.44
Fund Balance - Beginning	<u>1,610,877.34</u>	<u>1,610,877.34</u>	<u>1,610,877.34</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>\$ 1,251,351.67</u>	<u>\$ 1,251,351.67</u>	<u>\$ 1,583,682.11</u>	<u>\$ 332,330.44</u>

**SUPPLEMENTARY INFORMATION
HAND COUNTY
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes--Current	\$ 2,083,060.97	\$ 2,083,060.97	\$ 2,070,985.15	\$ (12,075.82)
General Property Taxes--Delinquent	4,600.00	4,600.00	5,411.00	811.00
Penalties and Interest	500.00	500.00	4,084.50	3,584.50
Telephone Tax (Outside)	0.10	0.10	0.12	0.02
Mobile Home Tax	50.00	50.00	0.00	(50.00)
Licenses and Permits	4,700.00	4,700.00	12,375.00	7,675.00
Intergovernmental Revenue:				
Federal Grants	4,620.00	4,620.00	6,042.37	1,422.37
Federal Payments in Lieu of Taxes	7,000.00	7,000.00	2,965.40	(4,034.60)
State Grants	500.00	500.00	5,700.00	5,200.00
State Shared Revenue:				
Bank Franchise	21,000.00	21,000.00	18,146.78	(2,853.22)
Court Appointed Attorney/Public Defender	250.00	250.00	748.60	498.60
Telecommunications Gross Receipts Tax	73,000.00	73,000.00	10,786.73	(62,213.27)
Motor Vehicle 1/4%	0.00	0.00	2,490.16	2,490.16
Renewable Facility Tax	0.00	0.00	30,743.72	30,743.72
Liquor Tax Reversion (25%)	0.00	0.00	25,470.42	25,470.42
Charges for Goods and Services:				
General Government:				
Treasurer's Fees	5,400.00	5,400.00	16,463.47	11,063.47
Register of Deeds' Fees	55,000.00	55,000.00	63,640.00	8,640.00
Driver's License Exam	2,000.00	2,000.00	3,432.00	1,432.00
Clerk of Courts Fees	5,000.00	5,000.00	3,770.60	(1,229.40)
Other Fees	5,700.00	5,700.00	9,386.60	3,686.60
Public Safety:				
Law Enforcement	4,000.00	4,000.00	9,518.36	5,518.36
Prisoner Care	100.00	100.00	2,246.75	2,146.75
Other	50.00	50.00	0.00	(50.00)
Public Works:				
Other	8,000.00	8,000.00	17,641.33	9,641.33
Health and Welfare:				
Economic Assistance:				
Poor Lien Recoveries	3,000.00	3,000.00	9,616.64	6,616.64
Veterans Service Officer	1,875.00	1,875.00	1,875.00	0.00
Social Services	1,300.00	1,300.00	2,177.93	877.93
Conservation of Natural Resources	6,000.00	6,000.00	212.07	(5,787.93)
Fines and Forfeits:				
Costs	1,000.00	1,000.00	2,676.00	1,676.00
Forfeits	100.00	100.00	0.00	(100.00)
Miscellaneous Revenue:				
Investment Earnings	3,000.00	3,000.00	4,569.78	1,569.78
Rent	1,110.40	1,110.40	1,110.40	0.00
Contributions and Donations	100.00	100.00	50.00	(50.00)
Refund of Prior Year's Expenditures	3,500.00	3,500.00	3,405.00	(95.00)
Other	500.00	500.00	3,831.63	3,331.63
Total Revenues	2,306,016.47	2,306,016.47	2,351,573.51	45,557.04
Expenditures:				
General Government:				
Legislative:				
Board of County Commissioners	79,461.00	79,461.00	76,509.08	2,951.92
Contingency	100,000.00	100,000.00		
Amount Transferred		(11,429.96)		88,570.04
Elections	3,920.00	3,920.00	3,235.04	684.96
Judicial System	16,500.00	16,500.00	8,557.56	7,942.44
Financial Administration:				
Auditor	124,632.02	124,632.02	117,731.79	6,900.23
Treasurer	114,697.72	114,697.72	108,305.69	6,392.03
Legal Services:				
State's Attorney	99,281.61	102,026.12	101,992.34	33.78
Court Appointed Attorney	10,000.00	17,349.66	17,349.96	(0.30)
Abused and Neglected Child Defense	750.00	750.00	477.40	272.60

**SUPPLEMENTARY INFORMATION
HAND COUNTY
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
ROAD AND BRIDGE FUND
For the Year Ended December 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes:				
General Property Taxes--Current	\$ 86,396.59	\$ 86,396.59	\$ 88,125.51	\$ 1,728.92
General Property Taxes--Delinquent	200.00	200.00	0.00	(200.00)
Penalties and Interest	100.00	100.00	135.57	35.57
Licenses and Permits	0.00	0.00	50.00	50.00
Intergovernmental Revenue:				
Federal Grants	10,100.00	10,100.00	0.00	(10,100.00)
Federal Payments in Lieu of Taxes	150.00	150.00	159.78	9.78
State Grants	170,000.00	170,000.00	200,555.16	30,555.16
State Shared Revenue:				
Bank Franchise	400.00	400.00	753.05	353.05
Motor Vehicle Licenses	900,000.00	900,000.00	988,543.30	88,543.30
State Highway Fund (former 10% game)	1,500.00	1,500.00	0.00	(1,500.00)
Prorate License Fees	50,000.00	50,000.00	51,579.08	1,579.08
63 3/4% Mobile Home	2,000.00	2,000.00	5,135.70	3,135.70
Secondary Road Remittances	0.00	0.00	33,211.79	33,211.79
Telecommunications Gross Receipts Tax	5,000.00	5,000.00	0.00	(5,000.00)
Motor Fuel Tax	0.00	0.00	5,588.96	5,588.96
Charges for Goods and Services:				
Public Works:				
Road Maintenance Contract Charges	26,500.00	26,500.00	6,965.64	(19,534.36)
Miscellaneous Revenue:				
Investment Earnings	100.00	100.00	1,115.92	1,015.92
Other	200.00	200.00	1,916.76	1,716.76
Total Revenues	1,252,646.59	1,252,646.59	1,383,836.22	131,189.63
Expenditures:				
Public Works:				
Highways and Bridges:				
Highways, Roads and Bridges	2,075,573.00	2,075,573.00	2,062,671.12	12,901.88
Debt Service	263,000.00	263,000.00	262,570.18	429.82
Total Expenditures	2,338,573.00	2,338,573.00	2,325,241.30	13,331.70
Excess of Revenues Over (Under) Expenditures	(1,085,926.41)	(1,085,926.41)	(941,405.08)	144,521.33
Other Financing Sources (Uses):				
Transfers In	980,000.00	980,000.00	955,000.00	(25,000.00)
Insurance Proceeds	0.00	0.00	68,750.00	68,750.00
Sale of County Property	2,000.00	2,000.00	3,643.20	1,643.20
Total Other Financing Sources (Uses)	982,000.00	982,000.00	1,027,393.20	45,393.20
Net Change in Fund Balance	(103,926.41)	(103,926.41)	85,988.12	189,914.53
Fund Balance - Beginning	814,012.68	814,012.68	814,012.68	0.00
FUND BALANCE - ENDING	\$ 710,086.27	\$ 710,086.27	\$ 900,000.80	\$ 189,914.53

**SUPPLEMENTARY INFORMATION
HAND COUNTY
SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)**

South Dakota Retirement System

*Last 10 Years

	2018	2017	2016	2015	2014
County's proportion of the net pension liability (asset)	0.0499269%	0.0503767%	0.0512700%	0.0480688%	0.0519926%
County's proportionate share of net pension liability (asset)	\$ (1,164.41)	\$ (4,571.74)	\$ 173,185.02	\$ (203,873.52)	\$ (374,585.42)
County's covered payroll	\$ 1,008,386.10	\$ 987,106.01	\$ 939,668.70	\$ 859,692.72	\$ 880,957.38
County's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-0.12%	-0.46%	18.43%	-23.71%	-42.52%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.02%	100.1%	96.9%	104.1%	107.3%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30. Until a full 10-year trend is compiled, the County will present information for those years for which information is available.

SUPPLEMENTARY INFORMATION
HAND COUNTY
SCHEDULE OF CHANGES IN LONG-TERM DEBT
For the Two Years Ended December 31, 2018

Indebtedness	Long-Term Debt January 1, 2017	Add New Debt	Less Debt Retired	Long-Term Debt December 31, 2018
Governmental Long-Term Debt:				
General Obligation Refunding Bonds	\$ 2,846,093.92	\$	(538,884.22)	\$ 2,307,209.70
Gravel Installment Contract	199,279.60		(88,711.84)	110,567.76
Lease Purchase Agreements	560,908.03	209,890.00	(294,924.14)	475,873.89
Total	\$ 3,606,281.55	\$ 209,890.00	\$(922,520.20)	\$ 2,893,651.35

Note 1 - Beginning Balance Adjustments:

The January 1, 2017 beginning balance for Gravel Installment Contracts was reduced from the December 31, 2016 ending balance by \$221.98. This adjustment was due to prior errors in calculating principal and interest payments.

The January 1, 2017 beginning balance for Lease Purchase Agreements was increased from the December 31, 2016 ending balance by \$73,797.07. This change was due to prior errors in not reducing outstanding debt by a down payment of \$52,597.93. There was also a Lease Purchase for 3 Mack Trucks that was not included on the prior year schedule. The balance of this lease at December 31, 2017 was \$126,395.00.

Note 2 - Long-Term Debt:

Debt payable at December 31, 2018 is comprised of the following:

General Obligation Refunding Bonds:

General Obligation Revenue Bonds were issued May 13, 2014 to refinance a Rural Development Loan. The initial balance of the bond was \$3,323,855.48 and an initial interest rate of 2.80% for the first 7.5 years, a rate equal to the 30 day average FHLB 7 year fixed rate index capped at 5.05% and a 2.80% floor. Monthly principal and interest payments of \$22,635.57 began on June 13, 2014 and end May 13, 2029. Payments are made from the Debt Service Fund and financed through an operating agreement with Avera.	\$ 2,307,209.70
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