

HAND COUNTY
AUDIT REPORT
For the Two Years Ended December 31, 2016



State of South Dakota
Department of Legislative Audit
427 South Chapelle
%500 East Capitol
Pierre, SD 57501-5070

HAND COUNTY
COUNTY OFFICIALS
December 31, 2016

Board of Commissioners:

Jim Jones, Chairman
James Iverson
Gilbert Rodgers
James D. Wangsness
Luke Wernsmann

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, 2016, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated August 1, 2017.

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 we identified certain deficiencies 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 deficiencies described in the accompanying Schedule of Current Audit Findings as item No. 2016-001 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, and contracts, 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

HAND COUNTY
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Audit Finding:

Finding No. 2014-001:

Internal accounting controls over financial reporting were inadequate resulting in inaccurate information being presented to users of the annual financial reports. This finding has not been corrected and is restated as current other audit finding No. 2016-001.

SCHEDULE OF CURRENT AUDIT FINDINGS

Current Audit Finding:

Internal Control-Related Findings - Material Weakness:

Financial Reporting Errors

Finding No. 2016-001:

Internal accounting controls over financial reporting were inadequate, resulting in inaccurate information being presented to users of the annual financial reports. This is the third consecutive audit in which a similar finding was noted.

Analysis:

We noted the following significant errors in the County's annual financial reports for the two years ended December 31, 2016.

- a. In the 2015 Statement of Activities, General Revenues-Debt Issued was overstated and Charges for Goods and Services-Health and Welfare was understated \$271,626.84.
- b. In the 2015 Statement of Revenues, Expenditures and Changes in Fund Balances – Other Governmental Funds-Other Financing Sources-Long-Term Debt Issued was overstated and Miscellaneous Revenue-Hospital Lease Payments was understated \$271,626.84.
- c. In the 2016 Governmental Funds Balance Sheet-Other Governmental Funds-Restricted Fund Balance was overstated and the Assigned Fund Balance was understated \$21,429.72.
- d. In the 2016 Statement of Activities, General Revenues-Debt Issued was overstated and Charges for Goods and Services-Health and Welfare was understated \$271,626.84.
- e. In the 2016 Statement of Revenues, Expenditures and Changes in Fund Balances – Other Governmental Funds-Other Financing Sources-Long-Term Debt Issued was overstated and Miscellaneous Revenue-Hospital Lease Payments was understated \$271,626.84.
- f. In the 2016 Statement of Revenues, Expenditures and Changes in Fund Balances – Other Governmental Funds-Telecommunications Gross Receipts Tax was overstated and 911 Remittances was understated \$40,723.49.
- g. In the 2016 Statement of Revenues, Expenditures and Changes in Fund Balances – Other Governmental Fund-Protective and Emergency Services-Communications Center was understated and Public Safety-Law Enforcement was overstated \$36,426.56.



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

County Commission
Hand County
Miller, South Dakota

Report on the Financial Statements

We have audited the accompanying 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, 2016, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The County's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County'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 County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

HAND COUNTY
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2016

	Primary Government Governmental Activities
ASSETS:	
Cash and Cash Equivalents	\$ 2,627,881.23
Investments	19,951.00
TOTAL ASSETS	\$ 2,647,832.23
NET POSITION:	
Restricted For: (See Note 5)	
911 Service Purposes	\$ 120,845.09
Library Purposes	18,649.83
Modernization and Preservation Relief Purposes	23,165.98
24/7 Sobriety Purposes	280.00
Permanently Restricted Purposes:	
Nonexpendable	23,033.00
Unrestricted	2,461,858.33
TOTAL NET POSITION	\$ 2,647,832.23

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

HAND COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2015

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:				Primary Government Governmental Activities
Governmental Activities:				
General Government	\$ 759,481.95	\$ 98,002.13	\$ 2,551.15	\$ (658,928.67)
Public Safety	268,142.99	7,843.00	77,856.73	(182,443.26)
Public Works	2,080,575.64	47,802.88	1,021,595.73	(1,011,177.03)
Health and Welfare	234,967.95	280,493.38		45,525.43
Culture and Recreation	75,376.97	8,985.88		(66,391.09)
Conservation of Natural Resources	151,674.68		2,151.92	(143,205.00)
Urban and Economic Development	94,371.12	6,317.76		(94,371.12)
*Interest on Long-Term Debt	95,184.05			(95,184.05)
Total Primary Government	\$ 3,759,775.35	\$ 449,445.03	\$ 1,104,155.53	(2,206,174.79)
General Revenues:				
Taxes:				
Property Taxes				2,227,202.60
State Shared Revenues				77,544.99
Grants and Contributions not Restricted to Specific Programs				3,276.17
Unrestricted Investment Earnings				4,646.07
Miscellaneous Revenue				22,853.60
Total General Revenues				2,335,523.43
Change in Net Position				129,348.64
Net Position - Beginning				2,333,491.37
Adjustments:				
Refund of 2014 Hospital Lease Overpayment				(22,995.00)
Adjusted Net Position - Beginning				2,310,496.37
NET POSITION - ENDING				\$ 2,439,845.01

* 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.

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Clerk of Courts Fees	5,749.00			5,749.00
Other Fees	5,801.63			5,801.63
Public Safety:				
Law Enforcement	7,129.27			7,129.27
Prisoner Care	1,113.02			1,113.02
Sobriety Testing		80.00		80.00
Public Works:				
Road Maintenance Contract Charges		26,658.00		26,658.00
Other	9,386.21			9,386.21
Health and Welfare:				
Economic Assistance:				
Poor Lien Recoveries	14,311.93			14,311.93
Veterans Service Officer	1,875.00			1,875.00
Social Services	2,216.76			2,216.76
Culture and Recreation		14,668.46		14,668.46
Conservation of Natural Resources	4,008.73			4,008.73
Fines and Forfeits:				
Fines	1,499.94			1,499.94
Costs	834.00			834.00
Miscellaneous Revenue:				
Investment Earnings	4,303.52	1,085.88		5,715.16
Rent	1,110.40		325.76	1,110.40
Hospital Lease Payments			271,626.84	271,626.84
Refund of Prior Year's Expenditures	5,391.94			5,391.94
Other	571.34	638.00		1,535.34
Total Revenues	2,307,680.37	1,536,194.62	454,066.19	4,297,941.18
Expenditures:				
General Government:				
Legislative:				
Board of County Commissioners	63,441.16			63,441.16
Elections	22,835.65			22,835.65
Judicial System	8,533.87			8,533.87
Financial Administration:				
Auditor	115,097.67			115,097.67
Treasurer	105,910.45			105,910.45

Social Services:									
Domestic Abuse									1,200.00
Mental Health Services:									
Mentally III	600.00								
Developmentally Disabled	2,160.00								
Mental Health Centers	9,450.00								
Mental Illness Board	2,047.99								
Culture and Recreation:									
Culture:									
Public Library	65,912.51								73,651.03
Conservation of Natural Resources:									
Soil Conservation:									
County Extension	46,345.01								46,345.01
Weed and Pest Control	123,489.87								123,489.87
Urban and Economic Development:									
Urban Development:									
Planning and Zoning	2,573.80								2,573.80
TIF Economic Development Grant									
Debt Service		181,494.75							89,354.14
Total Expenditures	1,368,723.93	2,252,878.72							453,121.59
									4,101,398.89
Excess of Revenues Over (Under) Expenditures	938,956.44	(716,684.10)							196,542.29
Other Financing Sources (Uses):									
Transfers In	3,500.00	950,000.00							988,935.97
Transfers Out	(970,400.00)								(988,935.97)
Sale of County Property	72.45	11,372.48							11,444.93
Total Other Financing Sources (Uses)	(966,827.55)	961,372.48							11,444.93
Net Change in Fund Balance	(27,871.11)	244,688.38							207,987.22
Fund Balance - Beginning	1,654,287.04	569,324.30							2,439,845.01
FUND BALANCE - ENDING	\$ 1,626,415.93	\$ 814,012.68							\$ 2,647,832.23

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

Driver's License Exam	3,355.00			3,355.00
Clerk of Courts Fees	5,348.69			5,348.69
Other Fees	6,770.52			6,770.52
Public Safety:				
Law Enforcement	4,597.73			4,597.73
Prisoner Care	1,303.00			1,303.00
Other	187.00			187.00
Public Works:				
Road Maintenance Contract Charges		36,528.12		36,528.12
Other	11,274.76			11,274.76
Health and Welfare:				
Economic Assistance:				
Poor Lien Recoveries	7,481.58			7,481.58
Veterans Service Officer	1,875.00			1,875.00
Social Services	1,384.96		8,985.88	1,384.96
Culture and Recreation				
Conservation of Natural Resources	6,317.76			8,985.88
Fines and Forfeits:				
Costs	1,755.27			6,317.76
Miscellaneous Revenue:				
Investment Earnings	3,470.36	873.65	302.06	1,755.27
Rent	1,110.40			4,646.07
Hospital Lease Payments				1,110.40
Contributions and Donations	250.00		271,626.84	271,626.84
Refund of Prior Year's Expenditures	5,022.78			250.00
Other	329.91	1,822.24	324.00	5,022.78
Total Revenues	<u>2,259,846.46</u>	<u>1,152,699.79</u>	<u>462,583.47</u>	<u>3,875,129.72</u>
Expenditures:				
General Government:				
Legislative:				
Board of County Commissioners	67,979.17			67,979.17
Elections	3,061.26			3,061.26
Judicial System	5,519.32			5,519.32
Financial Administration:				
Auditor	109,727.04			109,727.04
Treasurer	101,156.86			101,156.86
Legal Services:				
State's Attorney	80,995.39			80,995.39

Mental Health Services:					
Developmentally Disabled	2,160.00				2,160.00
Mental Health Centers	9,680.00				9,680.00
Mental Illness Board	1,359.29				1,359.29
Culture and Recreation:					
Culture:					
Public Library	64,327.91			11,049.06	75,376.97
Conservation of Natural Resources:					
Soil Conservation:					
County Extension	43,839.38				43,839.38
Weed and Pest Control	107,835.30				107,835.30
Urban and Economic Development:					
Urban Development:					
Planning and Zoning	2,505.46				2,505.46
TIF Economic Development Grant				91,865.66	91,865.66
Debt Service		159,811.29		271,626.84	431,438.13
Total Expenditures	<u>1,226,663.25</u>	<u>2,072,000.30</u>		<u>461,111.80</u>	<u>3,759,775.35</u>
Excess of Revenues Over (Under) Expenditures	<u>1,033,183.21</u>	<u>(919,300.51)</u>		<u>1,471.67</u>	<u>115,354.37</u>
Other Financing Sources (Uses):					
Transfers In	3,500.00				982,825.96
Transfers Out	(965,400.00)	950,000.00		29,325.96	(982,825.96)
Insurance Proceeds	2,994.27			(17,425.96)	2,994.27
Sale of County Property	11,000.00				11,000.00
Total Other Financing Sources (Uses)	<u>(947,905.73)</u>	<u>950,000.00</u>		<u>11,900.00</u>	<u>13,994.27</u>
Net Change in Fund Balance	<u>85,277.48</u>	<u>30,699.49</u>		<u>13,371.67</u>	<u>129,348.64</u>
Fund Balance - Beginning	1,569,009.56	538,624.81		225,857.00	2,333,491.37
Adjustments:					
Refund of 2014 Hospital Lease Overpayment				(22,995.00)	(22,995.00)
Adjusted Fund Balance - Beginning	<u>1,569,009.56</u>	<u>538,624.81</u>		<u>202,862.00</u>	<u>2,310,496.37</u>
FUND BALANCE - ENDING	<u>\$ 1,654,287.04</u>	<u>\$ 569,324.30</u>		<u>\$ 216,233.67</u>	<u>\$ 2,439,845.01</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.

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
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

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.

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity

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.

The nonspendable Fund Balance is comprised of the following:

- Amount legally or contractually required to be maintained intact in the form of stock certificates and certificates of deposit.

A schedule of fund balances is provided as follows:

**HAND COUNTY
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

Fund Balances:	General Fund	Road and Bridge Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Library Investment-Nonspendable Purposes	\$	\$	\$ 23,033.00	\$ 23,033.00
Restricted For:				
911 Service Purposes			120,845.09	120,845.09
Library Purposes			18,649.83	18,649.83
Modernization and Preservation Relief Purposes			23,165.98	23,165.98
24/7 Sobriety Purposes			280.00	280.00
Assigned To:				
Applied to Next Year's Budget	511,581.36			511,581.36
Road and Bridge Purposes		814,012.68		814,012.68
Emergency Management Purposes			19,935.71	19,935.71
Domestic Abuse Purposes			1,494.01	1,494.01
Unassigned	1,114,834.57			1,114,834.57
Total Fund Balances	\$ 1,626,415.93	\$ 814,012.68	\$ 207,403.62	\$ 2,647,832.23

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, 2016 was as follows:

Major Purposes:

911 Service Purposes	\$ 120,845.09
Library Purposes	18,649.83
Modernization and Preservation	
Relief Purposes	23,165.98
24/7 Sobriety Purposes	280.00

Permanently Restricted Purposes:

Library Purposes-Nonexpendable	<u>23,033.00</u>
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Total Restricted Net Position **\$ 185,973.90**

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

6. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2016 were as follows:

	<u>Transfers To:</u>			<u>Total</u>
	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Other Governmental Funds</u>	
<u>Transfers From:</u>				
Major Funds:				
General Fund	\$	\$ 950,000.00	\$ 20,400.00	\$ 970,400.00
Other Governmental Funds:				
Tax Incremental Financing Fund	3,500.00			3,500.00
911 Service Fund			15,035.97	<u>15,035.97</u>
Total	<u>\$ 3,500.00</u>	<u>\$ 950,000.00</u>	<u>\$ 35,435.97</u>	<u>\$ 988,935.97</u>

bonded debt. Due to timing issues during the refinancing process, Avera over paid the County \$22,995.00. In 2015, the County issued a check to refund the 2014 overpayment. In order to report the corrected January 1, 2015 beginning Net Position/Fund Balance, a prior period adjustment was made for the period in which the overpayment occurred.

9. PENSION PLAN

Plan Information:

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

Benefits Provided:

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

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

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

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

Contributions:

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

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

Discount Rate:

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

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

The following presents the County's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the 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 (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) 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)	\$ 969,141.08	\$ 173,185.02	\$ (476,002.63)

Pension Plan Fiduciary Net Position:

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

10. JOINT VENTURES

The County, in conjunction with the City 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.

11. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2016, the County was involved in three lawsuits. No determination can be made at this time regarding the potential outcome of these lawsuits. However, as discussed in the Risk Management note, the County has liability coverage for itself and its employees with South Dakota

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 two years ended December 31, 2016, no claims for unemployment benefits were paid. At December 31, 2016, 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, 2016
(Continued)**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Other Administration:				
General Government Building	169,654.24	169,654.24	128,171.70	41,482.54
Director of Equalization	150,747.88	150,747.88	149,234.61	1,513.27
Register of Deeds	79,159.74	79,159.74	78,282.98	876.76
Veterans Service Officer	10,858.75	10,858.75	10,569.85	288.90
Predatory Animal	6,525.31	6,525.31	6,525.31	0.00
Public Safety:				
Law Enforcement:				
Sheriff	284,794.94	284,794.94	254,257.26	30,537.68
County Jail	48,600.00	48,600.00	16,252.50	32,347.50
Coroner	1,570.00	3,376.42	3,376.42	0.00
Public Works:				
Sanitation:				
Solid Waste	20,380.25	20,380.25	19,178.00	1,202.25
Health and Welfare:				
Economic Assistance:				
Support of Poor	60,350.00	60,350.00	991.00	59,359.00
Public Welfare	200.00	200.00	0.00	200.00
Health Assistance:				
County Nurse	35,021.03	35,021.03	34,934.28	86.75
Mental Health Services:				
Mentally Ill	2,400.00	2,400.00	600.00	1,800.00
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	2,400.00	2,047.99	352.01
Other	350.00	350.00	0.00	350.00
Culture and Recreation:				
Culture:				
Public Library	70,300.55	70,300.55	65,912.51	4,388.04
Conservation of Natural Resources:				
Soil Conservation:				
County Extension	47,711.01	47,711.01	46,345.01	1,366.00
Weed and Pest Control	125,264.94	125,264.94	123,489.87	1,775.07
Urban and Economic Development:				
Urban Development:				
Planning and Zoning	2,818.40	2,818.40	2,573.80	244.60
Total Expenditures	<u>1,658,121.81</u>	<u>1,658,121.81</u>	<u>1,368,723.93</u>	<u>289,397.88</u>
Excess of Revenues Over (Under) Expenditures	<u>615,438.98</u>	<u>615,438.98</u>	<u>938,956.44</u>	<u>323,517.46</u>
Other Financing Sources (Uses):				
Transfers In	3,500.00	3,500.00	3,500.00	0.00
Transfers Out	(1,000,000.00)	(1,000,000.00)	(970,400.00)	29,600.00
Sale of County Property	300.00	300.00	72.45	(227.55)
Total Other Financings Sources (Uses)	<u>(996,200.00)</u>	<u>(996,200.00)</u>	<u>(966,827.55)</u>	<u>29,372.45</u>
Net Change in Fund Balance	(380,761.02)	(380,761.02)	(27,871.11)	352,889.91
Fund Balance - Beginning	<u>1,654,287.04</u>	<u>1,654,287.04</u>	<u>1,654,287.04</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>\$ 1,273,526.02</u>	<u>\$ 1,273,526.02</u>	<u>\$ 1,626,415.93</u>	<u>\$ 352,889.91</u>

**SUPPLEMENTARY INFORMATION
HAND COUNTY
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes:				
General Property Taxes--Current	\$ 2,031,446.24	\$ 2,031,446.24	\$ 2,021,161.55	\$ (10,284.69)
General Property Taxes--Delinquent	4,000.00	4,000.00	9,822.72	5,822.72
Penalties and Interest	1,000.00	1,000.00	5,417.04	4,417.04
Telephone Tax (Outside)	0.00	0.00	0.17	0.17
Mobile Home Tax	60.00	60.00	23.90	(36.10)
Licenses and Permits	5,720.00	5,720.00	6,650.00	930.00
Intergovernmental Revenue:				
Federal Grants	12,920.00	12,920.00	4,170.18	(8,749.82)
Federal Payments in Lieu of Taxes	2,000.00	2,000.00	3,130.37	1,130.37
State Grants	5,000.00	5,000.00	2,151.92	(2,848.08)
State Shared Revenue:				
Bank Franchise	15,000.00	15,000.00	25,902.77	10,902.77
Court Appointed Attorney/Public Defender	200.00	200.00	238.16	38.16
Telecommunications Gross Receipts Tax	22,000.00	22,000.00	17,699.71	(4,300.29)
Motor Vehicle 1/4%	1,000.00	1,000.00	2,312.99	1,312.99
Renewable Facility Tax	30,000.00	30,000.00	33,449.64	3,449.64
Charges for Goods and Services:				
General Government:				
Treasurer's Fees	5,000.00	5,000.00	7,169.62	2,169.62
Register of Deeds' Fees	50,000.00	50,000.00	58,711.00	8,711.00
Driver's License Exam	2,000.00	2,000.00	3,355.00	1,355.00
Clerk of Courts Fees	5,000.00	5,000.00	5,348.69	348.69
Other Fees	6,000.00	6,000.00	6,770.52	770.52
Public Safety:				
Law Enforcement	4,000.00	4,000.00	4,597.73	597.73
Prisoner Care	1,500.00	1,500.00	1,303.00	(197.00)
Other	0.00	0.00	187.00	187.00
Public Works:				
Other	8,500.00	8,500.00	11,274.76	2,774.76
Health and Welfare:				
Economic Assistance:				
Poor Lien Recoveries	3,000.00	3,000.00	7,481.58	4,481.58
Veterans Service Officer	1,875.00	1,875.00	1,875.00	0.00
Social Services	1,500.00	1,500.00	1,384.96	(115.04)
Conservation of Natural Resources	8,000.00	8,000.00	6,317.76	(1,682.24)
Fines and Forfeits:				
Costs	1,000.00	1,000.00	1,755.27	755.27
Miscellaneous Revenue:				
Investment Earnings	5,000.00	5,000.00	3,470.36	(1,529.64)
Rent	1,110.00	1,110.00	1,110.40	0.40
Contributions and Donations	0.00	0.00	250.00	250.00
Refund of Prior Year's Expenditures	2,000.00	2,000.00	5,022.78	3,022.78
Other	500.00	500.00	329.91	(170.09)
Total Revenues	2,236,331.24	2,236,331.24	2,259,846.46	23,515.22
Expenditures:				
General Government:				
Legislative:				
Board of County Commissioners	88,229.76	88,229.76	67,979.17	20,250.59
Contingency	100,000.00	100,000.00		
Amount Transferred		(1,112.89)		98,887.11
Elections	5,020.00	5,020.00	3,061.26	1,958.74
Judicial System	17,000.00	17,000.00	5,519.32	11,480.68
Financial Administration:				
Auditor	115,275.69	115,275.69	109,727.04	5,548.65
Treasurer	103,294.45	103,294.45	101,156.86	2,137.59
Legal Services:				
State's Attorney	82,603.08	82,603.08	80,995.39	1,607.69
Court Appointed Attorney	10,000.00	10,000.00	7,313.37	2,686.63
Abused and Neglected Child Defense	750.00	750.00	0.00	750.00

**SUPPLEMENTARY INFORMATION
HAND COUNTY
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
ROAD AND BRIDGE FUND
For the Year Ended December 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Taxes:				
General Property Taxes--Current	\$ 85,028.91	\$ 85,028.91	\$ 94,123.76	\$ 9,094.85
General Property Taxes--Delinquent	0.00	0.00	1,045.76	1,045.76
Penalties and Interest	20.00	20.00	242.04	222.04
Licenses and Permits	50.00	50.00	0.00	(50.00)
Intergovernmental Revenue:				
Federal Grants	5,000.00	5,000.00	64,955.94	59,955.94
Federal Payments in Lieu of Taxes	150.00	150.00	145.80	(4.20)
State Grants	0.00	0.00	17,102.28	17,102.28
State Shared Revenue:				
Bank Franchise	260.00	260.00	492.87	232.87
Motor Vehicle Licenses	735,000.00	735,000.00	868,157.86	133,157.86
State Highway Fund (former 10% game)	1,500.00	1,500.00	1,492.31	(7.69)
Prorate License Fees	50,000.00	50,000.00	55,829.22	5,829.22
63 3/4% Mobile Home	4,000.00	4,000.00	4,306.13	306.13
Motor Fuel Tax	5,000.00	5,000.00	5,581.81	581.81
Charges for Goods and Services:				
Public Works:				
Road Maintenance Contract Charges	41,000.00	41,000.00	36,528.12	(4,471.88)
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	873.65	873.65
Other	100.00	100.00	1,822.24	1,722.24
Total Revenues	927,108.91	927,108.91	1,152,699.79	225,590.88
Expenditures:				
Public Works:				
Highways and Bridges:				
Highways, Roads and Bridges	1,976,278.80	1,976,278.80	1,912,189.01	64,089.79
Debt Service	200,000.00	200,000.00	159,811.29	40,188.71
Total Expenditures	2,176,278.80	2,176,278.80	2,072,000.30	104,278.50
Excess of Revenues Over (Under) Expenditures	(1,249,169.89)	(1,249,169.89)	(919,300.51)	329,869.38
Other Financing Sources (Uses):				
Transfers In	950,000.00	950,000.00	950,000.00	0.00
Sale of County Property	5,000.00	5,000.00	0.00	(5,000.00)
Total Other Financing Sources (Uses)	955,000.00	955,000.00	950,000.00	(5,000.00)
Net Change in Fund Balance	(294,169.89)	(294,169.89)	30,699.49	324,869.38
Fund Balance - Beginning	538,624.81	538,624.81	538,624.81	0.00
FUND BALANCE - ENDING	\$ 244,454.92	\$ 244,454.92	\$ 569,324.30	\$ 324,869.38

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

South Dakota Retirement System

*Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset)	0.0512700%	0.0480688%	0.0519926%
County's proportionate share of net pension liability (asset)	\$ 173,185.02	\$ (203,873.52)	\$ (374,585.42)
County's covered-employee payroll	\$ 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-employee payroll	18.43%	-23.71%	-42.52%
Plan fiduciary net position as a percentage of the total pension liability (asset)	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, 2016

<u>Indebtedness</u>	<u>Long-Term Debt January 1, 2015</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt December 31, 2016</u>
Governmental Long-Term Debt:				
Equipment Installment Loan Contracts	\$ 417,230.87	\$	\$ (237,779.03)	\$ 179,451.84
Equipment Lease/Purchase Agreements	32,290.53	380,738.00	(105,443.88)	307,584.65
General Obligation Refunding Bonds	3,219,474.25		(373,380.33)	2,846,093.92
Gravel Royalty Contracts	60,000.00	221,357.50	(81,855.92)	199,501.58
Total	<u>\$ 3,728,995.65</u>	<u>\$ 602,095.50</u>	<u>\$ (798,459.16)</u>	<u>\$ 3,532,631.99</u>

Note 1 - Long-Term Debt:

Debt payable at December 31, 2016 is comprised of the following:

Equipment Installment Loan Contracts:

Installment loan contract for the purchase of a John Deere Motorgrader. The contract had an original balance of \$214,534.29, an interest rate of 3.95% and called for annual payments of \$40,937.09 beginning April 14, 2012 and ending April 14, 2017. Payments are made by the Road and Bridge Fund. \$ 39,009.49

Installment loan contract for the purchase of a John Deere Motorgrader. The contract had an original balance of \$262,600.00, an interest rate of 3.20% and called for annual payments of \$46,117.35 beginning on June 1, 2014 and ending on June 1, 2018. Payments are made by the Road and Bridge Fund. \$ 140,442.35

Equipment Lease/Purchase Agreements:

Lease/Purchase agreement for the acquisition of a Bomag Roller. The agreement had an original balance of \$98,850, an interest rate of 1.5% and called for annual payments of \$33,445.16 beginning December 7, 2015 and ending December 7, 2017. Payments are made from the Road and Bridge Fund. \$ 32,963.03