

**MUNICIPALITY OF AVON
AVON, 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 AVON

MUNICIPAL OFFICIALS
DECEMBER 31, 2014

MAYOR:

Kevin Tjeerdsma

GOVERNING BOARD:

Beth Dykstra – President
Don Kocmich – Vice-President
Dennis Dodge
Lenny Gramkow
Barb Jonkers
Michael Petrik

FINANCE OFFICER:

Tiffany Voigt

ATTORNEY:

Swier Law Firm

Schoenfish & Co., Inc.

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**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 Avon
Avon, 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 cash basis of accounting financial statements of the governmental activities, business-type activities, and each major fund of the Municipality of Avon, 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 June 3, 2015, which was adverse because of the condition of the accounting records.

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 number 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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Current Audit Findings as item number 2014-002.

Municipality's Response to Findings

The Municipality's responses to the findings identified in our audit are 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 them.

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
June 3, 2015

Schoenfish & Co., Inc.

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P.O. Box 247
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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR AUDIT FINDINGS:

Finding Number 2012-01:

A significant deficiency and 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.

Finding Number 2012-02:

No Budget was made for the Library Fund. This comment has not been corrected and is restated as current audit finding number 2014-002.

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

Material weaknesses were noted in internal accounting control and record keeping resulting in diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. This is the fifth consecutive audit in which this comment has occurred.

Criteria:

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

Condition:

The following deficiencies in internal accounting control and record keeping were noted:

- a. A lack of proper segregation of duties existed for the receipts, disbursements, and payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.
- b. The following records were not maintained by employees of the Municipality:
 1. General capital asset records;
 2. Enterprise fund capital asset records;
 3. Inventories were not updated by the maintenance department; and
 4. Bank reconciliations were not done accurately or in a timely manner.
 5. A listing of trust deposits was not kept for water meter deposits.
 6. Utility receivables were not monitored to determine customer balances.
- c. The receipts were not all recorded properly nor was it all receipted into the appropriate fund.
- d. Disbursements could not be verified as to accuracy of amounts nor by fund.
- e. Bank balances were not compared to the records for accuracy and cash balances could not be determined by fund type.

SDCL 9-14-18 states that the finance officer "shall keep regular books of account in which shall be entered all indebtedness of the Municipality, and which shall at all times show the financial condition of the Municipality, the amount of bonds, warrants, certificates, or other evidences of indebtedness issued by the governing body, and the amounts of all bonds, warrants, certificates, or other evidences of indebtedness which have been redeemed and the amount of each outstanding."

SDCL 9-14-19 states that the finance officer "shall supervise the accounting system for all departments and offices of the Municipality in accordance with the recommendations of the Department of Legislative Audit."

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SCHEDULE OF CURRENT AUDIT FINDINGS
(Continued)

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, and improper records were maintained for the Municipality of Avon.

Recommendations:

1. We recommend that the municipal officials be cognizant of the lack of segregation of duties for the receipts, disbursements, and payroll functions and attempt to provide compensating internal controls whenever and wherever possible and practical.
2. We recommend that all necessary accounting records be established and properly maintained.

Management's Response:

The Municipality of Avon Mayor, Kevin Tjeerdsma, is the contact person responsible for the response for this comment. This comment is due to the expertise of staff and the size of the Municipality of Avon 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:

No budget was made for the Library Fund. This is the third consecutive audit in which this comment has occurred.

Criteria:

SDCL 9-21-2 states in part, "The governing body of each municipality shall, no later than its first regular meeting in September of each year or within ten days thereafter, introduce the annual appropriation ordinance for the ensuing fiscal year, in which it shall appropriate the sums of money necessary to meet all lawful expenses and liabilities of the municipality." Also 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."

Condition:

The Municipality did not prepare a budget for the Library Fund.

Effect:

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

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SCHEDULE OF CURRENT AUDIT FINDINGS
(Continued)

Recommendation:

1. We recommend that disbursements be limited to amounts budgeted or budget supplements be made in accordance with SDCL 9-21-7 and SDCL 9-21-6.1 to allow for disbursements.

Management's Response:

The Municipality of Avon Mayor, Kevin Tjeerdsma, 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 council president and finance officer on June 23, 2015.

Schoenfish & Co., Inc.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Avon
Avon, South Dakota

Report on the Financial Statements

We have audited the accompanying cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund, of the Municipality of Avon, 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 cash basis of accounting described in Note 1.c.; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Adverse Opinions

Several errors and omissions were noted in the financial statements. Some of the more serious items were improper recording of receipts and disbursements, omission of several receipts and disbursements, and not being able to determine cash balances by fund type.

Opinions

In our opinion, because of the effects of the items reported in the above paragraphs, the financial statements referred to above do not present fairly the respective financial position, cash basis, of the governmental activities, business-type activities, and each major fund of the Municipality of Avon as of December 31, 2014 and 2013, and the respective changes in financial position, cash basis, where applicable, thereof for each of the years in the biennial period then ended in conformity with accounting principles generally accepted in the United States of America with the basis of accounting described in Note 1.c.

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 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 cash basis of accounting financial statements that collectively comprise the Municipality's financial statements. The Budgetary Comparison Schedules 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. Because of the significance of the matter disclosed in the auditor's report, it is inappropriate to, and the auditor does not, express an opinion on the supplementary information.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 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 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* in considering the Municipality's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
Certified Public Accountants
June 3, 2015

Schoenfish & Co., Inc.

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

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
ASSETS:			
Cash and Cash Equivalents	<u>550,752.59</u>	<u>151,525.68</u>	<u>702,278.27</u>
TOTAL ASSETS	<u>550,752.59</u>	<u>151,525.68</u>	<u>702,278.27</u>
NET POSITION:			
Unrestricted	<u>550,752.59</u>	<u>151,525.68</u>	<u>702,278.27</u>
TOTAL NET POSITION	<u><u>550,752.59</u></u>	<u><u>151,525.68</u></u>	<u><u>702,278.27</u></u>

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

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

Functions/Programs	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
General Government	92,911.50	4,846.00			(88,065.50)		(88,065.50)
Public Safety	99,839.23				(99,839.23)		(99,839.23)
Public Works	101,566.54	47,514.16	24,905.39		(29,146.99)		(29,146.99)
Health and Welfare	785.43				(785.43)		(785.43)
Culture and Recreation	80,619.92	11,935.81			(68,684.11)		(68,684.11)
Total Governmental Activities	375,722.62	64,295.97	24,905.39	0.00	(286,521.26)	0.00	(286,521.26)
Business-type Activities:							
Water	135,890.87	89,474.28				(46,416.59)	(46,416.59)
Sewer	48,618.19	53,699.67				5,081.48	5,081.48
Ambulance	12,764.85	22,708.42				9,943.57	9,943.57
Total Business-Type Activities	197,273.91	165,882.37	0.00	0.00		(31,391.54)	(31,391.54)
Total Primary Government	572,996.53	230,178.34	24,905.39	0.00	(286,521.26)	(31,391.54)	(317,912.80)
General Receipts:							
Taxes:							
Property Taxes					234,716.72		234,716.72
Sales Taxes					142,618.79		142,618.79
State Shared Receipts					5,529.68		5,529.68
Grants and Contributions not Restricted to Specific Programs					6,579.72		6,579.72
Unrestricted Investment Earnings					2,499.11	1,315.32	3,814.43
Miscellaneous Receipts					8,729.02		8,729.02
Transfers					(7,730.24)	7,730.24	0.00
Total General Revenues and Transfers					392,942.80	9,045.56	401,988.36
Change in Net Position					106,421.54	(22,345.98)	84,075.56
Net Position - Beginning					444,331.05	173,871.66	618,202.71
NET POSITION - ENDING					550,752.59	151,525.68	702,278.27

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

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

	<u>General Fund</u>
ASSETS:	
Cash and Cash Equivalents	<u>550,752.59</u>
TOTAL ASSETS	<u><u>550,752.59</u></u>
FUND BALANCES:	
Assigned for Next Year's Budget	<u>119,000.00</u>
Unassigned	<u>431,752.59</u>
TOTAL FUND BALANCES	<u><u>550,752.59</u></u>

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

MUNICIPALITY OF AVON
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND CASH BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	General Fund
Receipts:	
Taxes:	
General Property Taxes	234,024.84
General Sales and Use Taxes	142,618.79
Amusement Taxes	84.00
Penalties & Interest on Delinquent Taxes	607.88
Total Taxes	377,335.51
Licenses and Permits	4,845.00
Intergovernmental Receipts:	
State Shared Receipts:	
Bank Franchise Tax	569.38
Motor Vehicle Commercial Prorate	1,399.24
Liquor Tax Reversion	3,877.70
Motor Vehicle Licenses	6,179.83
Local Government Highway and Bridge Fund	15,888.21
State Payments in Lieu of Taxes	1,082.60
County Shared Receipts:	
County Road Tax	1,438.11
Total Intergovernmental Receipts	30,435.07
Charges for Goods and Services:	
Sanitation	46,714.16
Culture and Recreation	11,935.81
Total Charges for Goods and Services	58,649.97
Miscellaneous Receipts:	
Investment Earnings	2,499.11
Rentals	801.00
Contributions and Donations from Private Sources	6,579.72
Other	8,729.02
Total Miscellaneous Receipts	18,608.85
Total Receipts	489,874.40

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

MUNICIPALITY OF AVON
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND CASH BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	General Fund
Disbursements:	
General Government:	
Legislative	26,867.53
Elections	6.62
Financial Administration	32,465.85
Other	33,571.50
Total General Government	92,911.50
Public Safety:	
Police	99,839.23
Total Public Safety	99,839.23
Public Works:	
Highways and Streets	44,463.17
Sanitation	57,103.37
Total Public Works	101,566.54
Health and Welfare:	
Health	785.43
Total Health and Welfare	785.43
Culture and Recreation:	
Recreation	37,900.49
Parks	21,165.99
Libraries	21,553.44
Total Culture and Recreation	80,619.92
Total Disbursements	375,722.62
Excess Receipts Over (Under) Disbursements	114,151.78
Other Financing Sources (Uses):	
Transfers Out	(7,730.24)
Total Other Financing Sources (Uses)	(7,730.24)
Net Change in Fund Cash Balance	106,421.54
Fund Cash Balance - Beginning	444,331.05
FUND CASH BALANCE - ENDING	550,752.59

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

**MUNICIPALITY OF AVON
STATEMENT OF NET POSITION - CASH BASIS
PROPRIETARY FUNDS
December 31, 2014**

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Ambulance Fund	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	0.00	63,815.56	87,710.12	151,525.68
Total Current Assets	0.00	63,815.56	87,710.12	151,525.68
TOTAL ASSETS	0.00	63,815.56	87,710.12	151,525.68
NET POSITION:				
Unrestricted	0.00	63,815.56	87,710.12	151,525.68
TOTAL NET POSITION	0.00	63,815.56	87,710.12	151,525.68

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

MUNICIPALITY OF AVON
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
FUND CASH NET POSITION - CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2014

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Ambulance Fund	
Operating Receipts:				
Charges for Goods and Services	87,049.28	53,699.67	19,476.42	160,225.37
Miscellaneous	2,425.00		3,232.00	5,657.00
Total Operating Receipts	89,474.28	53,699.67	22,708.42	165,882.37
Operating Disbursements:				
Personal Services	23,323.97	23,171.37	1,103.94	47,599.28
Other Current Disbursements	15,663.60	25,446.82	11,660.91	52,771.33
Materials	96,903.30			96,903.30
Total Operating Disbursements	135,890.87	48,618.19	12,764.85	197,273.91
Operating Income (Loss)	(46,416.59)	5,081.48	9,943.57	(31,391.54)
Non-operating Receipts (Disbursements):				
Investment Earnings	657.66		657.66	1,315.32
Total Non-operating Receipts (Disbursements)	657.66	0.00	657.66	1,315.32
Income (Loss) Before Transfers	(45,758.93)	5,081.48	10,601.23	(30,076.22)
Transfers In	7,730.24			7,730.24
Change in Net Cash Position	(38,028.69)	5,081.48	10,601.23	(22,345.98)
Net Cash Position - Beginning	38,028.69	58,734.08	77,108.89	173,871.66
NET CASH POSITION - ENDING	0.00	63,815.56	87,710.12	151,525.68

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

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

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	444,331.05	173,871.66	618,202.71
TOTAL ASSETS	444,331.05	173,871.66	618,202.71
NET POSITION:			
Unrestricted	444,331.05	173,871.66	618,202.71
TOTAL NET POSITION	444,331.05	173,871.66	618,202.71

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

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

Functions/Programs	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Net Position		
		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	63,524.03	742.00			(62,782.03)		(62,782.03)
Public Safety	68,657.45	4.00			(68,653.45)		(68,653.45)
Public Works	290,141.89	50,044.18	22,080.08		(218,017.63)		(218,017.63)
Culture and Recreation	60,259.06	10,550.03			(49,709.03)		(49,709.03)
Total Governmental Activities	482,582.43	61,340.21	22,080.08	0.00	(399,162.14)	0.00	(399,162.14)
Business-type Activities:							
Water	76,022.46	91,046.41				15,023.95	15,023.95
Sewer	29,007.45	56,013.58				27,006.13	27,006.13
Ambulance	6,702.89	11,195.91				4,493.02	4,493.02
Total Business-Type Activities	111,732.80	158,255.90	0.00	0.00		46,523.10	46,523.10
Total Primary Government	594,315.23	219,596.11	22,080.08	0.00	(399,162.14)	46,523.10	(352,639.04)
General Receipts:							
Taxes:							
Property Taxes					232,182.96		232,182.96
Sales Taxes					144,684.50		144,684.50
State Shared Receipts					5,926.41		5,926.41
Grants and Contributions not Restricted to Specific Programs					1,901.86		1,901.86
Unrestricted Investment Earnings					1,074.75	2,149.45	3,224.20
Miscellaneous Receipts					4,739.96		4,739.96
Transfers					(12,000.00)	12,000.00	0.00
Total General Receipts and Transfers					378,510.44	14,149.45	392,659.89
Change in Net Position					(20,651.70)	60,672.55	40,020.85
Net Position - Beginning					464,982.75	113,199.11	578,181.86
NET POSITION - ENDING					444,331.05	173,871.66	618,202.71

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

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

	General Fund
ASSETS:	
Cash and Cash Equivalents	444,331.05
TOTAL ASSETS	444,331.05
FUND BALANCES:	
Assigned for Next Year's Budget	138,178.04
Unassigned	306,153.01
TOTAL FUND BALANCES	444,331.05

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

MUNICIPALITY OF AVON
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND CASH BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	General Fund	Library Fines Fund	Total
Receipts:			
Taxes:			
General Property Taxes	227,951.58		227,951.58
General Sales and Use Taxes	144,684.50		144,684.50
Amusement Taxes	84.00		84.00
Tax Deed Revenue	2,790.13		2,790.13
Penalties & Interest on Delinquent Taxes	1,357.25		1,357.25
Total Taxes	376,867.46	0.00	376,867.46
Licenses and Permits	740.00	0.00	740.00
Intergovernmental Receipts:			
State Shared Receipts:			
Bank Franchise Tax	1,086.28		1,086.28
Motor Vehicle Commercial Prorate	430.44		430.44
Liquor Tax Reversion	3,610.57		3,610.57
Motor Vehicle Licenses	5,349.96		5,349.96
Local Government Highway and Bridge Fund	13,969.47		13,969.47
State Payments in Lieu of Taxes	1,229.56		1,229.56
County Shared Receipts:			
County Road Tax	2,330.21		2,330.21
Total Intergovernmental Receipts	28,006.49	0.00	28,006.49
Charges for Goods and Services:			
Sanitation	49,244.18		49,244.18
Culture and Recreation	10,550.03		10,550.03
Total Charges for Goods and Services	59,794.21	0.00	59,794.21
Fines and Forfeits:			
Court Fines and Costs	4.00		4.00
Total Fines and Forfeits	4.00	0.00	4.00
Miscellaneous Receipts:			
Investment Earnings	1,074.75		1,074.75
Rentals	802.00		802.00
Contributions and Donations from Private Sources	1,901.86		1,901.86
Other	4,739.96		4,739.96
Total Miscellaneous Receipts	8,518.57	0.00	8,518.57
Total Receipts	473,930.73	0.00	473,930.73

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

MUNICIPALITY OF AVON
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND CASH BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	<u>General Fund</u>	<u>Library Fines Fund</u>	<u>Total</u>
Disbursements:			
General Government:			
Legislative	29,809.08		29,809.08
Financial Administration	28,843.64		28,843.64
Other	4,871.31		4,871.31
Total General Government	63,524.03	0.00	63,524.03
Public Safety:			
Police	68,657.45		68,657.45
Total Public Safety	68,657.45	0.00	68,657.45
Public Works:			
Highways and Streets	306,820.71		306,820.71
Sanitation	27,421.18		27,421.18
Total Public Works	334,241.89	0.00	334,241.89
Culture and Recreation:			
Recreation	37,460.66		37,460.66
Parks	11,492.31		11,492.31
Libraries	10,450.79	855.30	11,306.09
Total Culture and Recreation	59,403.76	855.30	60,259.06
Total Disbursements	525,827.13	855.30	526,682.43
Excess Receipts Over (Under) Disbursements	(51,896.40)	(855.30)	(52,751.70)
Other Financing Sources (Uses):			
Transfers Out	(12,000.00)		(12,000.00)
Sale of Municipal Property	44,100.00		44,100.00
Total Other Financing Sources (Uses)	32,100.00	0.00	32,100.00
Net Change in Fund Cash Balance	(19,796.40)	(855.30)	(20,651.70)
Fund Cash Balance - Beginning	464,127.45	855.30	464,982.75
FUND CASH BALANCE - ENDING	444,331.05	0.00	444,331.05

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

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

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Ambulance Fund	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	38,028.69	58,734.08	77,108.89	173,871.66
Total Current Assets	38,028.69	58,734.08	77,108.89	173,871.66
TOTAL ASSETS	38,028.69	58,734.08	77,108.89	173,871.66
NET POSITION:				
Unrestricted	38,028.69	58,734.08	77,108.89	173,871.66
TOTAL NET POSITION	38,028.69	58,734.08	77,108.89	173,871.66

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

MUNICIPALITY OF AVON
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
FUND CASH NET POSITION - CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2013

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Ambulance Fund	
Operating Receipts:				
Charges for Goods and Services	89,768.64	56,013.58	8,645.91	154,428.13
Miscellaneous	1,277.77		2,550.00	3,827.77
Total Operating Receipts	91,046.41	56,013.58	11,195.91	158,255.90
Operating Disbursements:				
Personal Services	18,501.62	20,314.47	2,936.24	41,752.33
Materials	57,520.84	8,692.98	3,766.65	69,980.47
Total Operating Disbursements	76,022.46	29,007.45	6,702.89	111,732.80
Operating Income (Loss)	15,023.95	27,006.13	4,493.02	46,523.10
Non-operating Receipts (Disbursements):				
Investment Earnings	1,074.73		1,074.72	2,149.45
Total Non-operating Receipts (Disbursements)	1,074.73	0.00	1,074.72	2,149.45
Income (Loss) Before Transfers	16,098.68	27,006.13	5,567.74	48,672.55
Transfers In	12,000.00			12,000.00
Change in Net Cash Position	28,098.68	27,006.13	5,567.74	60,672.55
Net Cash Position - Beginning	9,930.01	31,727.95	71,541.15	113,199.11
NET CASH POSITION - ENDING	38,028.69	58,734.08	77,108.89	173,871.66

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

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c, these financial statements are presented on a cash basis of accounting. The 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 Avon (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.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position – Cash Basis and Statement of Activities – Cash Basis 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. 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.

The Statement of Activities – Cash Basis 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, liabilities, fund equity, receipts, and disbursements. 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, 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
2. Total assets, liabilities, receipts, or 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.

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
(Continued)

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.

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

Library Fines Fund – to account for fines and similar charges, deposited in a library board bank account subject to checks by the librarian for library purposes. (SDCL 14-2-42 and AGR 82-33) This is a major fund. This fund was closed in 2013

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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.

Ambulance Fund – this fund accounts for the operation of the municipal ambulance services and related costs. 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" receipts and disbursements are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
(Continued)

The Municipality uses the cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when receipts are earned and liabilities are incurred. Under the cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

Government-Wide Financial Statements:

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 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 with the limitations of the 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 and business-type activities are presented using a cash basis of accounting.

The 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, 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.

As a result of the use of this 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.

e. Revenue Received in Advance:

Under the 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 CASH BASIS FINANCIAL STATEMENTS
(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.

g. Proprietary Funds Receipts and Disbursement Classifications:

In the proprietary fund's Statement of Receipts, Disbursements and Changes in Fund Cash Net Position, receipts and disbursements 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 receipts and disbursements.

h. Equity Classifications:

Government-wide Statements:

Equity is classified as net position and is displayed in one component.

1. Unrestricted net position – All other net position that does 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.

i. Application of Net Position:

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

j. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the 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.

See Independent Auditor's Report.

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
(Continued)

- 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 Government 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. 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.

Deposits are reported at cost plus interest, if the account is of the add-on type.

Investments – In general, SDCL 4-5-6 permits Municipality funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government, provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above and meeting the requirements of Section 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
(Continued)

1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

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.

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.

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

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 property in the Municipality.

4. COMMITMENTS AND SERVICE AGREEMENTS

In 2009, the Municipality of Avon entered into a 12-year service agreement with Maguire Iron, Inc. to service and clean the water tower. The following are the minimum payments on this service agreement:

2015	\$ 1,450.00
2016	\$ 1,450.00
2017	\$ 1,450.00
2018	\$ 1,450.00
2019	\$ 1,450.00
2020	\$ 1,450.00

In 2012, the Municipality of Avon entered into a 5-year service agreement with B-Y Water District to provide water. The following are the minimum payments on this agreement:

2015	\$ 5,892.00
2016	\$ 5,892.00

See Independent Auditor's Report.

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
(Continued)

5. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2014 were as follows:

<u>Transfers from:</u>	<u>Transfers to:</u>
Major Funds:	<u>Water Fund</u>
General Fund	\$ 7,730.24
Totals	<u>\$ 7,730.24</u>

Interfund transfers for the year ended December 31, 2013 were as follows:

<u>Transfers from:</u>	<u>Transfers to:</u>
Major Funds:	<u>Water Fund</u>
General Fund	\$ 12,000.00
Totals	<u>\$ 12,000.00</u>

The Municipality typically uses transfers to conduct indispensable functions of the Municipality.

6. RETIREMENT PLAN

All full-time public safety 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 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. 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 2012 were \$6,682.51, \$6,578.84, and \$6,717.47, respectively, equal to the required contributions each year.

7. SIGNIFICANT CONTINGENCIES - LITIGATION

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

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
(Continued)

8. 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:

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

General liability insurance and property insurance.

The agreement with the SDPAA provides that the above coverages will be provided to a \$1,500,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage 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 Municipality's First Full Year	50%
End of Municipality's Second Full Year	60%
End of Municipality's Third Full Year	70%
End of Municipality's Fourth Full Year	80%
End of Municipality's Fifth Full Year	90%
End of Municipality's Sixth Full Year and Thereafter	100%

As of December 31, 2014, the Municipality has vested balance in the cumulative reserve fund of \$19,165.60

The Municipality carries a \$500 deductible for the liability coverage and a \$500 deductible for the property 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 Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota

See Independent Auditor's Report.

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
(Continued)

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 compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The 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.

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 AVON
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Receipts:				
Taxes:				
General Property Taxes	246,703.85	246,703.85	234,024.84	(12,679.01)
General Sales and Use Taxes	138,000.00	138,000.00	142,618.79	4,618.79
Amusement Taxes	100.00	100.00	84.00	(16.00)
Penalties and Interest on Delinquent Taxes	1,000.00	1,000.00	607.88	(392.12)
Total Taxes	385,803.85	385,803.85	377,335.51	(8,468.34)
Licenses and Permits	3,100.00	3,100.00	4,845.00	1,745.00
Intergovernmental Receipts:				
State Shared Receipts:				
Bank Franchise Tax	1,200.00	1,200.00	569.38	(630.62)
Motor Vehicle Commercial Prorate	1,200.00	1,200.00	1,399.24	199.24
Liquor Tax Reversion	3,200.00	3,200.00	3,877.70	677.70
Motor Vehicle Licenses	4,000.00	4,000.00	6,179.83	2,179.83
Local Government Highway and Bridge Fund	12,000.00	12,000.00	15,888.21	3,888.21
State Payments in Lieu of Taxes	1,000.00	1,000.00	1,082.60	82.60
County Shared Receipts:				
County Road Tax	1,438.11	1,438.11	1,438.11	0.00
Total Intergovernmental Receipts	24,038.11	24,038.11	30,435.07	6,396.96
Charges for Goods and Services:				
Sanitation	51,880.00	51,880.00	46,714.16	(5,165.84)
Culture and Recreation	14,200.00	14,200.00	11,935.81	(2,264.19)
Total Charges for Goods and Services	66,080.00	66,080.00	58,649.97	(7,430.03)
Fines and Forfeits:				
Court Fines and Costs	200.00	200.00	0.00	(200.00)
Total Fines and Forfeits	200.00	200.00	0.00	(200.00)
Miscellaneous Receipts:				
Investment Earnings	1,200.00	1,200.00	2,499.11	1,299.11
Rentals	800.00	800.00	801.00	1.00
Contributions and Donations from Private Sources	500.00	500.00	6,579.72	6,079.72
Other	6,200.00	6,200.00	8,729.02	2,529.02
Total Miscellaneous Receipts	8,700.00	8,700.00	18,608.85	9,908.85
Total Receipts	487,921.96	487,921.96	489,874.40	1,952.44
Disbursements:				
General Government:				
Legislative	22,900.00	22,900.00	26,867.53	(3,967.53)
Contingency	40,000.00	40,000.00		
Amount Transferred		(4,500.00)		35,500.00
Elections	850.00	850.00	6.62	843.38
Financial Administration	40,375.00	41,375.00	32,465.85	8,909.15
Other	85,200.00	85,200.00	33,571.50	51,628.50
Total General Government	189,325.00	185,825.00	92,911.50	92,913.50

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

	<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>		
Disbursements (Continued):				
Public Safety:				
Police	80,025.00	82,525.00	99,839.23	(17,314.23)
Total Public Safety	80,025.00	82,525.00	99,839.23	(17,314.23)
Public Works:				
Highways and Streets	210,475.00	210,475.00	44,463.17	166,011.83
Sanitation	48,700.00	48,700.00	57,103.37	(8,403.37)
Total Public Works	259,175.00	259,175.00	101,566.54	157,608.46
Health and Welfare:				
Health	1,500.00	1,500.00	785.43	714.57
Total Health and Welfare	1,500.00	1,500.00	785.43	714.57
Culture and Recreation:				
Recreation	67,100.00	67,100.00	37,900.49	29,199.51
Parks	12,925.00	13,925.00	21,165.99	(7,240.99)
Libraries	16,050.00	17,550.00	21,553.44	(4,003.44)
Total Culture and Recreation	96,075.00	98,575.00	80,619.92	17,955.08
Total Disbursements	626,100.00	627,600.00	375,722.62	251,877.38
Excess of Receipts Over (Under)				
Disbursements	(138,178.04)	(139,678.04)	114,151.78	253,829.82
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(7,730.24)	(7,730.24)
Total Other Financing Sources (Uses)	0.00	0.00	(7,730.24)	(7,730.24)
Net Change in Fund Cash Balances	(138,178.04)	(139,678.04)	106,421.54	246,099.58
Fund Cash Balance - Beginning	444,331.05	444,331.05	444,331.05	0.00
FUND CASH BALANCE - ENDING	306,153.01	304,653.01	550,752.59	246,099.58

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

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Receipts:				
Taxes:				
General Property Taxes	228,748.00	228,748.00	227,951.58	(796.42)
General Sales and Use Taxes	134,000.00	134,000.00	144,684.50	10,684.50
Amusement Taxes	100.00	100.00	84.00	(16.00)
Tax Deed Receipts	0.00	0.00	2,790.13	2,790.13
Penalties and Interest on Delinquent Taxes	600.00	600.00	1,357.25	757.25
Total Taxes	363,448.00	363,448.00	376,867.46	13,419.46
Licenses and Permits	3,200.00	3,200.00	740.00	(2,460.00)
Intergovernmental Receipts:				
State Shared Receipts:				
Bank Franchise Tax	1,000.00	1,000.00	1,086.28	86.28
Motor Vehicle Commercial Prorate	1,200.00	1,200.00	430.44	(769.56)
Liquor Tax Reversion	3,200.00	3,200.00	3,610.57	410.57
Motor Vehicle Licenses	4,000.00	4,000.00	5,349.96	1,349.96
Local Government Highway and Bridge Fund	9,500.00	9,500.00	13,969.47	4,469.47
State Payments in Lieu of Taxes	1,000.00	1,000.00	1,229.56	229.56
County Shared Receipts:				
County Road Tax	1,438.11	1,438.11	2,330.21	892.10
Total Intergovernmental Receipts	21,338.11	21,338.11	28,006.49	6,668.38
Charges for Goods and Services:				
Sanitation	48,700.00	48,700.00	49,244.18	544.18
Culture and Recreation	14,450.00	14,450.00	10,550.03	(3,899.97)
Total Charges for Goods and Services	63,150.00	63,150.00	59,794.21	(3,355.79)
Fines and Forfeits:				
Court Fines and Costs	300.00	300.00	4.00	(296.00)
Total Fines and Forfeits	300.00	300.00	4.00	(296.00)
Miscellaneous Receipts:				
Investment Earnings	1,200.00	1,200.00	1,074.75	(125.25)
Rentals	1,000.00	1,000.00	802.00	(198.00)
Contributions and Donations from Private Sources	500.00	500.00	1,901.86	1,401.86
Other	7,000.00	7,000.00	4,739.96	(2,260.04)
Total Miscellaneous Receipts	9,700.00	9,700.00	8,518.57	(1,181.43)
Total Receipts	461,136.11	461,136.11	473,930.73	12,794.62
Disbursements:				
General Government:				
Legislative	29,400.00	29,400.00	29,809.08	(409.08)
Contingency	35,000.00	35,000.00		
Amount Transferred		0.00		35,000.00
Elections	850.00	850.00	0.00	850.00
Financial Administration	39,275.00	39,275.00	28,843.64	10,431.36
Other	79,000.00	79,000.00	4,871.31	74,128.69
Total General Government	183,525.00	183,525.00	63,524.03	120,000.97

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

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Disbursements (Continued):				
Public Safety:				
Police	73,475.00	73,475.00	68,657.45	4,817.55
Total Public Safety	73,475.00	73,475.00	68,657.45	4,817.55
Public Works:				
Highways and Streets	322,710.00	322,710.00	306,820.71	15,889.29
Sanitation	43,240.00	43,240.00	27,421.18	15,818.82
Total Public Works	365,950.00	365,950.00	334,241.89	31,708.11
Health and Welfare:				
Health	1,500.00	1,500.00	0.00	1,500.00
Total Health and Welfare	1,500.00	1,500.00	0.00	1,500.00
Culture and Recreation:				
Recreation	61,067.50	61,067.50	37,460.66	23,606.84
Parks	10,410.00	10,410.00	11,492.31	(1,082.31)
Libraries	13,775.00	13,775.00	10,450.79	3,324.21
Total Culture and Recreation	85,252.50	85,252.50	59,403.76	25,848.74
Total Disbursements	709,702.50	709,702.50	525,827.13	183,875.37
Excess of Receipts Over (Under) Disbursements	(248,566.39)	(248,566.39)	(51,896.40)	196,669.99
Other Financing Sources (Uses):				
Transfers Out	(20,000.00)	(20,000.00)	(12,000.00)	8,000.00
Sale of Municipal Property	0.00	0.00	44,100.00	44,100.00
Total Other Financing Sources (Uses)	(20,000.00)	(20,000.00)	32,100.00	52,100.00
Net Change in Fund Cash Balances	(268,566.39)	(268,566.39)	(19,796.40)	248,769.99
Fund Cash Balance - Beginning	464,127.45	464,127.45	464,127.45	0.00
FUND CASH BALANCE - ENDING	195,561.06	195,561.06	444,331.05	248,769.99

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, 2013 and 2014.

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

Note 2. Other Comprehensive Basis of Accounting Cash Basis/Budgetary Accounting Basis Differences:

The financial statements prepared in conformity with USGAAP applied within the context of the cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Receipts, Disbursements, and Changes in Fund Cash Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.