

# **MUNICIPALITY OF NEW UNDERWOOD**

INDEPENDENT AUDITORS' REPORT,  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2010



CASEY PETERSON & ASSOCIATES, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

RAPID MUNICIPALITY, SOUTH DAKOTA

**Municipality of New Underwood  
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December 31, 2010**

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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

To the Honorable Mayor and Municipality Council  
Municipality of New Underwood  
New Underwood, South Dakota

We have audited the accompanying financial statements of the Municipality of New Underwood, South Dakota (the Municipality) for the year ended December 31, 2010, and have issued our report thereon dated July 18, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and management's responses, we identified certain deficiencies in internal control over financial reporting that we considered to be material weaknesses.

A deficiency in internal control exists when the design of 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We considered the deficiencies described in the accompanying schedule of findings and management's responses as items 2010-1, 2010-2, and 2010-3 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and management's responses in item 2010-3.

The Municipality's responses to the findings identified in our audit are described in the accompanying schedule of findings and management's responses. We did not audit the Municipality's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the South Dakota Legislature, the governing board of the Municipality of New Underwood, and state granting agencies and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 this report is a matter of public record and its distribution is not limited.

A handwritten signature in blue ink that reads "Casey Peterson & Associates, Ltd." The signature is written in a cursive, flowing style.

Casey Peterson & Associates, Ltd.

Rapid Municipality, South Dakota  
July 18, 2011

**Municipality of New Underwood**  
**Schedule of Findings and Management's Responses**  
**December 31, 2010**

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2010-1 *Condition and Criteria:* As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. Establishing internal controls over the preparation and drafting of financial statements is the responsibility of management.

*Effect:* The Municipality engages its auditors to draft the financial statements.

*Cause:* Due to the limited number of employees in the finance office, the Municipality does not have an internal control system designed to provide for the preparation of the financial statements being audited.

*Auditors' Recommendation:* It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. If management is unwilling to accept risks associated with this condition, we recommend that management develop a system of internal controls to ensure proper reporting of the financial statements and notes to the financial statements.

*Management's Response:* The Municipality concurs with the recommendation and accepts the risk associated with the Municipality's auditors drafting the financial statements.

2010-2 *Condition and Criteria:* The Municipality has a lack of segregation of duties related to the preparation of bank account reconciliations and the cash receipt cycle in the Enterprise Funds. Specifically, the following items related to the lack of segregation of duties were noted:

- The finance officer prepares all cash reconciliations with little to no oversight and is actively involved in the cash receipts and billing cycles.
- The city clerk collects utility payments and posts charges and receipts to the customer accounts which are then reviewed by the finance officer. However, the city clerk should not be able to collect cash receipts and have access to edit customer accounts.

*Effect:* The possibility of fraud or errors occurring and not being detected or corrected is present.

*Cause:* Small staff size and assignment of duties within the finance office that do not provide adequate segregation of duties

*Auditors' Recommendation:* Ideally, the custody of cash, recording of transactions, and authorization of transactions should be segregated so that no one person is performing multiple functions. We recommend that the customer account master file be protected in a manner that would allow the city clerk to view data, but not make any changes to data. The finance officer should be the only person who is able to edit the customer account master file and should post payments to customer accounts based on the deposit slip or mail log. The finance officer should not have access to the cash receipts. We also recommend that the Mayor or a Council member review and approve all monthly bank account reconciliations prepared by the finance officer.

*Management's Response:* The Municipality concurs with the recommendation and has implemented the suggestions to improve internal controls.

**Municipality of New Underwood**  
**Schedule of Findings and Management's Responses**  
**December 31, 2010**

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2010-3 *Condition and Criteria:* During our review of statutory compliance, we found the Municipality in violation of SDCL 9-21-9. This statute does not allow spending in excess of the amount appropriated for any purpose or department. The Municipality overspent departments in the General Fund and the Designated Non Ad Valorem Tax Fund.

*Effect:* The Municipality is not in compliance with SDCL 9-21-9 which disallows cities from expending in excess of budgeted appropriations.

*Cause:* The Municipality had unforeseen expenses for which a budget supplement was not adopted. In addition, the Municipality paid an outstanding debt obligation in full during the year ended December 31, 2010, rather than just the required annual payment. The payment of this debt caused the budget to be over-expended.

*Auditors' Recommendation:* We recommend management and the Municipality Council review budgetary reports on a monthly basis. The original budget should be supplemented if additional expenditures are anticipated within the budget period.

*Management's Response:* The Municipality reviews budget reports monthly and has implemented necessary controls over budgetary compliance. Oversight has been increased to ensure appropriate budgetary supplements are adopted and budgetary over expenditures are mitigated.



## Independent Auditors' Report

To the Honorable Mayor and Municipality Council  
Municipality of New Underwood  
New Underwood, South Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of New Underwood, South Dakota (the Municipality) as of and for the year ended December 31, 2010, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Municipality of New Underwood, South Dakota prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles general accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities, the business-type activities, and each major fund of the Municipality of New Underwood, South Dakota, as of December 31, 2010, and the respective changes in financial position - modified cash basis, thereof for the year then ended in conformity with the basis of accounting as described in Note 1.

In accordance with *Government Auditing Standards*, we have issued our report dated July 18, 2011, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The Municipality has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. However, the budgetary comparison information is presented on pages 28 through 31. We have applied certain limited procedures to the budgetary comparison schedules in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Schedule of Municipal Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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Casey Peterson & Associates, Ltd.

Rapid City, South Dakota  
July 18, 2011

## BASIC FINANCIAL STATEMENTS

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**Municipality of New Underwood  
Statement of Net Assets - Modified Cash Basis  
December 31, 2010**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 171,663	\$ 74,973	\$ 246,636
Certificates of Deposit	38,438	4,041	42,479
Investments - SD FIT	16,905	-	16,905
<b>TOTAL ASSETS</b>	<u>\$ 227,006</u>	<u>\$ 79,014</u>	<u>\$ 306,020</u>
<b>NET ASSETS</b>			
Unrestricted	<u>\$ 227,006</u>	<u>\$ 79,014</u>	<u>\$ 306,020</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 227,006</u>	<u>\$ 79,014</u>	<u>\$ 306,020</u>

The accompanying notes are an integral part of this statement.

**Municipality of New Underwood  
Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2010**

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Functions/Programs	Disbursements
<b>PRIMARY GOVERNMENT</b>	
Governmental Activities:	
General Government	\$ 71,530
Public Safety	38,314
Public Works	166,620
Culture and Recreation	35,896
Sanitation	53,175
Total Governmental Activities	365,535
Business-Type Activities:	
Water	489,461
Sewer	66,767
Total Business-Type Activities	556,228
Total Primary Government	\$ 921,763

The accompanying notes are an integral part of this statement.

Program Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
Charges for Services	Operating	Capital	Primary Government		
	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 974	\$ -	\$ -	\$ (70,556)	\$ -	\$ (70,556)
-	-	-	(38,314)	-	(38,314)
-	-	-	(166,620)	-	(166,620)
2,791	8,128	-	(24,977)	-	(24,977)
<u>59,637</u>	<u>-</u>	<u>-</u>	<u>6,462</u>	<u>-</u>	<u>6,462</u>
<u>63,402</u>	<u>8,128</u>	<u>-</u>	<u>(294,005)</u>	<u>-</u>	<u>(294,005)</u>
115,222	-	384,604	-	10,365	10,365
<u>47,563</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,204)</u>	<u>(19,204)</u>
<u>162,785</u>	<u>-</u>	<u>384,604</u>	<u>-</u>	<u>(8,839)</u>	<u>(8,839)</u>
<u>\$ 226,187</u>	<u>\$ 8,128</u>	<u>\$ 384,604</u>	<u>\$ (294,005)</u>	<u>\$ (8,839)</u>	<u>\$ (302,844)</u>
<b>GENERAL RECEIPTS</b>					
Taxes:					
Property Taxes			144,769	-	144,769
Sales Tax			89,710	-	89,710
State Shared Receipts			24,065	-	24,065
Unrestricted Investment Earnings			2,932	5	2,937
Miscellaneous Receipts			5,763	-	5,763
Transfers			<u>(40,369)</u>	<u>40,369</u>	<u>-</u>
Total General Cash Receipts and Transfers			<u>226,870</u>	<u>40,374</u>	<u>267,244</u>
<b>CHANGE IN NET ASSETS</b>			(67,135)	31,535	(35,600)
<b>NET ASSETS - BEGINNING</b>			<u>294,141</u>	<u>47,479</u>	<u>341,620</u>
<b>NET ASSETS - ENDING</b>			<u>\$ 227,006</u>	<u>\$ 79,014</u>	<u>\$ 306,020</u>

The accompanying notes are an integral part of this statement.

**Municipality of New Underwood  
Balance Sheet - Modified Cash Basis - Governmental Funds  
December 31, 2010**

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	General Fund	Designated Non Ad Valorem Tax Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 164,687	\$ 6,976	\$ 171,663
Certificates of Deposit	38,438	-	38,438
Investments - SD FIT	16,905	-	16,905
<b>TOTAL ASSETS</b>	<b>\$ 220,030</b>	<b>\$ 6,976</b>	<b>\$ 227,006</b>
 <b>FUND BALANCES</b>			
Unreserved	\$ 220,030	\$ 6,976	227,006
<b>TOTAL FUND BALANCES</b>	<b>\$ 220,030</b>	<b>\$ 6,976</b>	<b>\$ 227,006</b>

The accompanying notes are an integral part of this statement.

**Municipality of New Underwood**  
**Statement of Receipts, Disbursements and Changes in Fund Balances -**  
**Modified Cash Basis - Governmental Funds**  
**For the Year Ended December 31, 2010**

	General Fund	Designated Non Ad Valorem Tax Fund	Total Governmental Funds
<b>RECEIPTS</b>			
Property Taxes	\$ 144,769	\$ -	\$ 144,769
Sales Taxes	46,954	44,855	91,809
Licenses and Permits	6,274	-	6,274
State Shared Receipts	18,765	-	18,765
Charges for Services	57,538	-	57,538
Investment Earnings	2,932	-	2,932
Miscellaneous Receipts	<u>16,682</u>	<u>-</u>	<u>16,682</u>
Total Receipts	<u>293,914</u>	<u>44,855</u>	<u>338,769</u>
<b>DISBURSEMENTS</b>			
Current:			
General Government	71,530	-	71,530
Public Safety	38,314	-	38,314
Public Works	53,494	43,529	97,023
Culture and Recreation	35,896	-	35,896
Solid Waste	53,175	-	53,175
Debt Service	<u>54,569</u>	<u>15,028</u>	<u>69,597</u>
Total Disbursements	<u>306,978</u>	<u>58,557</u>	<u>365,535</u>
Deficiency of Receipts Under Disbursements	(13,064)	(13,702)	(26,766)
<b>OTHER FINANCING USES</b>			
Transfers Out	<u>(33,548)</u>	<u>(6,821)</u>	<u>(40,369)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(46,612)	(20,523)	(67,135)
<b>FUND BALANCE - BEGINNING</b>	<u>266,642</u>	<u>27,499</u>	<u>294,141</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 220,030</u>	<u>\$ 6,976</u>	<u>\$ 227,006</u>

The accompanying notes are an integral part of this statement.

**Municipality of New Underwood  
Balance Sheet - Modified Cash Basis - Proprietary Funds  
December 31, 2010**

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	Water Fund	Sewer Fund	Total Proprietary Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 68,223	\$ 6,750	\$ 74,973
Certificates of Deposit	4,041	-	4,041
<b>TOTAL ASSETS</b>	<b>\$ 72,264</b>	<b>\$ 6,750</b>	<b>\$ 79,014</b>
 <b>NET ASSETS</b>			
Unrestricted	\$ 72,264	\$ 6,750	\$ 79,014
<b>TOTAL NET ASSETS</b>	<b>\$ 72,264</b>	<b>\$ 6,750</b>	<b>\$ 79,014</b>

The accompanying notes are an integral part of this statement.

**Municipality of New Underwood**  
**Statement of Receipts, Disbursements and Changes in Fund Net Assets -**  
**Modified Cash Basis - Proprietary Funds**  
**For the Year Ended December 31, 2010**

	Water Fund	Sewer Fund	Total Proprietary Funds
<b>OPERATING RECEIPTS</b>			
Charges for Services	\$ 115,222	\$ 47,563	\$ 162,785
<b>OPERATING DISBURSEMENTS</b>			
Personnel	59,727	56,777	116,504
Other Current Disbursements	<u>44,666</u>	<u>9,990</u>	<u>54,656</u>
			-
Total Operating Cash Disbursements	<u>104,393</u>	<u>66,767</u>	<u>171,160</u>
			-
Operating Income (Loss)	<u>10,829</u>	<u>(19,204)</u>	<u>(8,375)</u>
<b>NONOPERATING RECEIPTS (DISBURSEMENTS)</b>			
Capital Contributions	215,305	-	215,305
Capital Outlay	(358,668)	-	(358,668)
Debt Issued	169,299	-	169,299
Debt Service (Principal)	(26,400)	-	(26,400)
Interest Income	<u>5</u>	<u>-</u>	<u>5</u>
Total Nonoperating Receipts (Disbursements)	<u>(459)</u>	<u>-</u>	<u>(459)</u>
Net Income (Loss) Before Transfers	10,370	(19,204)	(8,834)
Transfers In	<u>16,258</u>	<u>24,111</u>	<u>40,369</u>
<b>CHANGE IN NET ASSETS</b>	26,628	4,907	31,535
<b>NET ASSETS - BEGINNING</b>	<u>45,636</u>	<u>1,843</u>	<u>47,479</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 72,264</u>	<u>\$ 6,750</u>	<u>\$ 79,014</u>

The accompanying notes are an integral part of this statement.

# Municipality of New Underwood

## Notes to the Financial Statements

### December 31, 2010

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 1.C., these financial statements are presented on the 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. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued after November 30, 1989, have not been applied, to the extent they are applicable to the modified cash basis of accounting. If those pronouncements conflict with or contradict GASB pronouncements, GASB pronouncements prevail.

#### **A. REPORTING ENTITY**

The reporting entity of the Municipality of New Underwood, South Dakota (the Municipality) includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity.

#### **B. BASIS OF PRESENTATION**

##### *Government-wide Financial Statements:*

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

The Statement of Activities presents a comparison between direct disbursements and program receipts for each segment of the business-type activities of the Municipality and for each function of the Municipality's governmental activities. Direct disbursements are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program receipts 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. Receipts that are not classified as program receipts, including all taxes, are presented as general receipts.

##### *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, fund equity, receipts, and disbursements. The funds of the Municipality are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or it meets the following criteria:

1. Total assets, receipts, or disbursements 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

**Municipality of New Underwood**  
**Notes to the Financial Statements**  
**December 31, 2010**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2. Total assets, receipts, and disbursements of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the Municipality are described below:

**Governmental Funds:**

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

*Special Revenue Funds* - Special revenue funds are used to account for the proceeds from specific receipts that are legally restricted to disbursements for specified purposes. The Designated Non Ad Valorem Tax Fund is a special revenue fund created by ordinance to account for sales tax receipts restricted for capital purchases and highway and street maintenance. This fund is considered a major fund.

**Proprietary Funds:**

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

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

*Sewer Fund* - Financed primarily by user charges this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund

**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.

**Measurement Focus**

*Government-Wide Financial Statements:*

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

*Fund Financial Statements:*

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.

**Municipality of New Underwood**  
**Notes to the Financial Statements**  
**December 31, 2010**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

All governmental funds utilize a “current financial resources” measurement focus. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost of recovery), financial position, and cash flows. Proprietary fund equity is classified as net assets.

**Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, and business-type activities are presented using the 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 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 only modification to the cash basis of accounting implemented by the Municipality in these financial statements is the recording of certificates of deposit and the investment in SD FIT, both of which were acquired with cash assets at cost.

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

If the Municipality applied accounting principles generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

**D. CASH AND CASH EQUIVALENTS**

The Municipality pools its cash resources for deposit purposes. The proprietary fund types essentially have access to their cash resources on demand. Accordingly, the Municipality considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

**E. DEPOSITS AND INVESTMENTS**

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

**Municipality of New Underwood**  
**Notes to the Financial Statements**  
**December 31, 2010**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. PROGRAM RECEIPTS**

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

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

**F. PROPRIETARY FUNDS RECEIPTS AND DISBURSEMENTS CLASSIFICATIONS**

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

**G. CAPITAL ASSETS**

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs. Therefore, they are not shown as assets in either the fund financial statements or the government-wide financial statements.

**H. LONG-TERM LIABILITIES**

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances are recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate.

**I. EQUITY CLASSIFICATIONS**

*Government-Wide Financial Statements:*

Equity is classified as net assets and is displayed in two components:

1. Restricted Net Assets - Consists of net assets 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 Assets - All other net assets that do not meet the definition of "restricted."

*Fund Financial Statements*

Governmental fund equity is classified as fund balance and may be distinguished between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

**Municipality of New Underwood  
Notes to the Financial Statements  
December 31, 2010**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. APPLICATION OF NET ASSETS**

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

**K. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES**

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

*Fund Financial Statements*

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund Services - Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund Reimbursements - Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund Transfers - Flow of assets from one fund to another where repayments is not expected is reported as transfers in and out

*Government-Wide Financial Statements*

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal Activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers-Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

**NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK**

**Deposits**

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

**Municipality of New Underwood  
Notes to the Financial Statements  
December 31, 2010**

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**NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (CONTINUED)**

Investments

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

Credit Risk

State Law limits eligible investments for the Municipality, as discussed above. The Municipality has no investment policy that would further limit its investment choices. As of December 31, 2010, the Municipality had the following investment:

Investment	Credit Rating	Maturities	Fair Value
SDFIT	Unrated	Varies	\$ 16,905

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine member board with representation from municipalities, school districts, and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

**Custodial Credit Risk - Deposits** - The risk that, in the event of a depository failure, the Municipality's deposits may not be returned to it. The Municipality does not have a deposit policy for custodial credit risk. As of December 31, 2010, the Municipality's deposits in financial institutions were not exposed to credit risk as all deposits were fully collateralized by pledged securities.

**Custodial Credit Risk - Investments** - The risk that, in the event of the counterparty to a transaction, the Municipality will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investments in external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. As of December 31, 2010, the Municipality's investments were not exposed to custodial credit risk, as they were maintained in an external investment pool.

**Concentration of Credit Risk** - The Municipality places no limit on the amount that may be deposited or invested with any one financial institution or issuer. The Municipality's deposits are with one financial institution; the Municipality's deposits were not exposed to credit risk as all deposits were fully collateralized by pledged securities. All of the Municipality's investments are in SDFIT.

Interest Rate Risk

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

Assignment of Investment Income

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

**Municipality of New Underwood  
Notes to the Financial Statements  
December 31, 2010**

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**NOTE 3 - PROPERTY TAXES**

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

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

**NOTE 4 - COMMITMENTS**

The following is a summary of the long-term debt transactions for the year ended December 31, 2010:

	Balance 12/31/09	Additions	Payments	Balance 12/31/10
Governmental Long-term Debt:				
General Obligation Debt	\$ 68,776	\$ -	\$ (68,776)	\$ -
Enterprise Long-term Debt:				
Water Revenue Bonds	-	169,299	(67,719)	101,580
WREA Water Loan	79,200	-	(26,400)	52,800
<b>Total</b>	<b>\$ 147,976</b>	<b>\$ 169,299</b>	<b>\$ (162,895)</b>	<b>\$ 154,380</b>

Debt payable at December 31, 2010 is comprised of the following:

General Obligation Debt - Note payable to a bank secured by a mortgage requiring monthly payments of \$1,878.44, including interest at a rate of 5.25%, matures April 2013. In September of 2010, the Municipality paid the outstanding balance of the loan in full. The loan was serviced by the General Fund and the Designated Non Ad Valorem Tax Fund.

Water Revenue Bonds - Financing agreement for a drinking water treatment system with the State Revolving Loan Fund in the amount of \$169,299 with a total principal forgiveness of \$67,719 from the American Reinvestment Recovery Act grant. The bonds are secured by the revenues of the system. Payments are due quarterly until 2030, including interest at a rate of 3.00%. The payments are serviced solely by the Water Fund.

WREA Water Loan - The Municipality signed a financing agreement for a water storage tower due to West River Electric Association in the amount of \$52,800, requiring annual payments of \$26,400 until 2012. The loan does not bear interest. The payments are serviced solely by the Water Fund and are secured by future revenues.

**Municipality of New Underwood  
Notes to the Financial Statements  
December 31, 2010**

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**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers during the year ended December 31, 2010 consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>		<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
General Fund	\$ 9,437	\$ 24,111	\$ 33,548
Designated Non Ad Valorem Tax Fund	<u>6,821</u>	<u>-</u>	<u>6,821</u>
	<u>\$ 16,258</u>	<u>\$ 24,111</u>	<u>\$ 40,369</u>

The Municipality transferred funds from the General Fund to supplement operations of the proprietary funds. The transfer from the Designated Non Ad Valorem Tax Fund was used to supplement the completion of the radium removal project in the Water Fund.

**NOTE 6 - RETIREMENT PLAN**

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established 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 South Dakota codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098, or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute requires the employer to contribute an amount equal to the employee's contribution and to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the years ended December 31, 2010, 2009, and 2008 were \$6,437, \$6,121, and \$6,857, respectively, and were equal to the required contributions each year.

**NOTE 7 - RISK ASSESSMENT**

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2010, the Municipality managed risks as follows:

Employee Health Insurance

The Municipality joined the South Dakota Municipal League Health Pool. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The Municipality pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage also includes a \$2,000,000 lifetime maximum payment per person. The Municipality does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

**Municipality of New Underwood**  
**Notes to the Financial Statements**  
**December 31, 2010**

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**NOTE 7 - RISK ASSESSMENT (CONTINUED)**

Liability Insurance

The Municipality is a member of the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage.

The Municipality's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the Municipality. The Municipality pays an annual premium to provide liability coverage detailed below under a claims-made policy. The premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member based on their exposure or type of coverage. The Municipality pays an annual premium to the pool to provide coverage for liability, automobile, workmen's compensation, and fire.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverage will be provided up to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance of claims in excess of \$250,000 for property coverage and \$500,000 for liability to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The Municipality would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

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

As of December 31, 2010, the Municipality had vested balances in the cumulative reserve fund of \$11,997. These amounts are not reflected in the individual fund or government-wide statements, as the Municipality uses the modified cash basis of accounting.

The Municipality carries a \$250 deductible for comprehensive coverage and a \$500 deductible for the collision coverage. The Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

The Municipality joined the South Dakota Municipal League of Worker's Compensation (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota Local Government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensations claims.

**Municipality of New Underwood  
Notes to the Financial Statements  
December 31, 2010**

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**NOTE 7 - RISK ASSESSMENT (CONTINUED)**

The Municipality pays an annual premium to provide worker's compensation for its employees under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,675,000 per individual per incident. The Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past two years.

Unemployment Benefits

The Municipality has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the year ended December 31, 2010, no claims for unemployment benefits were filed or outstanding. It is not anticipated that claims for unemployment benefits will be filed in the next year.

**NOTE 8 - VIOLATIONS OF FINANCE - RELATED LEGAL AND CONTRACTUAL PROVISIONS**

The Municipality is prohibited by statute (SDCL 9-21-9) from spending in excess of appropriated amounts at the department level. The following represents significant overdrafts of the disbursements compared to appropriations for the year ended December 31, 2010:

Fund	<u>Appropriations</u>	<u>Total Spent</u>	<u>Overdraft of Disbursements</u>
General Fund:			
Public Works	\$ 59,300	\$ 108,063	\$ 48,763
Transfers Out	-	33,548	33,548
Designated Non Ad Valorem Tax Fund			
Highways and Streets	21,869	43,529	21,660
Transfers Out	-	6,821	6,821
	<u>\$ 81,169</u>	<u>\$ 191,961</u>	<u>\$ 110,792</u>

The Municipality is currently monitoring disbursements compared to appropriations and will adopt a supplemental appropriation ordinance in accordance with SDCL 9-21-7 in future years if actual disbursements are expected to exceed appropriations.

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REQUIRED SUPPLEMENTARY INFORMATION

**Municipality of New Underwood  
 Budgetary Comparison Schedule - Modified (Budgetary) Cash Basis -  
 General Fund  
 For the Year Ended December 31, 2010**

	Budgeted Amounts	
	Original	Final
<b>RECEIPTS</b>		
Taxes:		
General Property Taxes	\$ 146,638	\$ 146,638
General Sales and Use Taxes	44,000	44,000
Licenses and Permits	5,700	5,700
State Shared Receipts	20,250	20,250
Charges for Services	59,100	59,100
Miscellaneous Receipts	40,849	40,849
<b>TOTAL RECEIPTS</b>	316,537	316,537
<b>DISBURSEMENTS</b>		
General Government	99,200	99,200
Public Safety	41,037	41,037
Public Works	59,300	59,300
Solid Waste	59,500	59,500
Culture and Recreation	36,700	36,700
<b>TOTAL DISBURSEMENTS</b>	295,737	295,737
Excess of Receipts Over (Under) Disbursements	20,800	20,800
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In (Out)	-	-
Excess of Receipts Over (Under) Disbursements and Other Financing Uses	20,800	20,800
<b>FUND BALANCE - BEGINNING</b>	266,642	266,642
<b>FUND BALANCE - ENDING</b>	\$ 287,442	\$ 287,442

See independent auditors' report and notes to required supplementary information.

<u>Actual</u>	<u>Variance Positive (Negative)</u>
\$ 144,769	\$ (1,869)
46,954	2,954
6,274	574
18,765	(1,485)
57,538	(1,562)
<u>19,614</u>	<u>(21,235)</u>
<u>293,914</u>	<u>(22,623)</u>
71,530	27,670
38,314	2,723
108,063	(48,763)
53,175	6,325
<u>35,896</u>	<u>804</u>
<u>306,978</u>	<u>(11,241)</u>
(13,064)	(33,864)
<u>(33,548)</u>	<u>(33,548)</u>
(46,612)	(67,412)
<u>266,642</u>	<u>-</u>
<u>\$ 220,030</u>	<u>\$ (67,412)</u>

See independent auditors' report and notes to required supplementary information.

**Municipality of New Underwood  
 Budgetary Comparison Schedule - Modified (Budgetary) Cash Basis -  
 Designated Non Ad Valorem Tax Fund  
 For the Year Ended December 31, 2010**

	Budgeted Amounts	
	Original	Final
<b>RECEIPTS</b>		
Taxes:		
General Sales and Use Taxes	\$ 55,000	\$ 55,000
<b>TOTAL RECEIPTS</b>	55,000	55,000
<b>DISBURSEMENTS</b>		
General Government		
Other	22,600	22,600
Public Works		
Highways and Streets	21,869	21,869
Water		
Radium Treatment	10,531	10,531
<b>TOTAL DISBURSEMENTS</b>	10,531	10,531
Excess of Receipts Over (Under) Disbursements	44,469	44,469
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In (Out)	-	-
Excess of Receipts Over (Under) Disbursements and Other Financing Uses	44,469	44,469
<b>FUND BALANCE - BEGINNING</b>	27,499	27,499
<b>FUND BALANCE - ENDING</b>	\$ 71,968	\$ 71,968

See independent auditors' report and notes to required supplementary information.

<u>Actual</u>	<u>Variance Positive (Negative)</u>
\$ 44,855	\$ (10,145)
<u>44,855</u>	<u>(10,145)</u>
15,028	7,572
43,529	(21,660)
<u>-</u>	<u>10,531</u>
<u>58,557</u>	<u>(48,026)</u>
(13,702)	(58,171)
<u>(6,821)</u>	<u>(6,821)</u>
(20,523)	(64,992)
<u>27,499</u>	<u>-</u>
<u>\$ 6,976</u>	<u>\$ (64,992)</u>

See independent auditors' report and notes to required supplementary information.

**Municipality of New Underwood**  
**Notes to Required Supplementary Information**  
**December 31, 2010**

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**NOTE 1 - BASIS OF PRESENTATION**

The Budgetary Comparison Schedules have been prepared on the Modified Cash Basis of accounting and present capital outlay and debt service expenditures within each function while the Statement of Receipts, Disbursements and Changes in Fund Balance - Modified Cash Basis - Governmental Funds present capital outlay and debt service expenditures as a separate function.

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING**

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

1. At the first regular board meeting in September of each year, or within ten days thereafter, the governing board introduces the annual appropriations ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board. The Municipality did not encumber any amounts at December 31, 2010.
6. Budgets for the general and special revenue funds are adopted on a basis consistent with that which is presented in the financial statements.

SUPPLEMENTARY INFORMATION

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**Municipality of New Underwood  
Schedule of Municipal Officials  
December 31, 2010**

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Mayor

Bernita White

Governing Board

Rikka Buchtel

Jackie Dahlquist

Michael Green

Stanley "Joe" Whitney

Finance Officer

Meri Jo Anderson