

**MUNICIPALITY OF ARMOUR
ARMOUR, SOUTH DAKOTA**

AUDIT REPORT

**FOR THE YEAR JANUARY 1, 2013 TO DECEMBER 31, 2013
AND
FOR THE YEAR JANUARY 1, 2014 TO DECEMBER 31, 2014**

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF ARMOUR

MUNICIPAL OFFICIALS
DECEMBER 31, 2014

MAYOR:

Susan Hoffmann-Lout

GOVERNING BOARD:

Cindy Buck
Burnell Glanzer
Nicole Neugebauer
Terry Weerheim
Darold Werkmeister
Tara Ziebart

FINANCE OFFICER:

Brenda Werkmeister

ATTORNEY:

Braley Law Office

TABLE OF CONTENTS

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 <i>Government Auditing Standards</i>	1-2
Schedule of Prior Audit Findings and Questioned Costs	3
Schedule of Current Audit Findings	4-5
Independent Auditor's Report	6-8
BASIC FINANCIAL STATEMENTS:	
As Of and For the Year Ended December 31, 2014:	
Government-Wide Financial Statements:	
Statement of Net Position – Modified Cash Basis	9
Statement of Activities – Modified Cash Basis	10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet – Modified Cash Basis	11
Statement of Revenues, Expenditures, and Changes In Fund Balance – Modified Cash Basis	12-13
Proprietary Funds:	
Statement of Net Position – Modified Cash Basis	14
Statement of Revenues, Expenses, and Changes in Fund Net Position – Modified Cash Basis	15
As of and For the Year Ended December 31, 2013:	
Government-Wide Financial Statements:	
Statement of Net Position – Modified Cash Basis	16
Statement of Activities – Modified Cash Basis	17
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet – Modified Cash Basis	18
Statement of Revenues, Expenditures, and Changes In Fund Balance – Modified Cash Basis	19-20
Proprietary Funds:	
Statement of Net Position – Modified Cash Basis	21
Statement of Revenues, Expenses, and Changes in Fund Net Position – Modified Cash Basis	22

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

TABLE OF CONTENTS
(Continued)

Notes to the Modified Cash Basis Financial Statements	23-31
Supplementary Information:	
For the Year Ended December 31, 2014:	
Budgetary Comparison Schedules – Budgetary Basis:	
General Fund	32-33
For the Year Ended December 31, 2013:	
Budgetary Comparison Schedules – Budgetary Basis:	
General Fund	34-35
Notes to the Supplementary Information – Budgetary Comparison Schedules	36
Schedule of Long-Term Liabilities	37-38

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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

Governing Board
Municipality of Armour
Armour, 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, the business-type activities, the aggregate discretely presented component units, and each major fund, of the Municipality of Armour, South Dakota (Municipality), as of December 31, 2014 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated February 18, 2015, which a disclaimer of opinion was issued on the aggregate discretely presented component unit because we were unable to obtain audited financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality'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 Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality'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 were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Municipality'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 2014-001 to be a material weakness.

Compliance and Other Matters

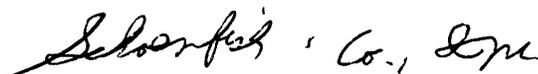
As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Current Audit Findings as item 2014-002.

Municipality's Response to Findings

The Municipality's response to the findings identified in our audit is described in the accompanying Schedule of Current Audit Findings. The Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.
Certified Public Accountants
February 18, 2015

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

PRIOR FEDERAL AUDIT FINDINGS:

Finding Number 2012-01:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2014-001.

PRIOR OTHER AUDIT FINDINGS:

There are no prior other audit findings to report except for the lack of segregation of duties stated above.

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF CURRENT AUDIT FINDINGSCURRENT OTHER AUDIT FINDINGS:Internal Control – Related Finding – Material Weakness:Finding Number 2014-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for the revenues. This is the eighth consecutive audit in which a similar deficiency has been reported.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Condition:

The Finance Officer processes all revenue transactions from beginning to end. The Finance Officer also receives money, issues receipts, records receipts, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

1. We recommend that the Municipality of Armour officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The Municipality of Armour Mayor, Susan Hoffmann-Lout, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Armour, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

Compliance – Related Finding:Finding Number 2014-002:

Expenditures exceeded the amounts budgeted in the General Fund in 2014. This is the first audit in which this comment has occurred.

Criteria:

SDCL 9-21-9 states "Neither the governing body nor any department or officer of the municipality shall add to the municipal expenditures in any fiscal year any sum in excess of the amount provided for in the annual appropriation ordinance except as otherwise specially provided. Nor shall the amount spent for any purpose or any department exceed the total amount appropriated for such purpose or for such department in the annual appropriation ordinance for such year, except as otherwise specially provided."

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF CURRENT AUDIT FINDINGS
(continued)

Condition:

The Municipality expended money in excess of amounts budgeted without supplementing the budget as allowed by SDCL 9-21-7.

Effect:

Without amending the budget or limiting expenditures, expenditures are being made without proper authority.

Recommendation:

2. We recommend that expenditures be limited to amounts budgeted or budget supplements be made in accordance with SDCL 9-21-7 to allow for expenditures.

Management's Response:

The Municipality of Armour Mayor, Susan Hoffmann-Lout, is the contact person responsible for the corrective action plan for this comment. The Municipality will be more careful to follow the budgetary guidelines prescribed by law.

CLOSING CONFERENCE

The audit was discussed with the officials during the course of the audit and with the Mayor and the Finance Officer on April 1, 2015.

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

CERTIFIED PUBLIC ACCOUNTANTS
Phone: 605-928-7241
FAX No.: 605-928-1441
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Armour
Armour, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund, of the Municipality of Armour, South Dakota, (Municipality) as of December 31, 2014 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality'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. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units.

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 Municipality'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 Municipality'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.

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

Basis for Disclaimer of Opinion

We were not engaged to audit and we were unable to obtain audited financial statements supporting the financial balances and activities of the Armour Housing and Redevelopment Commission, and we did not attempt to satisfy ourselves as to those amounts by other auditing procedures. Those financial activities are included on the basic financial statements referred to above as a component unit of the Municipality of Armour and represent one hundred percent of the December 31, 2014 and 2013 balances and activities for the year then ended of the component unit column.

Disclaimer of Opinion

Because of the effects of the item discussed in the Basis for Disclaimer of Opinion, we were not able to apply other auditing procedures to satisfy ourselves as to the component unit, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the aggregate discretely presented component unit.

Unmodified Opinions

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, the business-type activities, and each major fund of the Municipality of Armour as of December 31, 2014, and the respective changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's financial statements.

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

The Budgetary Comparison Schedules, and the Long-Term Liabilities schedule listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2015, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is 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* in considering the Municipality's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
Certified Public Accountants
February 18, 2015

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF ARMOUR
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2014

	<u>Primary Government</u>			<u>Component Unit (Unaudited)</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
ASSETS:				
Cash and Cash Equivalents	164,270.78	261,375.46	425,646.24	934.53
Investments	113,707.94	101,123.85	214,831.79	
TOTAL ASSETS	<u>277,978.72</u>	<u>362,499.31</u>	<u>640,478.03</u>	<u>934.53</u>
NET POSITION:				
Restricted for:				
Debt Service Purposes		54,977.20	54,977.20	
Library Purposes	97,153.21		97,153.21	
Unrestricted	180,825.51	307,522.11	488,347.62	934.53
TOTAL NET POSITION	<u>277,978.72</u>	<u>362,499.31</u>	<u>640,478.03</u>	<u>934.53</u>

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

MUNICIPALITY OF ARMOUR
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit (Unaudited)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General Government	127,122.22	6,333.74			(120,788.48)		(120,788.48)	
Public Safety	73,362.09				(73,362.09)		(73,362.09)	
Public Works	288,649.57	7,568.00	39,708.17		(241,373.40)		(241,373.40)	
Health and Welfare	1,762.50				(1,762.50)		(1,762.50)	
Culture and Recreation	150,462.62	8,484.99			(141,977.63)		(141,977.63)	
Conservation and Development	2,500.00				(2,500.00)		(2,500.00)	
Total Governmental Activities	643,859.00	22,386.73	39,708.17	0.00	(581,764.10)		(581,764.10)	
Business-type Activities:								
Water	183,661.06	160,857.12				(22,803.94)	(22,803.94)	
Sewer	93,756.15	102,323.86				8,567.71	8,567.71	
Liquor	128,208.97	152,286.87				24,077.90	24,077.90	
Total Business-Type Activities	405,626.18	415,467.85	0.00	0.00		9,841.67	9,841.67	
Total Primary Government	1,049,485.18	437,854.58	39,708.17	0.00	(581,764.10)	9,841.67	(571,922.43)	
Component Unit (Unaudited):								
Housing and Redevelopment Commission	26,108.90	25,040.00						(1,068.90)
General Revenues:								
Taxes:								
Property Taxes					185,712.44		185,712.44	
Sales Taxes					253,274.24		253,274.24	
State Shared Revenues					6,238.38		6,238.38	
Grants and Contributions not Restricted to Specific Programs					3,378.26		3,378.26	
Unrestricted Investment Earnings					758.98	922.12	1,681.10	
Miscellaneous Revenue					23,236.63		23,236.63	
Total General Revenues					472,598.93	922.12	473,521.05	0.00
Change in Net Position					(109,165.17)	10,763.79	(98,401.38)	(1,068.90)
Net Position - Beginning					387,143.89	351,735.52	738,879.41	2,003.43
NET POSITION - ENDING					277,978.72	362,499.31	640,478.03	934.53

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

**MUNICIPALITY OF ARMOUR
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2014**

	<u>General Fund</u>
ASSETS:	
Cash and Cash Equivalents	164,270.78
Investments	<u>113,707.94</u>
TOTAL ASSETS	<u><u>277,978.72</u></u>
 FUND BALANCES:	
Restricted for Library	97,153.21
Assigned for Next Year's Budget	<u>20,000.00</u>
Unassigned	<u>160,825.51</u>
TOTAL FUND BALANCES	<u><u>277,978.72</u></u>

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

MUNICIPALITY OF ARMOUR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	General Fund
Revenues:	
Taxes:	
General Property Taxes	185,309.51
General Sales and Use Taxes	253,274.24
Amusement Taxes	24.00
Penalties and Interest on Delinquent Taxes	378.93
Total Taxes	438,986.68
Licenses and Permits	5,580.00
Intergovernmental Revenue:	
Federal Pyments in Lieu of Taxes	878.26
State Shared Revenue:	
Bank Franchise Tax	830.77
Motor Vehicle Commercial Prorate	3,003.31
Liquor Tax Reversion	5,407.61
Motor Vehicle Licenses	13,521.40
Local Government Highway and Bridge Fund	17,226.89
County Shared Revenue:	
County Road Tax	1,596.00
County Wheel Tax	2,113.81
Other Intergovernmental Revenues	2,246.76
Total Intergovernmental Revenue	46,824.81
Charges for Goods and Services:	
Sanitation	7,568.00
Culture and Recreation	5,819.26
Total Charges for Goods and Services	13,387.26
Fines and Forfeits:	
Library	2,665.73
Total Fines and Forfeits	2,665.73
Miscellaneous Revenue:	
Investment Earnings	758.98
Rentals	753.74
Contributions and Donations from Private Sources	2,500.00
Other	23,236.63
Total Miscellaneous Revenue	27,249.35
Total Revenue	534,693.83

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

MUNICIPALITY OF ARMOUR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	General Fund
Expenditures:	
General Government:	
Legislative	11,298.07
Elections	11.77
Financial Administration	95,391.00
Other	20,421.38
Total General Government	127,122.22
Public Safety:	
Police	54,040.00
Fire	19,184.69
Protective Inspection	137.40
Total Public Safety	73,362.09
Public Works:	
Highways and Streets	280,789.90
Sanitation	7,859.67
Total Public Works	288,649.57
Health and Welfare:	
Health	1,762.50
Total Health and Welfare	1,762.50
Culture and Recreation:	
Parks	69,087.34
Libraries	81,375.28
Total Culture and Recreation	150,462.62
Conservation and Development:	
Economic Development and Assistance (Industrial Development)	2,500.00
Total Conservation and Development	2,500.00
Total Expenditures	643,859.00
Net Change in Fund Balance	(109,165.17)
Fund Balance - Beginning	387,143.89
FUND BALANCE - ENDING	277,978.72

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

MUNICIPALITY OF ARMOUR
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2014

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Liquor Fund	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	40,355.02	112,054.59	108,965.85	261,375.46
Investments	33,707.95	33,707.95	33,707.95	101,123.85
Total Current Assets	<u>74,062.97</u>	<u>145,762.54</u>	<u>142,673.80</u>	<u>362,499.31</u>
TOTAL ASSETS	<u><u>74,062.97</u></u>	<u><u>145,762.54</u></u>	<u><u>142,673.80</u></u>	<u><u>362,499.31</u></u>
NET POSITION:				
Restricted for:				
Revenue Bond Debt Service	39,228.00	15,749.20		54,977.20
Equipment Repair and/or Replacement	12,000.00	804.00		12,804.00
Unrestricted	<u>22,834.97</u>	<u>129,209.34</u>	<u>142,673.80</u>	<u>294,718.11</u>
TOTAL NET POSITION	<u><u>74,062.97</u></u>	<u><u>145,762.54</u></u>	<u><u>142,673.80</u></u>	<u><u>362,499.31</u></u>

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

MUNICIPALITY OF ARMOUR
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2014

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Liquor Fund	
Operating Revenue:				
Charges for Goods and Services	160,857.12	102,323.86	152,286.87	415,467.85
Total Operating Revenue	160,857.12	102,323.86	152,286.87	415,467.85
Operating Expenses:				
Personal Services	24,218.11	24,218.98	3,721.22	52,158.31
Other Current Expense	17,485.25	17,325.17	11,940.07	46,750.49
Materials	65,745.70		112,547.68	178,293.38
Capital Assets	36,984.00			36,984.00
Total Operating Expenses	144,433.06	41,544.15	128,208.97	314,186.18
Operating Income (Loss)	16,424.06	60,779.71	24,077.90	101,281.67
Nonoperating Revenue (Expense):				
Investment Earnings	214.96	384.32	322.84	922.12
Debt Service (Principal)	(8,770.35)	(16,425.67)		(25,196.02)
Interest Expense	(30,457.65)	(35,786.33)		(66,243.98)
Total Nonoperating Revenue (Expense)	(39,013.04)	(51,827.68)	322.84	(90,517.88)
Change in Net Position	(22,588.98)	8,952.03	24,400.74	10,763.79
Net Position - Beginning	96,651.95	136,810.51	118,273.06	351,735.52
NET POSITION - ENDING	74,062.97	145,762.54	142,673.80	362,499.31

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

MUNICIPALITY OF ARMOUR
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2013

	Primary Government			Component Unit (Unaudited)
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	203,820.28	251,764.63	455,584.91	2,003.43
Investments	183,323.63	99,970.89	283,294.52	
TOTAL ASSETS	387,143.91	351,735.52	738,879.43	2,003.43
NET POSITION:				
Restricted for:				
Debt Service Purposes		49,765.20	49,765.20	
Library Purposes	155,201.44		155,201.44	
Unrestricted	231,942.45	301,970.32	533,912.77	2,003.43
TOTAL NET POSITION	387,143.89	351,735.52	738,879.41	2,003.43

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

MUNICIPALITY OF ARMOUR
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit (Unaudited)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General Government	139,661.07	4,911.84			(134,749.23)		(134,749.23)	
Public Safety	65,043.75				(65,043.75)		(65,043.75)	
Public Works	147,173.20	5,015.00	39,580.77	5,445.25	(97,132.18)		(97,132.18)	
Culture and Recreation	90,085.73	8,157.16		150,000.00	68,071.43		68,071.43	
Conservation and Development	653.70				(653.70)		(653.70)	
Total Governmental Activities	442,617.45	18,084.00	39,580.77	155,445.25	(229,507.43)		(229,507.43)	
Business-type Activities:								
Water	142,076.29	162,394.99				20,318.70	20,318.70	
Sewer	88,061.23	105,247.00				17,185.77	17,185.77	
Liquor	129,351.84	156,516.93				27,165.09	27,165.09	
Total Business-Type Activities	359,489.36	424,158.92	0.00	0.00		64,669.56	64,669.56	
Total Primary Government	802,106.81	442,242.92	39,580.77	155,445.25	(229,507.43)	64,669.56	(164,837.87)	
Component Unit (Unaudited):								
Housing and Redevelopment Commission	26,754.87	27,480.00						725.13
General Revenues:								
Taxes:								
Property Taxes					179,800.07		179,800.07	
Sales Taxes					273,804.29		273,804.29	
State Shared Revenues					5,710.02		5,710.02	
Grants and Contributions not Restricted to Specific Programs					876.32		876.32	
Unrestricted Investment Earnings					1,186.15	1,723.04	2,909.19	
Miscellaneous Revenue					6,850.12		6,850.12	
Total General Revenues					468,226.97	1,723.04	469,950.01	0.00
Change in Net Position					238,719.54	66,392.60	305,112.14	725.13
Net Position - Beginning					148,424.35	285,342.92	433,767.27	1,278.30
NET POSITION - ENDING					387,143.89	351,735.52	738,879.41	2,003.43

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

**MUNICIPALITY OF ARMOUR
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2013**

	General Fund
ASSETS:	
Cash and Cash Equivalents	<u>203,820.26</u>
Investments	<u>183,323.63</u>
TOTAL ASSETS	<u><u>387,143.89</u></u>
FUND BALANCES:	
Restricted for Library	<u>155,201.44</u>
Assigned for Next Year's Budget	<u>34,004.13</u>
Unassigned	<u>197,938.32</u>
TOTAL FUND BALANCES	<u><u>387,143.89</u></u>

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

MUNICIPALITY OF ARMOUR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	General Fund
Revenues:	
Taxes:	
General Property Taxes	179,170.81
General Sales and Use Taxes	273,804.29
Amusement Taxes	36.00
Penalties and Interest on Delinquent Taxes	593.26
Total Taxes	453,604.36
Licenses and Permits	4,328.00
Intergovernmental Revenue:	
Federal Pyments in Lieu of Taxes	876.32
State Shared Revenue:	
Bank Franchise Tax	674.95
Motor Vehicle Commercial Prorate	2,838.21
Liquor Tax Reversion	5,035.07
Motor Vehicle Licenses	11,925.98
Local Government Highway and Bridge Fund	15,146.47
County Shared Revenue:	
County Road Tax	1,596.00
County Wheel Tax	2,089.11
Other Intergovernmental Revenues	5,985.00
Total Intergovernmental Revenue	46,167.11
Charges for Goods and Services:	
Sanitation	5,015.00
Culture and Recreation	6,495.13
Total Charges for Goods and Services	11,510.13
Fines and Forfeits:	
Library	1,662.03
Total Fines and Forfeits	1,662.03
Miscellaneous Revenue:	
Investment Earnings	1,186.15
Rentals	583.84
Contributions and Donations from Private Sources	155,445.25
Other	6,850.12
Total Miscellaneous Revenue	164,065.36
Total Revenue	681,336.99

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

MUNICIPALITY OF ARMOUR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	General Fund
Expenditures:	
General Government:	
Legislative	9,356.14
Elections	34.19
Financial Administration	107,325.76
Other	22,944.98
Total General Government	139,661.07
Public Safety:	
Police	42,829.02
Fire	22,147.12
Protective Inspection	67.61
Total Public Safety	65,043.75
Public Works:	
Highways and Streets	135,001.04
Sanitation	12,172.16
Total Public Works	147,173.20
Culture and Recreation:	
Parks	75,413.07
Libraries	14,672.66
Total Culture and Recreation	90,085.73
Conservation and Development:	
Economic Development and Assistance (Industrial Development)	653.70
Total Conservation and Development	653.70
Total Expenditures	442,617.45
Net Change in Fund Balance	238,719.54
Fund Balance - Beginning	148,424.35
FUND BALANCE - ENDING	387,143.89

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

MUNICIPALITY OF ARMOUR
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2013

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Liquor Fund	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	63,328.32	103,486.88	84,949.43	251,764.63
Investments	33,323.63	33,323.63	33,323.63	99,970.89
Total Current Assets	96,651.95	136,810.51	118,273.06	351,735.52
TOTAL ASSETS	96,651.95	136,810.51	118,273.06	351,735.52
NET POSITION:				
Restricted for:				
Revenue Bond Debt Service	39,228.00	10,537.20		49,765.20
Equipment Repair and/or Replacement	12,000.00	804.00		12,804.00
Unrestricted	45,423.95	125,469.31	118,273.06	289,166.32
TOTAL NET POSITION	96,651.95	136,810.51	118,273.06	351,735.52

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

MUNICIPALITY OF ARMOUR
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2013

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Liquor Fund	
Operating Revenue:				
Charges for Goods and Services	162,394.99	105,247.00	156,516.93	424,158.92
Total Operating Revenue	<u>162,394.99</u>	<u>105,247.00</u>	<u>156,516.93</u>	<u>424,158.92</u>
Operating Expenses:				
Personal Services	23,817.96	23,818.69	2,720.18	50,356.83
Other Current Expense	20,690.32	12,862.87	12,399.72	45,952.91
Materials	57,507.70		114,231.94	171,739.64
Total Operating Expenses	<u>102,015.98</u>	<u>36,681.56</u>	<u>129,351.84</u>	<u>268,049.38</u>
Operating Income (Loss)	<u>60,379.01</u>	<u>68,565.44</u>	<u>27,165.09</u>	<u>156,109.54</u>
Nonoperating Revenue (Expense):				
Investment Earnings	469.61	687.01	566.42	1,723.04
Debt Service (Principal)	(9,726.68)	(14,559.16)		(24,285.84)
Interest Expense	(30,333.63)	(36,820.51)		(67,154.14)
Total Nonoperating Revenue (Expense)	<u>(39,590.70)</u>	<u>(50,692.66)</u>	<u>566.42</u>	<u>(89,716.94)</u>
Change in Net Position	<u>20,788.31</u>	<u>17,872.78</u>	<u>27,731.51</u>	<u>66,392.60</u>
Net Position - Beginning	75,863.64	118,937.73	90,541.55	285,342.92
NET POSITION - ENDING	<u><u>96,651.95</u></u>	<u><u>136,810.51</u></u>	<u><u>118,273.06</u></u>	<u><u>351,735.52</u></u>

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS1. 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 the Municipality of Armour (Municipality) 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, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); 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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Municipality is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality (primary government). The Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality.

The Housing and Redevelopment Commission of the Municipality of Armour, South Dakota (Commission) is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from: Armour Housing and Redevelopment Commission, P.O. Box 415, Armour, SD 57313.

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.

The statements distinguish between governmental and business-type activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

component units are legally separate organizations that meet certain criteria, as described in Note 1.a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a., above.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality'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 three major categories: governmental, proprietary, and fiduciary. 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, 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
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 financial reporting entity 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 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 (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues, earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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.

Liquor Fund – financed primarily by operations of a municipal liquor store. 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.

The Municipality'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, 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.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used, applied with 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, business-type, and component unit 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 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. Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

- a. 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 Municipality applied USGAAP, 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. 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. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

e. Long-Term Liabilities:

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances is 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. Interest costs are not allocated, but are reported as a separate program cost category. Under the modified cash basis of accounting, all long-term debts arising from cash transactions to be repaid from governmental and business-type resources are not reported as liabilities in the respective columns on the government-wide financial statements.

Long-term debts arising from cash transactions of governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

f. Revenue Received in Advance:

Under the modified cash basis of accounting, cash may have been received in advance of the Municipality's providing a good or service to a customer. These amounts are reported in the financial statements, as applicable.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

g. Program Revenues:

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

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues and expenses.

i. Cash and Cash Equivalents:

The Municipality pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand.

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets 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 assets/net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned" and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

k. Application of Net Position:

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

l. 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 Municipality 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 Finance Officer.
- 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 Municipality uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Municipality would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS:

The Municipality is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations:

	<u>Year Ended</u> <u>12/31/2014</u>
General Fund:	
Highways & Streets	\$ 20,662.49
Library	\$ 57,925.28
Economic Development Assistance	\$ 1,800.00

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

The Board plans to take the following actions to address these violations: use supplemental budgets when legal authority exists.

3. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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. These restrictions are summarized below:

Deposits – 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.

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 safekeeping account with any bank or trust company designated by the political subdivision as 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.

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.

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 investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – The Municipality places no limit on the amount that may be invested in any one issuer.

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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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 deposits and investments to the fund making the investment.

4. 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 property in the Municipality.

5. 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 provide 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 provision 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, P.O. Box 1098, Pierre, SD 57501–1098 or by calling (605) 773-3731.

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 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 Municipality’s share of contributions to the SDRS for the fiscal years ended December 31, 2014, 2013, and 2011 were \$5,987.19, \$6,855.66, and \$9,175.60, respectively, equal to the required contributions each year.

6. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2014, the Municipality was not involved in any significant litigation.

7. RISK MANAGEMENT

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 period ended December 31, 2014, the Municipality managed its risks as follows:

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Employee Health Insurance:

The Municipality purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The Municipality purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The Municipality purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have never exceeded the liability coverage over the past three years.

Unemployment Benefits:

The Municipality provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF ARMOUR
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u> <u>Positive (Negative)</u>
Revenues:				
Taxes:				
General Property Taxes	188,623.87	188,623.87	185,309.51	(3,314.36)
General Sales and Use Taxes	230,000.00	230,000.00	253,274.24	23,274.24
Amusement Taxes	50.00	50.00	24.00	(26.00)
Penalties & Interest on Delinquent Taxes	800.00	800.00	378.93	(421.07)
Total Taxes	419,473.87	419,473.87	438,986.68	19,512.81
Licenses and Permits	4,100.00	4,100.00	5,580.00	1,480.00
Intergovernmental Revenue:				
Federal Payments in Lieu of Taxes	450.00	450.00	878.26	428.26
State Shared Revenue:				
Bank Franchise Tax	1,000.00	1,000.00	830.77	(169.23)
Motor Vehicle Commercial Prorate	1,600.00	1,600.00	3,003.31	1,403.31
Liquor Tax Reversion	5,000.00	5,000.00	5,407.61	407.61
Motor Vehicle Licenses	12,000.00	12,000.00	13,521.40	1,521.40
Local Government Highway and Bridge Fund	13,000.00	13,000.00	17,226.89	4,226.89
County Shared Revenue:				
County Road Tax	1,600.00	1,600.00	1,596.00	(4.00)
County Highway and Bridge Reserve Tax	1,600.00	1,600.00	0.00	(1,600.00)
County Wheel Tax	2,200.00	2,200.00	2,113.81	(86.19)
Other Intergovernmental Revenues	6,000.00	6,000.00	2,246.76	(3,753.24)
Total Intergovernmental Revenue	44,450.00	44,450.00	46,824.81	2,374.81
Charges for Goods and Services:				
Sanitation	5,000.00	5,000.00	7,568.00	2,568.00
Culture and Recreation	5,600.00	5,600.00	5,819.26	219.26
Total Charges for Goods & Services	10,600.00	10,600.00	13,387.26	2,787.26
Fines and Forfeits:				
Court Fines and Costs				
Library	0.00	0.00	2,665.73	2,665.73
Total Fines and Forfeits	0.00	0.00	2,665.73	2,665.73
Miscellaneous Revenue:				
Investment Earnings	1,400.00	1,400.00	758.98	(641.02)
Rentals	600.00	600.00	753.74	153.74
Contributions and Donations from Private Sources	0.00	0.00	2,500.00	2,500.00
Other	9,200.00	9,200.00	23,236.63	14,036.63
Total Miscellaneous Revenue	11,200.00	11,200.00	27,249.35	16,049.35
Total Revenue	489,823.87	489,823.87	534,693.83	44,869.96

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF ARMOUR
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures:				
General Government:				
Legislative	11,860.00	11,860.00	11,298.07	561.93
Contingency	15,000.00	15,000.00		
Amount Transferred		(15,000.00)		0.00
Elections	1,100.00	1,100.00	11.77	1,088.23
Financial Administration	109,855.00	110,792.50	95,391.00	15,401.50
Other	34,700.00	34,700.00	20,421.38	14,278.62
Total General Government	<u>172,515.00</u>	<u>158,452.50</u>	<u>127,122.22</u>	<u>31,330.28</u>
Public Safety:				
Police	56,238.00	56,238.00	54,040.00	2,198.00
Fire	25,550.00	25,550.00	19,184.69	6,365.31
Protective Inspection	875.00	875.00	137.40	737.60
Total Public Safety	<u>82,663.00</u>	<u>82,663.00</u>	<u>73,362.09</u>	<u>9,300.91</u>
Public Works:				
Highways and Streets	140,100.00	260,127.41	280,789.90	(20,662.49)
Sanitation	9,625.00	9,625.00	7,859.67	1,765.33
Total Public Works	<u>149,725.00</u>	<u>269,752.41</u>	<u>288,649.57</u>	<u>(18,897.16)</u>
Health and Welfare:				
Health	3,625.00	3,625.00	1,762.50	1,862.50
Total Health and Welfare	<u>3,625.00</u>	<u>3,625.00</u>	<u>1,762.50</u>	<u>1,862.50</u>
Culture and Recreation:				
Parks	91,150.00	91,150.00	69,087.34	22,062.66
Libraries	23,450.00	23,450.00	81,375.28	(57,925.28)
Total Culture and Recreation	<u>114,600.00</u>	<u>114,600.00</u>	<u>150,462.62</u>	<u>(35,862.62)</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	700.00	700.00	2,500.00	(1,800.00)
Total Conservation and Development	<u>700.00</u>	<u>700.00</u>	<u>2,500.00</u>	<u>(1,800.00)</u>
Total Expenditures	<u>523,828.00</u>	<u>629,792.91</u>	<u>643,859.00</u>	<u>(14,066.09)</u>
Net Change in Fund Balances	<u>(34,004.13)</u>	<u>(139,969.04)</u>	<u>(109,165.17)</u>	<u>30,803.87</u>
Fund Balance - Beginning	<u>387,143.89</u>	<u>387,143.89</u>	<u>387,143.89</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u><u>353,139.76</u></u>	<u><u>247,174.85</u></u>	<u><u>277,978.72</u></u>	<u><u>30,803.87</u></u>

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF ARMOUR
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Property Taxes	181,287.02	181,287.02	179,170.81	(2,116.21)
General Sales and Use Taxes	250,000.00	250,000.00	273,804.29	23,804.29
Amusement Taxes	50.00	50.00	36.00	(14.00)
Penalties & Interest on Delinquent Taxes	560.00	560.00	593.26	33.26
Total Taxes	<u>431,897.02</u>	<u>431,897.02</u>	<u>453,604.36</u>	<u>21,707.34</u>
Licenses and Permits	<u>4,000.00</u>	<u>4,000.00</u>	<u>4,328.00</u>	<u>328.00</u>
Intergovernmental Revenue:				
Federal Payments in Lieu of Taxes	0.00	0.00	876.32	876.32
State Shared Revenue:				
Bank Franchise Tax	900.00	900.00	674.95	(225.05)
Motor Vehicle Commercial Prorate	2,800.00	2,800.00	2,838.21	38.21
Liquor Tax Reversion	5,000.00	5,000.00	5,035.07	35.07
Motor Vehicle Licenses	12,500.00	12,500.00	11,925.98	(574.02)
Local Government Highway and Bridge Fund	12,000.00	12,000.00	15,146.47	3,146.47
State Payments in Lieu of Taxes	500.00	500.00	0.00	(500.00)
County Shared Revenue:				
County Road Tax	5,000.00	5,000.00	1,596.00	(3,404.00)
County Highway and Bridge Reserve Tax	1,600.00	1,600.00	0.00	(1,600.00)
County Wheel Tax	2,100.00	2,100.00	2,089.11	(10.89)
Other Intergovernmental Revenues	6,000.00	6,000.00	5,985.00	(15.00)
Total Intergovernmental Revenue	<u>48,400.00</u>	<u>48,400.00</u>	<u>46,167.11</u>	<u>(2,232.89)</u>
Charges for Goods and Services:				
Sanitation	5,000.00	5,000.00	5,015.00	15.00
Culture and Recreation	6,500.00	6,500.00	6,495.13	(4.87)
Total Charges for Goods & Services	<u>11,500.00</u>	<u>11,500.00</u>	<u>11,510.13</u>	<u>10.13</u>
Fines and Forfeits:				
Library	0.00	0.00	1,662.03	1,662.03
Total Fines and Forfeits	<u>0.00</u>	<u>0.00</u>	<u>1,662.03</u>	<u>1,662.03</u>
Miscellaneous Revenue:				
Investment Earnings	2,500.00	2,500.00	1,186.15	(1,313.85)
Rentals	3,000.00	3,000.00	583.84	(2,416.16)
Contributions and Donations from Private Sources	5,000.00	5,000.00	155,445.25	150,445.25
Other	5,000.00	5,000.00	6,850.12	1,850.12
Total Miscellaneous Revenue	<u>15,500.00</u>	<u>15,500.00</u>	<u>164,065.36</u>	<u>148,565.36</u>
Total Revenue	<u>511,297.02</u>	<u>511,297.02</u>	<u>681,336.99</u>	<u>170,039.97</u>

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF ARMOUR
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures:				
General Government:				
Legislative	12,000.00	12,000.00	9,356.14	2,643.86
Contingency	15,000.00	15,000.00		
Amount Transferred		(4,240.00)		10,760.00
Elections	1,100.00	1,100.00	34.19	1,065.81
Financial Administration	116,500.00	116,500.00	107,325.76	9,174.24
Other	34,700.00	34,700.00	22,944.98	11,755.02
Total General Government	<u>179,300.00</u>	<u>175,060.00</u>	<u>139,661.07</u>	<u>35,398.93</u>
Public Safety:				
Police	61,740.00	61,740.00	42,829.02	18,910.98
Fire	24,550.00	24,550.00	22,147.12	2,402.88
Protective Inspection	875.00	915.00	67.61	847.39
Total Public Safety	<u>87,165.00</u>	<u>87,205.00</u>	<u>65,043.75</u>	<u>22,161.25</u>
Public Works:				
Highways and Streets	178,807.02	178,807.02	135,001.04	43,805.98
Sanitation	9,400.00	13,400.00	12,172.16	1,227.84
Total Public Works	<u>188,207.02</u>	<u>192,207.02</u>	<u>147,173.20</u>	<u>45,033.82</u>
Health and Welfare:				
Health	6,125.00	6,125.00	0.00	6,125.00
Total Health and Welfare	<u>6,125.00</u>	<u>6,125.00</u>	<u>0.00</u>	<u>6,125.00</u>
Culture and Recreation:				
Parks	94,800.00	94,800.00	75,413.07	19,386.93
Libraries	25,200.00	25,200.00	14,672.66	10,527.34
Total Culture and Recreation	<u>120,000.00</u>	<u>120,000.00</u>	<u>90,085.73</u>	<u>29,914.27</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	500.00	700.00	653.70	46.30
Total Conservation and Development	<u>500.00</u>	<u>700.00</u>	<u>653.70</u>	<u>46.30</u>
Total Expenditures	<u>581,297.02</u>	<u>581,297.02</u>	<u>442,617.45</u>	<u>138,679.57</u>
Net Change in Fund Balances	<u>(70,000.00)</u>	<u>(70,000.00)</u>	<u>238,719.54</u>	<u>308,719.54</u>
Fund Balance - Beginning	<u>148,424.35</u>	<u>148,424.35</u>	<u>148,424.35</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u><u>78,424.35</u></u>	<u><u>78,424.35</u></u>	<u><u>387,143.89</u></u>	<u><u>308,719.54</u></u>

NOTES TO THE SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

NOTE 1. Budgets and Budgetary Accounting:

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
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 a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpected appropriations lapse at year end unless encumbered by resolution of the Governing Board.

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

The Municipality did not encumber any amounts at December 31, 2014 or 2013.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. Budgets for the General Fund are adopted on a basis consistent with the modified cash basis of accounting.

NOTE 2. GAAP/Budgetary Accounting Basis Differences:

The Municipality's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenue and expenditures are recognized on a modified cash basis. Utilizing the modified cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

SUPPLEMENTARY INFORMATION

LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
Business-type Activities:					
Bonds Payable:					
Water Utility Revenue Bond - Series 2004	142,700.08		4,499.98	138,200.10	2,402.67
Water Utility Revenue Bond - Series 2008	535,771.90		12,650.50	523,121.40	6,777.51
Sewer Project Revenue Bond - Series 2009	1,124,533.97		32,326.79	1,092,207.18	16,970.95
Total Business-type Activities	<u>1,803,005.95</u>	<u>0.00</u>	<u>49,477.27</u>	<u>1,753,528.68</u>	<u>26,151.13</u>
Total Primary Government	<u>1,803,005.95</u>	<u>0.00</u>	<u>49,477.27</u>	<u>1,753,528.68</u>	<u>26,151.13</u>

Debt payable at December 31, 2014, is comprised of the following:

Revenue Bonds:

Water Utility Revenue Bonds – Series 2004 \$ 138,200.10

Maturity Date: February 18, 2044

Interest Rate at 4.375%

Payments made from the Water Fund.

Water Utility Revenue Bonds – Series 2008 \$ 523,121.40

Maturity Date: April 4, 2048

Interest Rate at 4.625%

Payments made from the Water Fund.

Sewer Project Revenue Bonds – Series 2009 \$1,092,207.18

Maturity Date: March 5, 2050

Interest Rate at 3.25%

Payments made from the Sewer Fund.

SUPPLEMENTARY INFORMATION
(Continued)

The annual requirements to amortize all debt outstanding as of December 31, 2014, are as follows:

Year Ending December 31,	Water Utility Revenue Bonds - Series 2004		Water Utility Revenue Bonds - Series 2008	
	Principal	Interest	Principal	Interest
2015	2,402.67	5,997.33	6,777.51	24,050.49
2016	2,509.95	5,890.05	7,097.69	23,730.31
2017	2,621.98	5,778.02	7,433.02	23,394.98
2018	2,739.02	5,660.98	7,784.17	23,043.83
2019	2,861.29	5,538.71	8,151.92	22,676.08
2020-2024	16,340.17	25,659.83	46,913.39	107,226.61
2025-2029	20,327.54	21,672.46	59,092.79	95,047.21
2030-2034	25,287.93	16,712.07	74,434.15	79,705.85
2035-2039	31,458.84	10,541.16	93,758.34	60,381.66
2040-2044	31,650.71	2,968.43	118,099.33	36,040.67
2045-2049			93,579.09	7,416.83
2050-2054				
Totals	<u>138,200.10</u>	<u>106,419.04</u>	<u>523,121.40</u>	<u>502,714.52</u>

Year Ending December 31,	Sewer Project Revenue Bonds - Series 2009		TOTALS	
	Principal	Interest	Principal	Interest
2015	16,970.95	35,241.05	26,151.13	65,288.87
2016	17,530.79	34,681.21	27,138.43	64,301.57
2017	18,109.13	34,102.87	28,164.13	63,275.87
2018	18,706.50	33,505.50	29,229.69	62,210.31
2019	19,323.61	32,888.39	30,336.82	61,103.18
2020-2024	106,611.02	154,448.98	169,864.58	287,335.42
2025-2029	125,394.82	135,665.18	204,815.15	252,384.85
2030-2034	147,488.09	113,571.91	247,210.17	209,989.83
2035-2039	173,474.02	87,585.98	298,691.20	158,508.80
2040-2044	204,038.41	57,021.59	353,788.45	96,030.69
2045-2049	240,122.44	20,937.56	333,701.53	28,354.39
2050-2054	4,437.40	12.29	4,437.40	12.29
Totals	<u>1,092,207.18</u>	<u>739,662.51</u>	<u>1,753,528.68</u>	<u>1,348,796.07</u>