



Financial Statements
December 31, 2015 and 2014
Big Stone City

Big Stone City
Municipality Officials (unaudited)
December 31, 2015 and 2014

Mayor Deb Wiik

Governing Board Robin Baerwaldt
TJ Rabe
Duane Henderson
Doug Gulley
Brad Hanson
Randy Athey

Finance Officer Donna Van Hout

Attorney William E. Coester

Independent Auditor’s Report	2
Financial Statements	
Statement of Net Position – Modified Cash Basis	4
Statements of Activities – Modified Cash Basis	5
Balance Sheet – Modified Cash Basis – Governmental Funds	7
Statements of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – Governmental Funds	8
Balance Sheet – Modified Cash Basis – Proprietary Funds	10
Statements of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds	11
Statements of Cash Flows – Modified Cash Basis – Proprietary Funds	13
Notes to Financial Statements	15
Supplementary Information	
Schedule of Net Pension Liability (Asset) and Schedule of Pension Contributions	27
Schedules of Changes in Long-Term Debt.....	28
Budgetary Comparison Schedule – General Fund	29
Year Ended December 31, 2015.....	29
Year Ended December 31, 2014.....	31
Notes to Supplementary Information	33
Summary of Prior Audit Findings	35
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>	36
Schedule of Findings	38



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The City Council
Big Stone City
Big Stone City, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Big Stone City, as of December 31, 2015 and for each of the fiscal years in the two year period then ended, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis described in Note 1; this includes determining that the other comprehensive basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit 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 from 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 entity'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 entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the relative financial position – modified cash basis of the governmental activities, business-type activities, and each major fund of Big Stone City as of December 31, 2015 and the respective changes in financial position – modified cash basis and, where applicable, cash flows – modified cash basis thereof and for each of the fiscal years in the two year period then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statement, 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 opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise the City's financial statements. The listing of municipal officers, budgetary comparison, schedule of net pension liability (asset) and pension contributions, and schedule of changes in long-term debt are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules of employer's share of net pension liability (asset) and pension contributions, budgetary comparison, and schedule of changes in long-term debt are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2016 on our consideration of the Big Stone City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Audit Standards in considering the Big Stone City's internal control over financial reporting and compliance.

 Erik Sully LLP

Aberdeen, South Dakota
August 1, 2016

Big Stone City
Statement of Net Position – Modified Cash Basis
December 31, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ -	\$ 554,330	\$ 554,330
Investments	124,371	1,492,739	1,617,110
Interfund balance	(53,228)	53,228	-
Restricted assets:			
Cash and cash equivalents	-	50,000	50,000
	<u>\$ 71,143</u>	<u>\$ 2,150,297</u>	<u>\$ 2,221,440</u>
Net Position			
Restricted for:			
Debt service	\$ -	\$ 50,000	\$ 50,000
Unrestricted (deficit)	<u>71,143</u>	<u>2,100,297</u>	<u>2,171,440</u>
	<u>\$ 71,143</u>	<u>\$ 2,150,297</u>	<u>\$ 2,221,440</u>

Big Stone City
Statements of Activities – Modified Cash Basis
Years Ended December 31, 2015 and 2014

2015							
Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Loan Proceeds	Governmental Activities	Primary Government	
					Business-Type Activities	Total	
Primary government							
Governmental activities							
General government	\$ 105,990	\$ 5,890	\$ 2,239	\$ -	\$ (97,861)	\$ -	\$ (97,861)
Public safety	133,916	251	-	-	(133,665)	-	(133,665)
Public works	312,110	44,225	46,604	-	(221,281)	-	(221,281)
Health and welfare	14,868	-	-	-	(14,868)	-	(14,868)
Culture and recreation	128,067	1,356	-	54,593	(72,118)	-	(72,118)
Conservation and development	5,563	-	-	-	(5,563)	-	(5,563)
Total governmental activities	700,514	51,722	48,843	54,593	(545,356)	-	(545,356)
Business-type activities							
Liquor	482,796	563,179	-	-	-	80,383	80,383
Water	271,220	301,089	-	-	-	29,869	29,869
Electric	944,225	1,156,074	-	-	-	211,849	211,849
Sewer	94,245	104,518	-	-	-	10,273	10,273
Total business-type activities	1,792,486	2,124,860	-	-	-	332,374	332,374
Total primary government	\$ 2,493,000	\$ 2,176,582	\$ 48,843	\$ 54,593	(545,356)	332,374	(212,982)
General Revenues							
Taxes							
Property taxes					100,295	-	100,295
Sales taxes					320,418	-	320,418
State shared revenues					3,643	-	3,643
Unrestricted investment earnings					154	5,014	5,168
Miscellaneous revenue					9,292	-	9,292
Transfers					-	-	-
Total general revenues and transfers					433,802	5,014	438,816
Change in Net Position					(111,554)	337,388	225,834
Net Position - Beginning					182,697	1,812,909	1,995,606
Net Position - Ending					\$ 71,143	\$ 2,150,297	\$ 2,221,440

See Notes to Financial Statements

Big Stone City
Statements of Activities – Modified Cash Basis
Years Ended December 31, 2015 and 2014

Functions/Programs	2014						
	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Loan Proceeds	Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental activities							
General government	\$ 138,406	\$ 4,605	\$ 2,871	\$ -	\$ (130,930)	\$ -	\$ (130,930)
Public safety	125,218	300	-	-	(124,918)	-	(124,918)
Public works	269,437	42,975	45,458	-	(181,004)	-	(181,004)
Health and welfare	6,568	-	-	-	(6,568)	-	(6,568)
Culture and recreation	41,946	745	-	10,260	(30,941)	-	(30,941)
Conservation and development	15,965	-	-	-	(15,965)	-	(15,965)
Total governmental activities	<u>597,540</u>	<u>48,625</u>	<u>48,329</u>	<u>10,260</u>	<u>(490,326)</u>	<u>-</u>	<u>(490,326)</u>
Business-type activities							
Liquor	467,557	563,455	-	-	-	95,898	95,898
Water	319,242	343,367	-	-	-	24,125	24,125
Electric	912,965	1,138,086	-	-	-	225,121	225,121
Sewer	101,314	107,344	-	-	-	6,030	6,030
Total business-type activities	<u>1,801,078</u>	<u>2,152,252</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>351,174</u>	<u>351,174</u>
Total primary government	<u>\$ 2,398,618</u>	<u>\$ 2,200,877</u>	<u>\$ 48,329</u>	<u>\$ 10,260</u>	<u>(490,326)</u>	<u>351,174</u>	<u>(139,152)</u>
General Revenues							
Taxes							
Property taxes					100,647	-	100,647
Sales taxes					355,684	-	355,684
State shared revenues					3,724	-	3,724
Unrestricted investment earnings					180	5,929	6,109
Miscellaneous revenue					10,295	-	10,295
Special Items (sale of capital assets)					-	-	-
Transfers					-	-	-
Total general revenues and transfers					<u>470,530</u>	<u>5,929</u>	<u>476,459</u>
Change in Net Position					(19,796)	357,103	337,307
Net Position - Beginning					<u>202,493</u>	<u>1,455,806</u>	<u>1,658,299</u>
Net Position - Ending					<u>\$ 182,697</u>	<u>\$ 1,812,909</u>	<u>\$ 1,995,606</u>

See Notes to Financial Statements

Big Stone City
Balance Sheet – Modified Cash Basis – Governmental Funds
December 31, 2015

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ -
Investments	<u>124,371</u>
	<u>\$ 124,371</u>
Liabilities	
Due to Electric Fund	<u>\$ 53,228</u>
Fund Balances	
Unassigned	<u>71,143</u>
	<u>\$ 71,143</u>

Big Stone City

Statements of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – Governmental Funds

Years Ended December 31, 2015 and 2014

	2015	2014
	General Fund	General Fund
Revenues		
310 Taxes		
311 General property taxes	\$ 100,048	\$ 100,203
313 General sales and use taxes	320,418	355,684
315 Amusement taxes	84	132
319 Penalties and interest on delinquent taxes	163	312
Total taxes	420,713	456,331
320 Licenses and permits	5,537	4,530
330 Intergovernmental revenue		
331 Federal grants	-	-
334 State Grants	2,239	2,871
335 State shared revenue		
335.01 Bank franchise tax	739	788
335.02 Motor vehicle commercial prorate	1,980	1,966
335.03 Liquor tax reversion	2,904	2,936
335.04 Motor vehicle licenses (5%)	9,156	8,565
335.08 Local government highway and bridge fund	34,948	34,407
338 County shared revenue		
338.01 County road tax (25%)	520	520
Total intergovernmental revenue	52,486	52,053
340 Charges for goods and services		
341 General government	328	25
342 Public safety	9	-
343 Highways and streets	475	248
344 Sanitation	43,750	42,727
346 Culture and recreation	1,356	745
Total charges for goods and services	45,918	43,745
350 Fines and forfeits		
351 Court fines and costs	242	300
Total fines and forfeits	242	300
360 Miscellaneous revenue		
361 Investment earnings	154	180
362 Rentals	25	50
367 Contributions and donations from private sources	54,593	10,260
369 Other	9,292	10,295
Total miscellaneous revenue	64,064	20,785
Total revenues	588,960	577,744

Big Stone City
 Statements of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – Governmental
 Funds
 Years Ended December 31, 2015 and 2014

	2015	2014
	General Fund	General Fund
Expenditures		
410 General government		
411 Legislative	15,592	16,468
412 Executive	2,395	2,432
413 Elections	56	17
414 Financial administration	71,294	65,177
419 Other	16,653	15,931
Total general government	<u>105,990</u>	<u>100,025</u>
420 Public safety		
421 Police	107,313	105,752
422 Fire	26,603	19,466
Total public safety	<u>133,916</u>	<u>125,218</u>
430 Public works		
431 Highways and streets	265,768	225,048
432 Sanitation	46,342	44,389
Total public works	<u>312,110</u>	<u>269,437</u>
440 Health and welfare		
441 Health	14,368	6,068
446 Ambulance	500	500
Total health and welfare	<u>14,868</u>	<u>6,568</u>
450 Culture and recreation		
451 Recreation	60,219	17,242
452 Parks	67,848	24,704
Total culture and recreation	<u>128,067</u>	<u>41,946</u>
460 Conservation and development		
465 Economic development and assistance	5,563	15,965
Total conservation and development	<u>5,563</u>	<u>15,965</u>
485 Capital outlay	-	38,381
Total expenditures	<u>700,514</u>	<u>597,540</u>
Other Financing Sources		
391.01 Transfers in	-	-
391.03 Sale of municipal property	-	-
Total other financing sources	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(111,554)	(19,796)
Fund Balance - Beginning	182,697	202,493
Fund Balance - Ending	<u>\$ 71,143</u>	<u>\$ 182,697</u>

See Notes to Financial Statements

Big Stone City
Balance Sheet – Modified Cash Basis – Proprietary Funds
December 31, 2015

	Enterprise Funds				
	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	Totals
Assets					
Current Assets					
Cash and cash equivalents	\$ 118,086	\$ 122,884	\$ 269,600	\$ 43,760	\$ 554,330
Due from general fund	-	-	53,228	-	53,228
Investments	392,038	213,670	796,851	90,180	1,492,739
Total current assets	<u>510,124</u>	<u>336,554</u>	<u>1,119,679</u>	<u>133,940</u>	<u>2,100,297</u>
Noncurrent Assets					
107.1 Restricted deposits for debt repayment	-	-	-	50,000	50,000
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>50,000</u>
	<u>\$ 510,124</u>	<u>\$ 336,554</u>	<u>\$ 1,119,679</u>	<u>\$ 183,940</u>	<u>\$ 2,150,297</u>
Net Position					
253.20 Restricted net position, restricted for:					
253.22 Revenue bond retirement	\$ -	\$ -	\$ -	\$ 50,000	\$ 50,000
253.90 Unrestricted net position	510,124	336,554	1,119,679	133,940	2,100,297
	<u>\$ 510,124</u>	<u>\$ 336,554</u>	<u>\$ 1,119,679</u>	<u>\$ 183,940</u>	<u>\$ 2,150,297</u>

Big Stone City
 Statements of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds
 Years Ended December 31, 2015 and 2014

	2015				
	Enterprise Funds				Totals
	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	
Operating Revenue					
380 Charges for goods and services	\$ 499,172	\$ 300,189	\$ 1,155,596	\$ 103,543	\$ 2,058,500
380.5 Lottery sales	64,007	-	-	-	64,007
Total operating revenue	<u>563,179</u>	<u>300,189</u>	<u>1,155,596</u>	<u>103,543</u>	<u>2,122,507</u>
Operating Expenses					
410 Personal services	108,846	24,886	74,234	21,770	229,736
420 Other current expense	44,312	20,431	142,578	15,369	222,690
426.2 Materials	329,638	162,552	665,930	-	1,158,120
430 Capital assets	0	7,531	61,483	7,810	76,824
Total operating expenses	<u>482,796</u>	<u>215,400</u>	<u>944,225</u>	<u>44,949</u>	<u>1,687,370</u>
Operating Income	<u>80,383</u>	<u>84,789</u>	<u>211,371</u>	<u>58,594</u>	<u>435,137</u>
Nonoperating Revenue (Expense)					
361 Investment earnings	253	1,277	2,380	1,104	5,014
362 Rental revenue	-	900	478	975	2,353
391.03 Proceeds from sale of capital assets	-	-	-	-	-
440 Debt service (principal)	-	(43,529)	-	(15,246)	(58,775)
470 Interest expense and fiscal charges	-	(12,291)	-	(34,050)	(46,341)
Total nonoperating revenue (expense)	<u>253</u>	<u>(53,643)</u>	<u>2,858</u>	<u>(47,217)</u>	<u>(97,749)</u>
511 Transfers out	-	-	-	-	-
Changes in Net Position	80,636	31,146	214,229	11,377	337,388
Net Position - Beginning	<u>429,488</u>	<u>305,408</u>	<u>905,450</u>	<u>172,563</u>	<u>1,812,909</u>
Net Position - Ending	<u>\$ 510,124</u>	<u>\$ 336,554</u>	<u>\$ 1,119,679</u>	<u>\$ 183,940</u>	<u>\$ 2,150,297</u>

Big Stone City

Statements of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds
Years Ended December 31, 2015 and 2014

	2014				Totals
	Enterprise Funds				
	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	
Operating Revenue					
380 Charges for goods and services	\$ 501,085	\$ 342,267	\$ 1,137,346	\$ 106,219	\$ 2,086,917
380.5 Lottery sales	62,370	-	-	-	62,370
Total operating revenue	<u>563,455</u>	<u>342,267</u>	<u>1,137,346</u>	<u>106,219</u>	<u>2,149,287</u>
Operating Expenses					
410 Personal services	120,559	26,680	76,073	23,250	246,562
420 Other current expense	51,963	12,993	69,683	16,846	151,485
426.2 Materials	294,320	198,999	675,956	-	1,169,275
430 Capital assets	715	24,750	91,253	11,922	128,640
Total operating expenses	<u>467,557</u>	<u>263,422</u>	<u>912,965</u>	<u>52,018</u>	<u>1,695,962</u>
Operating Income	<u>95,898</u>	<u>78,845</u>	<u>224,381</u>	<u>54,201</u>	<u>453,325</u>
Nonoperating Revenue (Expense)					
361 Investment earnings	411	737	3,464	1,317	5,929
362 Rental revenue	-	1,100	740	1,125	2,965
440 Debt service (principal)	-	(40,911)	-	(14,283)	(55,194)
470 Interest expense and fiscal charges	-	(14,909)	-	(35,013)	(49,922)
Total nonoperating revenue (expense)	<u>411</u>	<u>(53,983)</u>	<u>4,204</u>	<u>(46,854)</u>	<u>(96,222)</u>
511 Transfers out	-	-	-	-	-
Changes in Net Position	96,309	24,862	228,585	7,347	357,103
Net Position - Beginning	<u>333,179</u>	<u>280,546</u>	<u>676,865</u>	<u>165,216</u>	<u>1,455,806</u>
Net Position - Ending	<u>\$ 429,488</u>	<u>\$ 305,408</u>	<u>\$ 905,450</u>	<u>\$ 172,563</u>	<u>\$ 1,812,909</u>

Big Stone City
Statements of Cash Flows – Modified Cash Basis – Proprietary Funds
Years Ended December 31, 2015 and 2014

	2015				Totals
	Enterprise Funds			Totals	
	Liquor Fund	Water Fund	Electric Fund		
Cash Flows from Operating Activities					
Receipt from customers	\$ 563,179	\$ 301,089	\$ 1,156,074	\$ 104,518	\$ 2,124,860
Payments to suppliers	(373,950)	(182,983)	(808,508)	(15,369)	(1,380,810)
Payments to employees	(108,846)	(24,886)	(74,234)	(21,770)	(229,736)
Net Cash from Operating Activities	<u>80,383</u>	<u>93,220</u>	<u>273,332</u>	<u>67,379</u>	<u>514,314</u>
Cash Flows used for Capital and Related Financing Activities					
Payments on long-term debt	-	(43,529)	-	(15,246)	(58,775)
Purchase of capital assets	-	(7,531)	(61,483)	(7,810)	(76,824)
Interest paid	-	(12,291)	-	(34,050)	(46,341)
Net Cash used for Capital and Related Financing Activities	<u>-</u>	<u>(63,351)</u>	<u>(61,483)</u>	<u>(57,106)</u>	<u>(181,940)</u>
Cash Flows from Investing Activities					
Interest earnings	253	1,277	2,380	1,104	5,014
Net Cash from Investing Activities	<u>253</u>	<u>1,277</u>	<u>2,380</u>	<u>1,104</u>	<u>5,014</u>
Net Change in Cash and Cash Equivalents	80,636	31,146	214,229	11,377	337,388
Cash and Cash Equivalents - Beginning	<u>429,488</u>	<u>305,408</u>	<u>905,450</u>	<u>172,563</u>	<u>1,812,909</u>
Cash and Cash Equivalents - Ending	<u>\$ 510,124</u>	<u>\$ 336,554</u>	<u>\$ 1,119,679</u>	<u>\$ 183,940</u>	<u>\$ 2,150,297</u>
Cash and Cash Equivalents Consist of:					
Cash and cash equivalents	\$ 510,124	\$ 336,554	\$ 1,119,679	\$ 133,940	\$ 2,100,297
Restricted deposits	-	-	-	50,000	50,000
	<u>\$ 510,124</u>	<u>\$ 336,554</u>	<u>\$ 1,119,679</u>	<u>\$ 183,940</u>	<u>\$ 2,150,297</u>
Reconciliation of Operating Income to Net Cash from Operating Activities					
Cash from Operating Activities					
Operating income	\$ 80,383	\$ 84,789	\$ 211,371	\$ 58,594	\$ 435,137
Adjustment of reconcile operating income to net cash from operating activities:					
Rental revenue	-	900	478	975	2,353
Purchase of capital assets	-	7,531	61,483	7,810	76,824
Net Cash from Operating Activities	<u>\$ 80,383</u>	<u>\$ 93,220</u>	<u>\$ 273,332</u>	<u>\$ 67,379</u>	<u>\$ 514,314</u>

Big Stone City
 Statements of Cash Flows – Modified Cash Basis – Proprietary Funds
 Years Ended December 31, 2015 and 2014

	2014				Totals
	Liquor Fund	Water Fund	Enterprise Funds		
			Electric Fund	Sewer Fund	
Cash Flows from Operating Activities					
Receipt from customers	\$ 563,455	\$ 343,367	\$ 1,138,086	\$ 107,344	\$ 2,152,252
Payments to suppliers	(346,283)	(211,992)	(745,639)	(16,846)	(1,320,760)
Payments to employees	(120,559)	(26,680)	(76,073)	(23,250)	(246,562)
Net Cash from Operating Activities	<u>96,613</u>	<u>104,695</u>	<u>316,374</u>	<u>67,248</u>	<u>584,930</u>
Net Cash used for Capital and Related Financing Activities					
Payments on long-term debt	-	(40,911)	-	(14,283)	(55,194)
Purchase of capital assets	(715)	(24,750)	(91,253)	(11,922)	(128,640)
Interest paid	-	(14,909)	-	(35,013)	(49,922)
Net Cash used for Capital and Related Financing Activities	<u>(715)</u>	<u>(80,570)</u>	<u>(91,253)</u>	<u>(61,218)</u>	<u>(233,756)</u>
Cash Flows from Investing Activities					
Interest earnings	411	737	3,464	1,317	5,929
Net Cash from Investing Activities	<u>411</u>	<u>737</u>	<u>3,464</u>	<u>1,317</u>	<u>5,929</u>
Net Change in Cash and Cash Equivalents	96,309	24,862	228,585	7,347	357,103
Cash and Cash Equivalents - Beginning	286,428	259,861	488,672	182,351	1,217,312
Cash and Cash Equivalents - Ending	<u>\$ 382,737</u>	<u>\$ 284,723</u>	<u>\$ 717,257</u>	<u>\$ 189,698</u>	<u>\$ 1,574,415</u>
Cash and Cash Equivalents Consist of:					
Cash and cash equivalents	\$ 429,488	\$ 305,408	\$ 905,450	\$ 122,563	\$ 1,762,909
Restricted deposits	-	-	-	50,000	50,000
	<u>\$ 429,488</u>	<u>\$ 305,408</u>	<u>\$ 905,450</u>	<u>\$ 172,563</u>	<u>\$ 1,812,909</u>
Reconciliation of Operating Income to Net Cash from Operating Activities					
Operating income	\$ 95,898	\$ 78,845	\$ 224,381	\$ 54,201	\$ 453,325
Adjustment of reconcile operating income to net cash from operating activities:					
Rental revenue	-	1,100	740	1,125	2,965
Purchase of capital assets	715	24,750	91,253	11,922	128,640
Net Cash from Operating Activities	<u>\$ 96,613</u>	<u>\$ 104,695</u>	<u>\$ 316,374</u>	<u>\$ 67,248</u>	<u>\$ 584,930</u>

Note 1 - Summary of Significant Accounting Policies

As discussed further in Note 1.C, the 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. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

A. Financial Reporting Entity

The reporting entity of Big Stone City (the City), 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 City's financial statements to be misleading or incomplete.

The reporting entity is comprised of the primary government, Big Stone City.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statements of activities display information about the City as a whole. They include all funds of the City except for fiduciary. 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 statements of activities present a comparison between direct expenses and program revenues for each segment of the business-type activities of Big Stone City and for each function of the City'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 City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City 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% 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% 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 City are described below:

Governmental Funds

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

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.

The enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

Liquor Fund – Financed primarily by sales, this fund accounts for the operation of the municipal liquor store. This is a major fund.

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.

Electric Fund – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal electrical system and related facilities. 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

In the government-wide statement of net position and statements 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 applied within the limitations of the modified cash basis of accounting.

Basis of Accounting

In the government-wide statement of net position and statements of activities and the fund financial statements, governmental and business-type 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. The only modification to the cash basis of accounting implemented by the City in these financial statements is the recording of long-term investments in certificates of deposit (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost and inter fund advances and borrowings arising from the use of a pooled cash account.

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 City 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 entirely 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. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. The City did not have interfund receivables and payables which required elimination as of December 31, 2015.
2. The City did not have internal service fund activity which required elimination as of December 31, 2015.

F. Capital Assets

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs.

G. 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.

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. Under the modified cash basis, 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.

H. Program Revenues

In the government-wide statements of activities, reported program revenues derive directly from the program itself or from parties other than the City'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.

I. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's statements of revenues, expenses and changes in fund net position, revenues and expenses are classified in a manner consistent with how they are classified in the statements of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

J. Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The Liquor, Water, Electric, and Sewer Funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents.

K. Equity Classifications

Government-Wide Statements

Equity is classified as net position and is comprised of two components, restricted net position and unrestricted net position. Because capital assets are not reported by the City under the modified cash basis of accounting, only the following components are displayed:

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

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.

L. Application of Net Position

The City uses restricted/committed amounts first when both restricted and unrestricted net position is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the government would first use committed, then assigned, and lastly unassigned amounts of unrestricted net position when expenditures are made.

M. Fund Balance Classification Policies and Procedures

The City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance - Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance - Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned Fund Balance - Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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

N. Rounding

Computer generated rounding variances exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

Note 2 - Deposits and Investments

The City 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 City'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% 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.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2015 and 2014, the City maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

The actual bank balances at December 31, 2015 are as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 409,470
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	1,847,758
	\$ 2,257,228

The City's carrying amount of deposits at December 31, 2015 is as follows:

Cash and cash equivalents	\$ 604,330
Investments	1,617,110
	\$ 2,221,440

Investments

In general, SDCL 4-5-6 permits City 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, bonds 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) and meeting the requirements of § 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 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).

As of December 31, 2015 and 2014, the City did not hold any investments as defined by Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures. The City also does not have a formal investment policy that addresses custodial credit risk, interest rate risk, or credit risk.

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

Under the modified cash basis of accounting, investments are stated at cost.

Note 3 - Property Taxes

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

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

Note 4 - Restricted Net Position

The following table shows the net position restricted for other purposes as shown on the statement of net position:

Purpose	Restricted By	Amount
Debt Service	Contractual	\$ 50,000

Note 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 provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

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

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

All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by State statute to contribute the following percentages of their salary to the plan; Class A members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Member, 8% 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% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions made to the SDRS for the years ended December 31, 2015, 2014 and 2013 were \$15,507, \$16,106, and \$16,352, respectively, equal to the required contributions each year.

Pension Liabilities (Assets)

At June 30, 2015 and 2014, SDRS are 104.1% and 107.3%, respectively, funded and accordingly have a net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the Big Stone City are as follows:

	2015	2014
Proportionate share of net position restricted for pension benefits	\$ 1,515,299	\$ 1,644,468
Less proportionate share of total pension liability	1,455,662	1,532,777
Proportionate share of net pension asset	\$ 59,637	\$ 111,691

The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the Municipality's proportion was .0141%, which is a decrease of .0014% from its proportion measured at June 30, 2014. The City's proportionate share net pension asset is not reported in the financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

The total pension asset in the June 30, 2015 and 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Investment rate of return	7.25% through 2017 and 7.50% thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best

estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.0%
	<u>100.0%</u>	

Discount Rate

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

Sensitivity of Asset to Changes in the Discount Rate

The following presents the City's proportionate share of net pension asset calculated using the discount rate of 7.25% through 2017 and 7.50% thereafter, as well as what the City's proportionate share of the net pension asset would be if it were calculated using a discount rate that is one percentage point lower (6.25/6.50%) or one percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension asset (liability)	\$ (150,106)	\$ 59,637	\$ 230,665

Pension Plan Fiduciary Net Position

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

Note 6 - Significant Contingencies-Litigation

At December 31, 2015 and At 2014, the City was not involved in any litigation that would be material to the financial statements.

Note 7 - Related Party Transactions

The City does business on a regular basis with a company owned by the City Mayor. Purchases from this company totaled \$2,305 and \$8,520 for the years ending December 31, 2015 and 2014, respectively.

Note 8 - Risk Management

The City 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 years ended December 31, 2015 and 2014, the City managed its risks as follows:

Employee Health Insurance

The City purchases health insurance for its employees from a commercial insurance carrier.

Liability Insurance

The City has liability insurance through Continental Western Group. The City pays an annual premium to Continental Western Group which provides coverage for general liability, official's liability, automobile liability, law enforcement liability and liquor liability. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Worker's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$600,000 of any claim per individual. The pool has reinsurance which covers statutory limits per individual per incident; therefore, the City does not have to carry any additional insurance.

Unemployment Benefits

The City 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
December 31, 2015 and 2014
Big Stone City

Big Stone City
 Schedule of Net Pension Liability (Asset) and Schedule of Pension Contributions
 Year Ended December 31, 2015

Pension Plan	Fiscal Year Ending	City's Proportion of the Net Pension Asset	City's Proportionate Share of the Net Pension Asset (a)	City's Covered-Employee Payroll (b)	City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
SDRS	6/30/2014	0.0155%	\$ (111,691)	\$ 256,362	-43.6%	107.3%
SDRS	6/30/2015	<u>0.0141%</u>	<u>(59,637)</u>	<u>268,531</u>	<u>-22.2%</u>	<u>104.1%</u>

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
SDRS	12/31/2014	\$ 16,106	\$ 16,106	\$ -	\$ 268,433	6.0%
SDRS	12/31/2015	<u>15,507</u>	<u>15,507</u>	<u>-</u>	<u>258,450</u>	<u>6.0%</u>

Big Stone City
Schedules of Changes in Long-Term Debt
Years Ended December 31, 2015 and 2014

Indebtedness	Long-Term Debt 1/1/15	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/15
Enterprise Long-Term Debt				
231.01 Revenue bonds (water)	\$ 288,984	\$ -	\$ 43,529	\$ 245,455
231.02 Revenue bonds (wastewater)	628,594	-	15,246	613,348
	<u>\$ 917,578</u>	<u>\$ -</u>	<u>\$ 58,775</u>	<u>\$ 858,803</u>

Indebtedness	Long-Term Debt 1/1/14	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/14
Enterprise Long-Term Debt				
231.01 Revenue bonds (water)	\$ 329,895	\$ -	\$ 40,911	\$ 288,984
231.02 Revenue bonds (wastewater)	642,877	-	14,283	628,594
	<u>\$ 972,772</u>	<u>\$ -</u>	<u>\$ 55,194</u>	<u>\$ 917,578</u>

Big Stone City
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 102,932	\$ 102,932	\$ 100,048	\$ (2,884)
313 General sales and use taxes	286,069	286,069	320,418	34,349
315 Amusement taxes	125	125	84	(41)
319 Penalties and interest on delinquent taxes	250	250	163	(87)
Total taxes	<u>389,376</u>	<u>389,376</u>	<u>420,713</u>	<u>31,337</u>
320 Licenses and permits	<u>4,005</u>	<u>4,005</u>	<u>5,537</u>	<u>1,532</u>
330 Intergovernmental revenue				
331 Federal grants	-	-	-	-
334 State grants	-	-	2,239	2,239
335 State shared revenue:				
335.01 Bank franchise tax	1,000	1,000	739	(261)
335.02 Motor vehicle commercial prorata	5,000	5,000	1,980	(3,020)
335.03 Liquor tax reversion	3,200	3,200	2,904	(296)
335.04 Motor vehicle licenses (5%)	1,500	1,500	9,156	7,656
335.08 Local government highway and bridge fund	25,000	25,000	34,948	9,948
338 County shared revenue				
338.01 County road tax (25%)	<u>250</u>	<u>250</u>	<u>520</u>	<u>270</u>
Total intergovernmental revenue	<u>35,950</u>	<u>35,950</u>	<u>52,486</u>	<u>16,536</u>
340 Charges for goods and services				
341 General government	100	100	328	228
342 Public safety	10	10	9	(1)
343 Highways and streets	500	500	475	(25)
344 Sanitation	42,800	42,800	43,750	950
346 Culture and recreation	<u>1,550</u>	<u>1,550</u>	<u>1,356</u>	<u>(194)</u>
Total charges for goods and services	<u>44,960</u>	<u>44,960</u>	<u>45,918</u>	<u>958</u>
350 Fines and forfeits				
351 Court fines and costs	<u>250</u>	<u>250</u>	<u>242</u>	<u>(8)</u>
Total fines and forfeits	<u>250</u>	<u>250</u>	<u>242</u>	<u>(8)</u>
360 Miscellaneous revenue				
361 Investment earnings	100	100	154	54
362 Rentals	25	25	25	-
367 Contributions and donations from private sources	375	375	54,593	54,218
369 Other	<u>8,700</u>	<u>8,700</u>	<u>9,292</u>	<u>592</u>
Total miscellaneous revenue	<u>9,200</u>	<u>9,200</u>	<u>64,064</u>	<u>54,864</u>
Total revenues	<u>483,741</u>	<u>483,741</u>	<u>588,960</u>	<u>105,219</u>

Big Stone City
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	17,710	17,710	15,592	2,118
411.5 Contingency amount transferred	20,000	20,000		
Amount transferred	-	-	-	20,000
412 Executive	2,685	3,685	2,395	1,290
413 Elections	775	775	56	719
414 Financial administration	69,475	72,475	71,294	1,181
419 Other	16,210	18,710	16,653	2,057
Total general government	<u>126,855</u>	<u>133,355</u>	<u>105,990</u>	<u>27,365</u>
420 Public safety				
421 Police	122,265	122,265	107,313	14,952
422 Fire	31,650	31,650	26,603	5,047
Total public safety	<u>153,915</u>	<u>153,915</u>	<u>133,916</u>	<u>19,999</u>
430 Public works				
431 Highways and streets	234,394	252,394	265,768	(13,374)
432 Sanitation	46,185	46,185	46,342	(157)
Total public works	<u>280,579</u>	<u>298,579</u>	<u>312,110</u>	<u>(13,531)</u>
440 Health and welfare				
441 Health	5,890	13,890	14,368	(478)
446 Ambulance	500	500	500	-
Total health and welfare	<u>6,390</u>	<u>14,390</u>	<u>14,868</u>	<u>(478)</u>
450 Culture and recreation				
451 Recreation	53,597	76,117	60,219	15,898
452 Parks	20,300	34,800	67,848	(33,048)
Total culture and recreation	<u>73,897</u>	<u>110,917</u>	<u>128,067</u>	<u>(17,150)</u>
460 Conservation and development:				
465 Economic development and assistance (industrial development)	12,005	12,005	5,563	6,442
Total conservation and development	<u>12,005</u>	<u>12,005</u>	<u>5,563</u>	<u>6,442</u>
Total expenditures	<u>653,641</u>	<u>723,161</u>	<u>700,514</u>	<u>22,647</u>
Other Financing Sources				
391.01 Transfers in	200,000	200,000	-	(200,000)
Total other financing sources	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>(200,000)</u>
Excess of Revenue over (under) Expenditures	30,100	(39,420)	(111,554)	(72,134)
Fund Balance - Beginning	182,697	182,697	182,697	-
Fund Balance - Ending	<u>\$ 212,797</u>	<u>\$ 143,277</u>	<u>\$ 71,143</u>	<u>\$ (72,134)</u>

Big Stone City
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 100,534	\$ 100,534	\$ 100,203	\$ (331)
313 General sales and use taxes	232,000	232,000	355,684	123,684
315 Amusement taxes	150	150	132	(18)
319 Penalties and interest on delinquent taxes	250	250	312	62
Total taxes	<u>332,934</u>	<u>332,934</u>	<u>456,331</u>	<u>123,397</u>
320 Licenses and permits	<u>3,705</u>	<u>3,705</u>	<u>4,530</u>	<u>825</u>
330 Intergovernmental revenue				
331 Federal grants	-	-	-	-
334 State grants	-	-	2,871	2,871
335 State shared revenue				
335.01 Bank franchise tax	750	750	788	38
335.02 Motor vehicle commercial prorata	1,500	1,500	1,966	466
335.03 Liquor tax reversion	3,200	3,200	2,936	(264)
335.04 Motor vehicle licenses (5%)	4,400	4,400	8,565	4,165
335.08 Local government highway and bridge fund	19,500	19,500	34,407	14,907
338 County shared revenue				
338.01 County road tax (25%)	520	520	520	-
Total intergovernmental revenue	<u>29,870</u>	<u>29,870</u>	<u>52,053</u>	<u>22,183</u>
340 Charges for goods and services				
341 General government	150	150	25	(125)
342 Public safety	10	10	-	(10)
343 Highways and streets	500	500	248	(252)
344 Sanitation	42,750	42,750	42,727	(23)
345 Health	-	-	-	-
346 Culture and recreation	800	800	745	(55)
Total charges for goods and services	<u>44,210</u>	<u>44,210</u>	<u>43,745</u>	<u>(465)</u>
350 Fines and forfeits				
351 Court fines and costs	250	250	300	50
Total fines and forfeits	<u>250</u>	<u>250</u>	<u>300</u>	<u>50</u>
360 Miscellaneous revenue				
361 Investment earnings	125	125	180	55
362 Rentals	-	-	50	50
367 Contributions and donations from private sources	650	650	10,260	9,610
369 Other	8,100	8,100	10,295	2,195
Total miscellaneous revenue	<u>8,875</u>	<u>8,875</u>	<u>20,785</u>	<u>11,910</u>
Total revenues	<u>419,844</u>	<u>419,844</u>	<u>577,744</u>	<u>157,900</u>

Big Stone City
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	17,735	17,735	16,468	1,267
411.5 Contingency	20,000	20,000		
Amount transferred	-	-	-	20,000
412 Executive	2,685	2,685	2,432	253
413 Elections	775	775	17	758
414 Financial administration	63,645	63,645	65,177	(1,532)
419 Other	20,100	20,100	54,312	(34,212)
Total general government	<u>124,940</u>	<u>124,940</u>	<u>138,406</u>	<u>(13,466)</u>
420 Public safety				
421 Police	113,827	113,827	105,752	8,075
422 Fire	31,650	31,650	19,466	12,184
Total public safety	<u>145,477</u>	<u>145,477</u>	<u>125,218</u>	<u>20,259</u>
430 Public works				
431 Highways and streets	202,193	244,193	225,048	19,145
432 Sanitation	38,100	38,100	44,389	(6,289)
Total public works	<u>240,293</u>	<u>282,293</u>	<u>269,437</u>	<u>12,856</u>
440 Health and welfare				
441 Health	5,187	5,187	6,068	(881)
446 Ambulance	500	500	500	-
Total health and welfare	<u>5,687</u>	<u>5,687</u>	<u>6,568</u>	<u>(881)</u>
450 Culture and recreation				
451 Recreation	53,990	53,990	17,242	36,748
452 Parks	21,205	21,205	24,704	(3,499)
Total culture and recreation	<u>75,195</u>	<u>75,195</u>	<u>41,946</u>	<u>33,249</u>
460 Conservation and development:				
465 Economic development and assistance (industrial development)	2,480	17,480	15,965	1,515
Total conservation and development	<u>2,480</u>	<u>17,480</u>	<u>15,965</u>	<u>1,515</u>
Total expenditures	<u>594,072</u>	<u>651,072</u>	<u>597,540</u>	<u>53,532</u>
Other Financing Sources				
391.01 Transfers in	175,000	175,000	-	(175,000)
Total other financing sources	<u>175,000</u>	<u>175,000</u>	<u>-</u>	<u>(175,000)</u>
Excess of Revenue over (under) Expenditures	772	(56,228)	(19,796)	36,432
Fund Balance - Beginning	202,493	202,493	202,493	-
Fund Balance - Ending	<u>\$ 203,265</u>	<u>\$ 146,265</u>	<u>\$ 182,697</u>	<u>\$ 36,432</u>

Note 1 - Budgets and Budgetary Accounting

The City follows 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 City Council introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City Council, 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% of the total municipal budget and may be transferred by resolution of the City Council to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, State statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the City Council.

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, special revenue funds and capital projects funds.

The City did not encumber any amounts at December 31, 2015 and 2014.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with a modified cash basis of accounting.

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

The financial statements prepared on the modified 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 statements of revenues, expenditures and changes in fund balances; however, in the budgetary comparison schedules, 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.

Note 3 - Pension Schedules

There are no factors that affect trends in the amounts reported, such as change of benefit terms and assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the SDRS audited financial statements.

Findings Related to the Financial Statements

2013-0001 – A lack of proper segregation of duties is the present situation in the city’s accounting department

Status: This prior year finding has been restated as 2014-B and 2015-B

2013-002 – Controls over cash receipts of the City owned bar and liquor store operations are inadequate

Status: This prior year finding has been restated as 2014-C and 2015-C

2013-003 – Tips received by the City employees working in the on-sale bar are not included in the “W-2” wages nor are the applicable payroll taxes paid on these tips

Status: This prior year finding has been restated as 2014-D and 2015-D

2012-004 – The minutes of council meetings do not included the naming of official depositories nor the official newspaper of the City.

Status: This prior year finding has been restated as 2015-E

2013-005 – Cash receipt records include various non-receipt entries

Status: This prior year finding has been resolved.



CPAs & BUSINESS ADVISORS

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*

The City Council
Big Stone City
Big Stone City, 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 financial statements of the governmental activities, the business-type activities, and each major fund, of the Big Stone City as of and for the year ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 1, 2016. The financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 findings as 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*.

City of Big Stone City's Response to Finding

The Big Stone City's response to the findings identified in our audit is described in the accompanying schedule of findings. The City'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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
August 1, 2016

2014-A and 2015-A Preparation of Financial Statements, Footnotes, and Material Journal Entries

Condition: Big Stone City requested the external auditors to prepare the financial statements and related notes for the two years ended December 31, 2015 and 2014.

Criteria: The City's internal control structure should be designed to provide for the preparation of the financial statements and footnotes in accordance with generally accepted accounting principles.

Cause: The City does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to at times propose material journal entries.

Effect: This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.

2014-B and 2015-B Lack of Segregation of Duties

Condition: Big Stone City has a limited number of office personnel, and accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The City has an insufficient number of staff to adequately separate duties.

Effect: This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

Recommendation: Although it is recognized that number of office staff may not be large enough to permit adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the City Council exercise adequate oversight of the accounting function. In so doing, they should review financial data monthly. Reports of monthly financial statements, budget-to-actual reports, monthly cash balances, monthly gross profit margins at the liquor store, and monthly bank statements or cancelled checks.

Views of Responsible Officials: Management agrees with the finding.

2014-C and 2015-C Controls over inventory of the City owned bar and liquor store are inadequate

Condition: Big Stone City does not keep a record of inventory on hand at the liquor store.

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion and the performance of period reconciliations of physical assets to reported amounts.

Cause: The City has not completed an inventory since the start date of the new bar manager.

Effect: This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

Recommendation: Inventory of the liquor store should be completed at least annually. The City should consider using the Point Of Sale system to track inventory amounts.

Views of Responsible Officials: Management agrees with the finding.

2014-D and 2015-D Tips received by the City employees working in the on-sale bar are not included in the “W-2” wages nor are the applicable payroll taxes paid on these tips

Condition: Big Stone City is not following IRS regulations regarding tip reporting. Tips received from credit cards are tracked on the POS system and should be included on individual W-2’s

Criteria: The IRS has regulations regarding proper reporting of tips received to employees.

Cause: The cash tips are not being reported or allocated by the finance officer.

Effect: IRS regulations are not being properly followed, resulting in errors on annual W-2s and underreporting of payroll taxes.

Recommendation: The City should follow the IRS’s regulations regarding the reporting of tips.

Views of Responsible Officials: Management agrees with the finding.

2014 and 2015-E The City failed to comply with various State Statutes.

Condition: Big Stone City is not following South Dakota Codified Laws in 2014 and 2015.

Criteria: South Dakota Codified Law 6-1-2 requires a list of officers and employee’s salaries to be published within 30 days of the first meeting of the year, 9-12-6 requires the City to designate an official newspaper, 9-18-1 requires a list of all expenditures to be published within 30 days after the council meeting, 9-21-2 and 91-21-9 requires expenditures be limited to appropriated amounts, 9-22-6 requires the City to designate official depositories, 9-22-21 has requirements for the approval and publication of the annual financial report, 43-41B-18 requires a report of abandoned property.

Cause: The finance officer does not adequately track compliance to South Dakota Codified Law requirements.

Effect: Compliance to all South Dakota Codified Laws is not being followed.

Recommendation: The City should develop a list of reporting requirements from South Dakota Codified Law requirements to ensure annual compliance of the laws.

Views of Responsible Officials: Management agrees with the finding.

RECEIVED

AUG 08 2016

LEGISLATIVE AUDIT