



Financial Statements
December 31, 2015 and 2014
Town of Buffalo

Town of Buffalo
Municipal Officials (unaudited)
December 31, 2015 and 2014

Finance OfficerDiane Haivala

Governing BoardGary Johnson
Kirby Baier
Brandon Hunsucker
Rod Bickerdyke
Shaine Odell

Independent Auditor’s Report	1
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
Statement of Net Position–Modified Cash Basis–Proprietary Funds.....	11
Statement of Net Position–Modified Cash Basis–Proprietary Funds.....	12
Statements of Revenues, Expenses and Changes in Fund Net Position–Modified Cash Basis–Proprietary Funds	13
Statements of Cash Flows–Modified Cash Basis–Proprietary Funds	15
Notes to Financial Statements	19
Supplementary Information	
Schedule of Net Pension Liability (Asset) and Schedule of Pension Contributions	33
Budgetary Comparison Schedules–General Fund	34
Notes to Supplementary Information	38
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39
Schedule of Findings	41



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Independent Auditor's Report

The Town Council
Town of Buffalo
Buffalo, SD

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 the Town of Buffalo as of December 31, 2015 and 2014, and for the years then ended and the related notes to the financial statements, which collectively comprise the Town's basic financial statements 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 of accounting 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 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 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 respective financial position - modified cash basis - of the governmental activities, the business-type activities, and each major fund of the Town of Buffalo as of December 31, 2015 and 2014, and the respective changes in financial position - modified cash basis and, where applicable, cash flows - modified cash basis thereof for the years 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 statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our 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 comprise the Town's financial statements. The listing of municipal officers, schedule of net pension liability (asset) and schedule of contributions, and budgetary comparisons are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of net pension liability (asset) and schedule of contributions, and budgetary comparisons 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 June 23, 2016 on our consideration of the Town of Buffalo'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 *Government Auditing Standards* in considering Town of Buffalo's internal control over financial reporting and compliance.

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

Aberdeen, South Dakota
June 23, 2016

Town of Buffalo
Statement of Net Position—Modified Cash Basis
December 31, 2015 and 2014

	2015		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 898,541	\$ 183,684	\$ 1,082,225
	<u>\$ 898,541</u>	<u>\$ 183,684</u>	<u>\$ 1,082,225</u>
Net Position			
Unrestricted	\$ 898,541	\$ 183,684	\$ 1,082,225
	<u>\$ 898,541</u>	<u>\$ 183,684</u>	<u>\$ 1,082,225</u>
	2014		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 819,971	\$ 195,737	\$ 1,015,708
	<u>\$ 819,971</u>	<u>\$ 195,737</u>	<u>\$ 1,015,708</u>
Net Position			
Unrestricted	\$ 819,971	\$ 195,737	\$ 1,015,708
	<u>\$ 819,971</u>	<u>\$ 195,737</u>	<u>\$ 1,015,708</u>

Town of Buffalo
Statements of Activities—Modified Cash Basis
Years Ended December 31, 2015 and 2014

Functions/Programs	2015						
	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	\$ 84,281	\$ 4,985	\$ -	\$ -	\$ (79,296)	\$ -	\$ (79,296)
Public safety	48,530	-	-	-	(48,530)	-	(48,530)
Public works	171,732	-	27,381	-	(144,351)	-	(144,351)
Health and welfare	6,593	-	-	-	(6,593)	-	(6,593)
Culture and recreation	21,123	35	-	-	(21,088)	-	(21,088)
Conservation and development	800	-	-	-	(800)	-	(800)
Miscellaneous	587	7,653	-	-	7,066	-	7,066
Total governmental activities	<u>333,646</u>	<u>12,673</u>	<u>27,381</u>	<u>-</u>	<u>(293,592)</u>	<u>-</u>	<u>(293,592)</u>
Business-type activities:							
Water	79,680	68,164	-	-	-	(11,516)	(11,516)
Sewer	49,846	39,055	-	-	-	(10,791)	(10,791)
Liquor	199,025	218,204	-	-	-	19,179	19,179
Solid waste	56,865	52,940	-	-	-	(3,925)	(3,925)
Total business-type activities	<u>385,416</u>	<u>378,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,053)</u>	<u>(7,053)</u>
	<u>\$ 719,062</u>	<u>\$ 391,036</u>	<u>\$ 27,381</u>	<u>\$ -</u>	<u>(293,592)</u>	<u>(7,053)</u>	<u>(300,645)</u>
General Revenues							
Taxes:							
Property taxes					107,958	-	107,958
Sales and use taxes					225,247	-	225,247
State shared revenues					17,997	-	17,997
Unrestricted investment earnings					4,196	-	4,196
Miscellaneous revenue					11,764	-	11,764
Transfers					5,000	(5,000)	-
Total general revenues and transfers					<u>372,162</u>	<u>(5,000)</u>	<u>367,162</u>
Change in Net Position					78,570	(12,053)	66,517
Net Position - Beginning					819,971	195,737	1,015,708
Net Position - Ending					<u>\$ 898,541</u>	<u>\$ 183,684</u>	<u>\$ 1,082,225</u>

Town of Buffalo
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	\$ 72,225	\$ 2,960	\$ -	\$ -	\$ (69,265)	\$ -	\$ (69,265)
Public safety	69,318	-	-	-	(69,318)	-	(69,318)
Public works	73,454	-	36,536	-	(36,918)	-	(36,918)
Health and welfare	3,163	-	-	-	(3,163)	-	(3,163)
Culture and recreation	24,568	-	-	-	(24,568)	-	(24,568)
Conservation and development	851	-	-	-	(851)	-	(851)
Miscellaneous	549	2,039	-	-	1,490	-	1,490
Total governmental activities	<u>244,128</u>	<u>4,999</u>	<u>36,536</u>	<u>-</u>	<u>(202,593)</u>	<u>-</u>	<u>(202,593)</u>
Business-type activities:							
Water	58,376	60,071	-	-	-	1,695	1,695
Sewer	24,991	37,145	-	-	-	12,154	12,154
Liquor	195,883	202,753	-	-	-	6,870	6,870
Solid waste	60,112	53,214	-	-	-	(6,898)	(6,898)
Total business-type activities	<u>339,362</u>	<u>353,183</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,821</u>	<u>13,821</u>
	<u>\$ 583,490</u>	<u>\$ 358,182</u>	<u>\$ 36,536</u>	<u>\$ -</u>	<u>(202,593)</u>	<u>13,821</u>	<u>(188,772)</u>
General Revenues							
Taxes:							
Property taxes					104,890	-	104,890
Sales and use taxes					193,615	-	193,615
State shared revenues					3,538	-	3,538
Unrestricted investment earnings					3,617	-	3,617
Miscellaneous revenue					70,055	-	70,055
Transfers					6,000	(6,000)	-
Total general revenues and transfers					<u>381,715</u>	<u>(6,000)</u>	<u>375,715</u>
Change in Net Position					179,122	7,821	186,943
Net Position - Beginning					640,849	187,916	828,765
Net Position - Ending					<u>\$ 819,971</u>	<u>\$ 195,737</u>	<u>\$ 1,015,708</u>

See Notes to Financial Statements

Town of Buffalo
 Balance Sheet—Modified Cash Basis—Governmental Funds
 December 31, 2015 and 2014

	<u>2015 General Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 898,541</u>
	<u><u>\$ 898,541</u></u>
Fund Balances	
267 Unassigned	<u>898,541</u>
	<u><u>\$ 898,541</u></u>
	<u>2014 General Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 819,971</u>
	<u><u>\$ 819,971</u></u>
Fund Balances	
265 Committed for bridge and street repairs	50,000
267 Unassigned	<u>769,971</u>
	<u><u>\$ 819,971</u></u>

Town of Buffalo

Statements of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis-Governmental Funds
 Years Ended December 31, 2015 and 2014

	<u>2015</u> <u>General Fund</u>	<u>2014</u> <u>General Fund</u>
Revenues		
310 Taxes		
311 General property taxes	\$ 107,849	\$ 104,594
313 General sales and use taxes	225,247	193,615
319 Penalties and interest on delinquent taxes	109	296
	<u>333,205</u>	<u>298,505</u>
Total taxes		
320 Licenses and permits	<u>7,653</u>	<u>1,979</u>
330 Intergovernmental revenue		
335 State shared revenue:		
335.01 Bank franchise tax	949	909
335.02 Motor vehicle commercial prorate	4,345	4,333
335.03 Liquor tax reversion	2,052	2,629
335.04 Motor vehicle licenses (5%)	13,476	12,832
335.08 Local government highway and bridge fund	5,098	5,020
335.20 Other	14,996	-
338 County shared revenue		
338.01 County road tax (25%)	594	1,188
338.02 County highway and bridge reserve tax (25%)	3,868	13,163
339 Other intergovernmental revenue	-	53,268
	<u>45,378</u>	<u>93,342</u>
Total intergovernmental revenue		
340 Charges for goods and services		
341 General government	<u>4,985</u>	<u>2,960</u>
350 Fines and forfeits		
354 Library	<u>35</u>	<u>60</u>
360 Miscellaneous revenue		
361 Investment earnings	4,196	3,617
362 Rentals	52	89
369 Other	11,712	16,698
	<u>15,960</u>	<u>20,404</u>
Total miscellaneous revenue		
Total revenues	<u>407,216</u>	<u>417,250</u>

Town of Buffalo

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

	<u>2015</u> <u>General Fund</u>	<u>2014</u> <u>General Fund</u>
Expenditures		
410 General government		
411 Legislative	12,786	10,603
413 Elections	47	25
414 Financial administration	52,915	41,736
419 Other	<u>18,533</u>	<u>19,861</u>
Total general government	<u>84,281</u>	<u>72,225</u>
420 Public safety		
421 Police	42,171	62,566
422 Fire	<u>6,359</u>	<u>6,752</u>
Total public safety	<u>48,530</u>	<u>69,318</u>
430 Public works		
431 Highways and streets	<u>171,732</u>	<u>53,654</u>
440 Health and welfare		
441 Health	<u>6,593</u>	<u>3,163</u>
450 Culture and recreation		
451 Recreation	2,112	2,191
452 Parks	9,875	10,828
458 Museums	<u>9,136</u>	<u>11,549</u>
Total culture and recreation	<u>21,123</u>	<u>24,568</u>
460 Conservation and development		
465 Economic development and assistance (industrial development)	<u>800</u>	<u>851</u>
Total conservation and development	<u>800</u>	<u>851</u>
485 Capital outlay	<u>-</u>	<u>19,800</u>
490 Miscellaneous		
492 Other expenditures	<u>587</u>	<u>549</u>
Total expenditures	<u>333,646</u>	<u>244,128</u>

Town of Buffalo

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

	2015 <u>General Fund</u>	2014 <u>General Fund</u>
Other Financing Sources (Uses)		
391.01 Transfers in	10,000	6,000
511 Transfers out	<u>(5,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>5,000</u>	<u>6,000</u>
Net Change in Fund Balance	78,570	179,122
Fund Balance - Beginning	<u>819,971</u>	<u>640,849</u>
Fund Balance - Ending	<u>\$ 898,541</u>	<u>\$ 819,971</u>

Town of Buffalo
Statement of Net Position—Modified Cash Basis—Proprietary Funds
December 31, 2015 and 2014

	2015				
	Water Fund	Sewer Fund	Liquor Fund	Solid Waste Fund	Totals
Assets					
Current Assets					
Cash and cash equivalents	\$ 68,554	\$ 56,059	\$ 48,647	\$ 10,424	\$ 183,684
	<u>\$ 68,554</u>	<u>\$ 56,059</u>	<u>\$ 48,647</u>	<u>\$ 10,424</u>	<u>\$ 183,684</u>
Net Position					
253.90 Unrestricted net position	\$ 68,554	\$ 56,059	\$ 48,647	\$ 10,424	\$ 183,684
	<u>\$ 68,554</u>	<u>\$ 56,059</u>	<u>\$ 48,647</u>	<u>\$ 10,424</u>	<u>\$ 183,684</u>

Town of Buffalo
Statement of Net Position—Modified Cash Basis—Proprietary Funds
December 31, 2015 and 2014

	2014				Totals
	Water Fund	Sewer Fund	Liquor Fund	Solid Waste Fund	
Assets					
Current Assets					
Cash and cash equivalents	\$ 80,070	\$ 66,850	\$ 39,468	\$ 9,349	\$ 195,737
	<u>\$ 80,070</u>	<u>\$ 66,850</u>	<u>\$ 39,468</u>	<u>\$ 9,349</u>	<u>\$ 195,737</u>
Net Position					
253.90 Unrestricted net position	\$ 80,070	\$ 66,850	\$ 39,468	\$ 9,349	\$ 195,737
	<u>\$ 80,070</u>	<u>\$ 66,850</u>	<u>\$ 39,468</u>	<u>\$ 9,349</u>	<u>\$ 195,737</u>

Town of Buffalo

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				
	Water Fund	Sewer Fund	Liquor Fund	Solid Waste Fund	Totals
Operating Revenue					
380 Charges for goods and services	\$ 68,164	\$ 39,055	\$ 196,733	\$ 52,940	\$ 356,892
380.5 Lottery sales	-	-	21,471	-	21,471
Total operating revenue	<u>68,164</u>	<u>39,055</u>	<u>218,204</u>	<u>52,940</u>	<u>378,363</u>
Operating Expenses					
410 Personal services	16,325	19,298	64,007	9,869	109,499
420 Other current expense	52,539	30,184	34,602	40,738	158,063
426.2 Materials	10,816	364	100,416	6,258	117,854
Total operating expenses	<u>79,680</u>	<u>49,846</u>	<u>199,025</u>	<u>56,865</u>	<u>385,416</u>
Operating Income (Loss)	<u>(11,516)</u>	<u>(10,791)</u>	<u>19,179</u>	<u>(3,925)</u>	<u>(7,053)</u>
Income (Loss) Before Transfers	(11,516)	(10,791)	19,179	(3,925)	(7,053)
391.1 Transfer in	-	-	-	5,000	5,000
511 Transfers out	-	-	(10,000)	-	(10,000)
Change in Net Position	(11,516)	(10,791)	9,179	1,075	(12,053)
Net Position - Beginning	<u>80,070</u>	<u>66,850</u>	<u>39,468</u>	<u>9,349</u>	<u>195,737</u>
Net Position - Ending	<u>\$ 68,554</u>	<u>\$ 56,059</u>	<u>\$ 48,647</u>	<u>\$ 10,424</u>	<u>\$ 183,684</u>

Town of Buffalo

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

	2014				
	Enterprise Funds				
	Water Fund	Sewer Fund	Liquor Fund	Solid Waste Fund	Totals
Operating Revenue					
380 Charges for goods and services	\$ 59,611	\$ 37,145	\$ 181,996	\$ 53,214	\$ 331,966
380.5 Lottery sales	-	-	20,757	-	20,757
369 Miscellaneous	460	-	-	-	460
Total operating revenue	<u>60,071</u>	<u>37,145</u>	<u>202,753</u>	<u>53,214</u>	<u>353,183</u>
Operating Expenses					
410 Personal services	16,459	18,940	47,232	9,231	91,862
420 Other current expense	27,601	5,141	37,320	48,925	118,987
426.2 Materials	14,316	910	111,331	1,956	128,513
430 Capital assets	-	-	-	-	-
Total operating expenses	<u>58,376</u>	<u>24,991</u>	<u>195,883</u>	<u>60,112</u>	<u>339,362</u>
Operating Income (Loss)	<u>1,695</u>	<u>12,154</u>	<u>6,870</u>	<u>(6,898)</u>	<u>13,821</u>
Income (Loss) Before Transfers	1,695	12,154	6,870	(6,898)	13,821
511 Transfers out	-	-	(6,000)	-	(6,000)
Change in Net Position	1,695	12,154	870	(6,898)	7,821
Net Position - Beginning	<u>78,375</u>	<u>54,696</u>	<u>38,598</u>	<u>16,247</u>	<u>187,916</u>
Net Position - Ending	<u>\$ 80,070</u>	<u>\$ 66,850</u>	<u>\$ 39,468</u>	<u>\$ 9,349</u>	<u>\$ 195,737</u>

Town of Buffalo
 Statements of Cash Flows—Modified Cash Basis—Proprietary Funds
 Years Ended December 31, 2015 and 2014

	2015				
	Enterprise Funds				
	Water Fund	Sewer Fund	Liquor Fund	Solid Waste Fund	Totals
Cash Flows from Operating Activities					
Receipt from customers	\$ 68,164	\$ 39,055	\$ 218,204	\$ 52,940	\$ 378,363
Payments to suppliers	(63,355)	(30,548)	(135,018)	(46,996)	(275,917)
Payments to employees	(16,325)	(19,298)	(64,007)	(9,869)	(109,499)
Net Cash from (used for) Operating Activities	(11,516)	(10,791)	19,179	(3,925)	(7,053)
Cash Flows from (used for) Capital and Related Financing Activities					
Transfers in from other funds	-	-	-	5,000	5,000
Transfers out to other funds	-	-	(10,000)	-	(10,000)
Net Cash from (used for) Capital and Related Financing Activities	-	-	(10,000)	5,000	(5,000)
Net Change in Cash and Cash Equivalents	(11,516)	(10,791)	9,179	1,075	(12,053)
Cash and Cash Equivalents - Beginning	80,070	66,850	39,468	9,349	195,737
Cash and Cash Equivalents - Ending	<u>\$ 68,554</u>	<u>\$ 56,059</u>	<u>\$ 48,647</u>	<u>\$ 10,424</u>	<u>\$ 183,684</u>

Town of Buffalo
 Statements of Cash Flows—Modified Cash Basis—Proprietary Funds
 Years Ended December 31, 2015 and 2014

	2015				
	Enterprise Funds				
	Water Fund	Sewer Fund	Liquor Fund	Solid Waste Fund	Totals
Cash and Cash Equivalents Consist of:					
Cash and cash equivalents	\$ 68,554	\$ 56,059	\$ 48,647	\$ 10,424	\$ 183,684
Reconciliation of Operating Income (Loss) to					
Net Cash from Operating Activities					
Operating income (loss)	<u>\$ (11,516)</u>	<u>\$ (10,791)</u>	<u>\$ 19,179</u>	<u>\$ (3,925)</u>	<u>\$ (7,053)</u>
Net Cash from (used for) Operating Activities	<u>\$ (11,516)</u>	<u>\$ (10,791)</u>	<u>\$ 19,179</u>	<u>\$ (3,925)</u>	<u>\$ (7,053)</u>

Town of Buffalo
 Statements of Cash Flows—Modified Cash Basis—Proprietary Funds
 Years Ended December 31, 2015 and 2014

	2014				
	Enterprise Funds				
	Water Fund	Sewer Fund	Liquor Fund	Solid Waste Fund	Totals
Cash Flows from (used for) Operating Activities					
Receipt from customers	\$ 60,071	\$ 37,145	\$ 202,753	\$ 53,214	\$ 353,183
Payments to suppliers	(41,917)	(6,051)	(148,651)	(50,881)	(247,500)
Payments to employees	(16,459)	(18,940)	(47,232)	(9,231)	(91,862)
Net Cash from (used for) Operating Activities	<u>1,695</u>	<u>12,154</u>	<u>6,870</u>	<u>(6,898)</u>	<u>13,821</u>
Cash Flows (used for) Capital and Related Financing Activity					
Transfers out to other funds	<u>-</u>	<u>-</u>	<u>(6,000)</u>	<u>-</u>	<u>(6,000)</u>
Net Change in Cash and Cash Equivalents	1,695	12,154	870	(6,898)	7,821
Cash and Cash Equivalents - Beginning	<u>78,375</u>	<u>54,696</u>	<u>38,598</u>	<u>16,247</u>	<u>187,916</u>
Cash and Cash Equivalents - Ending	<u>\$ 80,070</u>	<u>\$ 66,850</u>	<u>\$ 39,468</u>	<u>\$ 9,349</u>	<u>\$ 195,737</u>

Town of Buffalo
 Statements of Cash Flows—Modified Cash Basis—Proprietary Funds
 Years Ended December 31, 2015 and 2014

	2014				
	Enterprise Funds				
	Water Fund	Sewer Fund	Liquor Fund	Solid Waste Fund	Totals
Cash and Cash Equivalents Consist of:					
Cash and cash equivalents	\$ 80,070	\$ 66,850	\$ 39,468	\$ 9,349	\$ 195,737
Reconciliation of Operating Income (Loss) to					
Net Cash from (used for) Operating Activities					
Operating income (loss)	<u>\$ 1,695</u>	<u>\$ 12,154</u>	<u>\$ 6,870</u>	<u>\$ (6,898)</u>	<u>\$ 13,821</u>
Net Cash from (used for) Operating Activities	<u><u>\$ 1,695</u></u>	<u><u>\$ 12,154</u></u>	<u><u>\$ 6,870</u></u>	<u><u>\$ (6,898)</u></u>	<u><u>\$ 13,821</u></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.

A. Financial Reporting Entity

The reporting entity of the Town of Buffalo (the Town) 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 Town's financial statements to be misleading or incomplete.

The reporting entity is comprised of the primary government, Town of Buffalo.

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

Based upon the application of these criteria, the Town does not have any component units.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statements of activities display information about the Town as a whole. They include all funds of the Town 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 the Town and for each function of the Town'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 Town 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 Town 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 Town of Buffalo are described below:

Governmental Funds

General Fund – The General Fund is the general operating fund of the Town. 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 Town reports the following major enterprise funds:

- **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).
- **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).
- **Liquor Fund** – Financed primarily by consumer charges, this fund accounts for the construction and operation of the municipal bar and related equipment.
- **Solid Waste Fund** – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal rubble site facilities, and the municipal garbage compaction/bailing and disposal/hauling operations.

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 Town's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, and administrative expenses. 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.

The Town uses modified cash basis for financial reporting. Modified cash basis is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus

In the government-wide statement of net position and 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 Town 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 Town 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 deposits whose term to maturity date of acquisition exceeds three months and/or those types of investments authorized by the 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:

- The Town did not have any interfund receivables and payables that needed to be eliminated as of December 31, 2015 and 2014.
- The Town did not have internal service fund activity which required elimination as of December 31, 2015 and 2014.

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 Town'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 assets, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

J. Cash and Cash Equivalents

The Town pools the cash resources of its funds for cash management purposes. The water, sewer and liquor 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 assets and is comprised of two components, restricted net assets and unrestricted net assets. Because capital assets are not reported by the Town under the modified cash basis of accounting, only the following components are displayed:

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

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 Town 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 grant agreements 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.

M. Fund Balance Classification Policies and Procedures

The Town has 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 Town itself, using its highest level of decision-making authority (i.e., Town Council). To be reported as committed, amounts cannot be used for any other purpose unless the Town takes the same highest level action to remove or change the constraint.
- Assigned Fund Balance – Amounts the Town intends to use for a specific purpose. Intent can be expressed by the Town Council or by an official or body to which the Town Council delegates the authority.
- Unassigned Fund Balance – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. An assigned fund balance is established by Town 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 Town 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 - Violations of Finance Related Legal and Contractual Provisions

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

	12/31/2015	12/31/2014
General Fund		
Activity		
Public Works - Highways and Streets	\$ 61,630	\$ -
Culture and Recreation - Museum	\$ -	\$ 10,349

Note 3 - Deposits and Investments

The Town 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 Town'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 the 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 Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of December 31, 2015 and 2014, the Town 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 and 2014 are as follows:

	Bank Balance	
	2015	2014
Insured (FDIC/NCUA)	\$ 285,464	\$ 250,000
Uninsured, uncollateralized	831,071	777,569
	\$ 1,116,535	\$ 1,027,569

The Town’s carrying amount of deposits at December 31, 2015 and 2014 is as follows:

	2015	2014
Cash and cash equivalents	\$ 1,082,225	\$ 1,015,708

Investments

In general, SDCL 4-5-6 permits Town 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 Town did not hold any investments as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. The Town 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 Town’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 4 - Property Taxes

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

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

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.

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 \$9,083, \$8,601, and \$8,262, 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 Town of Buffalo are as follows:

	2015	2014
Proportionate share of net position restricted for pension benefits	\$ 892,868	\$ 869,522
Less proportionate share of total pension liability	857,728	810,465
Proportionate share of net pension asset	\$ 35,140	\$ 59,057

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 and 2014 valuations 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 and 2014 (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%	0.8%
	100.0%	

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 Liability (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)	\$ (87,507)	\$ 34,767	\$ 134,471

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 2014, the Town was not involved in any litigation that would be material to the financial statements.

Note 7 - Risk Management

The Town 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 Town managed its risks as follows:

Employee Health Insurance

The Town does not provide a group health insurance plan for Town employees. Each employee is responsible to obtain individual health insurance.

Liability Insurance

The Town 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 Town'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 Town. The Town 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 Town pays an annual premium to the pool to provide coverage for general liability, official's liability, automobile liability, law enforcement liability, and various other coverages.

The agreement with the SDPAA provides that the above coverages will be provided to a \$1,000,000 limit for the coverages identified above, and limits ranging from \$5,000 to \$1,000,000 for the various other coverages. 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, 2015, the Municipality has vested balance in the cumulative reserve fund of \$10,766.

The Town carries the following deductibles for the coverages noted previously:

Coverage	Deductible
General liability	\$ -
Officials liability	500 to 5,000
Automobile liability	-
Law enforcement liability	2,000
Various other coverages	-

The Town 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 Town 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 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 Town'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 Town pays an annual premium, to provide worker's compensation coverage to its employees, under a self-funded program and the premiums are paid 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 Town 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.

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.

Note 8 - Interfund Transfers

Interfund transfers are comprised of the following:

	<u>Transfers to Governmental Activities</u>	<u>Transfers to Business-Type Activities</u>	<u>Transfers to Governmental Activities</u>	<u>Transfers to Business-Type Activities</u>
	<u>General Fund</u>	<u>Solid Waste</u>	<u>General Fund</u>	<u>Solid Waste</u>
	<u>2015</u>		<u>2014</u>	
Transfers from:				
Major Funds:				
Liquor Fund	\$ 10,000	\$ -	\$ 6,000	\$ -
General Fund	-	5,000	-	-



Supplementary Information
December 31, 2015 and 2014
Town of Buffalo

Town of Buffalo
Schedule of Net Pension Liability (Asset) and Schedule of Pension Contributions
December 31, 2015 and 2014

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	0.0082%	\$ (59,057)	\$ 129,756	-45.5%	107.3%
SDRS	6/30/2015	<u>0.0083%</u>	<u>\$ (35,140)</u>	<u>\$ 140,141</u>	<u>-25.1%</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	\$ 8,601	\$ 8,601	\$ -	\$ 143,350	6.0%
SDRS	12/31/2015	<u>\$ 9,083</u>	<u>\$ 9,083</u>	<u>\$ -</u>	<u>\$ 151,383</u>	<u>6.0%</u>

Town of Buffalo
 Budgetary Comparison Schedules—General Fund
 Years Ended December 31, 2015 and 2014

	2015			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 107,602	\$ 107,602	\$ 107,849	\$ 247
313 General sales and use taxes	122,655	122,655	225,247	102,592
319 Penalties and interest on delinquent taxes	-	-	109	109
Total taxes	<u>230,257</u>	<u>230,257</u>	<u>333,205</u>	<u>102,948</u>
320 License and permits	-	-	7,653	7,653
330 Intergovernmental revenue				
335 State shared revenue				
335.01 Bank franchise tax	930	930	949	19
335.02 Motor vehicle commercial prorata	-	-	4,345	4,345
335.03 Liquor tax reversion	2,400	2,400	2,052	(348)
335.04 Motor vehicle licenses (5%)	39,600	39,600	13,476	(26,124)
335.08 Local government highway and bridge fund	-	-	5,098	5,098
335.20 Other	-	-	14,996	14,996
338 County shared revenue				
338.01 County road tax (25%)	-	-	594	594
338.02 County highway and bridge reserve tax (25%)	-	-	3,868	3,868
Total intergovernmental revenue	<u>42,930</u>	<u>42,930</u>	<u>45,378</u>	<u>2,448</u>
340 Charges for goods and services				
341 General government	1,500	1,500	4,985	3,485
350 Fines and forfeits				
354 Library	-	-	35	35
360 Miscellaneous revenue				
361 Investment earnings	6,000	6,000	4,196	(1,804)
362 Rentals	-	-	52	52
369 Other	12,000	12,000	11,712	(288)
Total miscellaneous revenue	<u>18,000</u>	<u>18,000</u>	<u>15,960</u>	<u>(2,040)</u>
Total revenues	<u>292,687</u>	<u>292,687</u>	<u>407,216</u>	<u>114,529</u>

Town of Buffalo
 Budgetary Comparison Schedules—General Fund
 Years Ended December 31, 2015 and 2014

	2015			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Expenditures				
410 General government				
411 Legislative	6,975	6,975	12,786	(5,811)
411.5 Contingency	3,000	3,000	-	3,000
Amount transferred				
412 Executive	4,150	4,150	-	4,150
413 Elections	1,000	1,000	47	953
414 Financial administration	54,105	54,105	52,915	1,190
419 Other	21,900	21,977	18,533	3,444
Total general government	<u>91,130</u>	<u>91,207</u>	<u>84,281</u>	<u>6,926</u>
420 Public safety				
421 Police	64,575	64,575	42,171	22,404
422 Fire	6,550	6,550	6,359	191
Total public safety	<u>71,125</u>	<u>71,125</u>	<u>48,530</u>	<u>22,595</u>
430 Public works				
431 Highways and streets	99,302	110,102	171,732	(61,630)
440 Health and welfare				
441 Health	3,950	3,950	6,593	(2,643)
450 Culture and recreation				
451 Recreation	2,400	2,400	2,112	288
452 Parks	13,750	13,750	9,875	3,875
458 Museums	14,100	14,100	9,136	4,964
Total culture and recreation	<u>30,250</u>	<u>30,250</u>	<u>21,123</u>	<u>9,127</u>
460 Conservation and development				
465 Economic development and assistance (industrial development)	1,000	1,000	800	200
490 Miscellaneous				
492 Other expenditures	-	-	587	(587)
Total expenditures	<u>296,757</u>	<u>307,634</u>	<u>333,646</u>	<u>(26,012)</u>
Other Financing Sources (Uses)				
391.01 Transfers in	6,000	6,000	10,000	4,000
511 Transfers out	-	-	(5,000)	5,000
Total other financing sources (uses)	<u>6,000</u>	<u>6,000</u>	<u>5,000</u>	<u>9,000</u>
Excess of Revenue over (under) Expenditures	1,930	(8,947)	78,570	97,517
Fund Balance - Beginning	640,849	640,849	819,971	179,122
Fund Balance - Ending	<u>\$ 642,779</u>	<u>\$ 631,902</u>	<u>\$ 898,541</u>	<u>\$ 276,639</u>

Town of Buffalo
 Budgetary Comparison Schedules—General Fund
 Years Ended December 31, 2015 and 2014

	2014			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 103,056	\$ 103,056	\$ 104,594	\$ 1,538
313 General sales and use taxes	88,900	88,900	193,615	104,715
319 Penalties and interest on delinquent taxes	-	-	296	296
	<u>191,956</u>	<u>191,956</u>	<u>298,505</u>	<u>106,549</u>
Total taxes				
320 Licenses and permits	-	-	1,979	1,979
330 Intergovernmental revenue				
335 State shared revenue				
335.01 Bank franchise tax	930	930	909	(21)
335.02 Motor vehicle commercial prorate	-	-	4,333	4,333
335.03 Liquor tax reversion	2,500	2,500	2,629	129
335.04 Motor vehicle licenses (5%)	33,000	33,000	12,832	(20,168)
335.08 Local government highway and bridge fund	-	-	5,020	5,020
338 County shared revenue				
338.01 County road tax (25%)	-	-	1,188	1,188
338.02 County highway and bridge reserve tax (25%)	-	-	13,163	13,163
339 Other intergovernmental revenue	-	-	53,268	53,268
	<u>36,430</u>	<u>36,430</u>	<u>93,342</u>	<u>56,912</u>
Total intergovernmental revenue				
340 Charges for goods and services				
341 General government	1,500	1,500	2,960	1,460
350 Fines and forfeits				
354 Library	-	-	60	60
360 Miscellaneous revenue				
361 Investment earnings	3,000	3,000	3,617	617
362 Rentals	-	-	89	89
369 Other	-	-	16,698	16,698
	<u>3,000</u>	<u>3,000</u>	<u>20,404</u>	<u>17,404</u>
Total miscellaneous revenue				
Total revenues	<u>232,886</u>	<u>232,886</u>	<u>417,250</u>	<u>184,364</u>

Town of Buffalo
 Budgetary Comparison Schedules—General Fund
 Years Ended December 31, 2015 and 2014

	2014			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Expenditures				
410 General government				
411 Legislative	6,900	6,900	10,603	(3,703)
411.5 Contingency	3,000	3,000	-	3,000
Amount transferred				
412 Executive	4,100	4,100	-	4,100
413 Elections	1,000	1,000	25	975
414 Financial administration	42,231	42,231	41,736	495
419 Other	21,300	21,300	19,861	1,439
Total general government	<u>78,531</u>	<u>78,531</u>	<u>72,225</u>	<u>6,306</u>
420 Public safety				
421 Police	59,495	59,495	62,566	(3,071)
422 Fire	6,450	6,450	6,752	(302)
Total public safety	<u>65,945</u>	<u>65,945</u>	<u>69,318</u>	<u>(3,373)</u>
430 Public works				
431 Highways and streets	72,285	72,285	73,454	(1,169)
440 Health and welfare				
441 Health	3,950	3,950	3,163	787
450 Culture and recreation				
451 Recreation	2,400	2,400	2,191	209
452 Parks	13,575	13,575	10,828	2,747
438 Museum	1,200	1,200	11,549	(10,349)
Total culture and recreation	<u>17,175</u>	<u>17,175</u>	<u>24,568</u>	<u>(7,393)</u>
460 Conservation and development				
465 Economic development and assistance (industrial development)	1,000	1,000	851	149
490 Miscellaneous				
492 Other expenditures	-	-	549	(549)
Total expenditures	<u>238,886</u>	<u>238,886</u>	<u>244,128</u>	<u>(5,242)</u>
Other Financing Sources (Uses)				
391.01 Transfer in	6,000	6,000	6,000	-
Excess of Revenue over (Under) Expenditures	-	-	179,122	179,122
Fund Balance - Beginning	640,849	640,849	640,849	-
Fund Balance - Ending	<u>\$ 640,849</u>	<u>\$ 640,849</u>	<u>\$ 819,971</u>	<u>\$ 179,122</u>

Note 1 - Budgets and Budgetary Accounting

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular Trustee meeting in September of each year or within ten days thereafter, the Town Trustees introduce the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Town Trustees, 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 Town Trustees 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 Town Trustees.

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 Town 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. Budget for the General Fund is 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 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.



CPAs & BUSINESS ADVISORS

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*

The Town Council
Town of Buffalo
Buffalo, 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 Town of Buffalo as of December 31, 2015 and 2014 and for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 23, 2016. The 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 Town'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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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, 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 City'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 as 2015-A and 2014-A 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. We consider the deficiencies described in the accompanying schedule of findings as 2015-B, 2015-C, 2014-B, and 2014-C to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 Auditing Standards*.

Town of Buffalo's Responses to Findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of audit findings. The Town's responses were 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 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 Town'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.



Aberdeen, South Dakota
June 23, 2016

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

Material Weakness

Criteria: The Town's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with the modified cash basis of accounting.

Condition: Town of Buffalo requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2015 and 2014. As a part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the Town's existing internal controls and; therefore, could result in a misstatement of the Town's financial statements.

Cause: The Town 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 Town'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.

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

Significant Deficiency

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.

Condition: The Town of Buffalo 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.

Cause: The Town 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 Town Trustees exercise adequate oversight of the accounting function.

Views of Responsible Officials: Management agrees with the finding.

Finding 2015-C and 2014-C – Violations of SDCL

Significant Deficiency

Criteria: The Town's control structure should be such to ensure compliance with South Dakota Codified Law for municipal finances. The following SDCL sections provide the criteria in areas in which we noted absence of controls to ensure compliance with these applicable SDCL's:

- SDCL 9-12-11 provides criteria for the Town to obtain a certified audit or financial statement of a nonprofit organizations records if the Town gives funds to the organization to promote the Town.
- SDCL 9-21-9 through 9-21-9.2, 9-21-10 and 9-21-15 provides the criteria requiring the Town to refrain from spending in excess of the amount appropriated for any purpose or department each fiscal year.
- SDCL 9-22-21 provides the criteria for presentation of the annual report to the Town Trustees and the timeline of presentation, approval, filing with Department of Legislative Audit, and publishing in the official newspaper.
- SDCL 9-14-17, 9-14-18, 9-23-3, and 9-23-7 provides the criteria requiring the finance officer and Trustee President to sign all warrants.

Condition: The Town did not obtain a certified audit or financial statement of the nonprofit organization in which funds were given to promote the Town. As noted in the budgetary comparison schedules, the Town overspent the approved amount appropriated for fiscal years ending December 31, 2015 and 2014. In both 2015 and 2014, the annual report was presented to the Trustees in April with no extension obtained, and the report was submitted to Department of Legislative Audit prior to approval by the Trustees. We noted a warrant paid in 2014 with only one signature, that being of the Trustee President and lacking the signature of the financial officer.

Cause: A lack of oversight in the control processes, limited staff size, and general unfamiliarity with the applicable SDCL's relating to the above findings could result in the Town not being materially compliant with those applicable SDCL's.

Effect: These conditions effect the Town's ability to be compliant with SDCL's applicable to municipalities and expenditures may exceed that of approved appropriations.

Recommendation: We recommend the Town officials review the applicable SDCL's applicable to municipalities to become familiar with the statutory requirements and implement necessary controls and processes to ensure the compliance with those such laws.

Views of Responsible Officials: Management agrees with the finding.