

**MUNICIPALITY OF EMERY**  
**EMERY, SOUTH DAKOTA**

**AUDIT REPORT**

FOR THE YEAR JANUARY 1, 2014 TO DECEMBER 31, 2014  
AND  
FOR THE YEAR JANUARY 1, 2015 TO DECEMBER 31, 2015

*Schoenfish & Co., Inc.*

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

MUNICIPALITY OF EMERY

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MUNICIPAL OFFICIALS  
DECEMBER 31, 2015

MAYOR:

Joshua Kayser

GOVERNING BOARD:

Leann Heltzel, President  
Corey Dye  
David Kayser  
Greg Kotas  
Eric Roskens  
Ben Schulz

FINANCE OFFICER:

Kara Kayser

ATTORNEY:

Mike Fink

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS  
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*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Municipal Council  
Municipality of Emery  
Emery, South Dakota

We have audited, in accordance with the 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, business-type activities, and each major fund of the Municipality of Emery, South Dakota (Municipality), as of December 31, 2015 and 2014, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated July 8, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Emery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 Current Audit Findings as item 2015-001 to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other

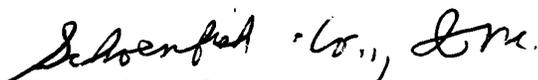
matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Current Audit Findings as item 2015-002.

#### Municipality's Response to Findings

The Municipality's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. The Municipality's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express not opinion on them.

#### Purpose of this Report

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



Schoenfish & Co., Inc.  
Certified Public Accountants  
July 8, 2016

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS  
P.O. Box 247  
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SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

PRIOR FEDERAL AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2010-01:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2015-001.

PRIOR OTHER AUDIT FINDINGS:

Compliance – Related Finding:

Finding Number 2010-02:

Expenditures exceeded the amounts budgeted in the General Fund in 2009. This comment has been corrected.

Finding Number 2010-03:

The amount of purchases from a business owned by a member of the governing board were in excess of the amounts authorized by South Dakota Codified Laws SDCL 6-1-1 and 6-1-2, resulting in a conflict of interest. This comment has been corrected.

*Schoenfish & Co., Inc.*

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT OTHER AUDIT FINDINGS:

Internal Control – Related Findings – Material Weaknesses:

Finding Number 2015-001:

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

Criteria:

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

Condition:

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

- a. A lack of proper segregation of duties existed for the revenue, expenditure, and payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. AU-C Section 315 addresses the entity's control environment and the risk of material misstatement.
- b. The following records were not maintained by employees of the Municipality:
  1. Budgets recorded in the records did not match the budget ordinance.
  2. Water Deposits must be developed into a complete listing of outstanding deposits.
- c. Receipts were not written for all revenue received.
- d. The mayor and finance officer are husband and wife.

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

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

Effect:

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

Recommendations:

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

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SCHEDULE OF CURRENT AUDIT FINDINGS  
(Continued)

3. We recommend that extra internal controls be put in place. A council member should sign checks and council members should review vouchers.

Management's Response:

The Municipality of Emery Mayor, Joshua Kayser, is the contact person responsible for the response for this comment. This comment is due to the expertise of staff and the size of the Municipality of Emery which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

Compliance – Related Item – Material Weakness:

Finding Number 2015-002:

The Municipality of Emery purchased a snow plow truck, snow plow and mount wing without advertising for competitive bids as required by SDCL 5-18A-14. This is the first consecutive audit in which a similar comment has occurred.

Criteria:

SDCL 5-18A-14 states in part, "a contract for the purchase of supplies or services, other than professional services, that involves the expenditure of twenty-five thousand dollars or more, the purchasing agency shall advertise for bids or proposals."

Condition:

We examined several instances which required bidding and found that the above mentioned instance was improper. The Municipality purchased a snow plow truck, snow plow and mount wing for over forty-four thousand dollars without evidence of receiving competitive bids.

Effect:

The lack of bidding in this instance may have caused the entity to pay more for the equipment than it would have had competitive bids been obtained.

Recommendation:

4. We recommend that all expenditures for purchases over \$25,000.00 be bid as required by law.

Management's Response:

The Municipality of Emery Mayor, Joshua Kayser, is the contact person responsible for the response for this comment. The Municipality will monitor all anticipated expenditures which may exceed the bid limit. We will advertise for bids if it is probable that the expenditure may exceed the bid limit.

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the officials during the course of the audit and with the Mayor and Finance Officer on July 27, 2016.

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**INDEPENDENT AUDITOR'S REPORT**

Governing Board  
Municipality of Emery  
Emery, South Dakota

**Report on the Financial Statements**

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Emery, South Dakota (Municipality), as of December 31, 2015 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances, the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express 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.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly the respective financial position, modified cash basis, of the governmental activities, business-type activities, and each major fund of the Municipality of Emery as of December 31, 2015 and 2014, and the respective changes in financial position, modified cash basis, where applicable, thereof for each of the years in the biennial period then ended in conformity with accounting principles generally accepted in the United States of America with the basis of accounting described in Note 1.c.

Basis of Accounting

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

Other Matters

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Budgetary Comparison Schedules and the Schedule of Long-Term Liabilities listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Budgetary Comparison Schedules and the Schedule of Long-Term Liabilities are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2016 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.  
Certified Public Accountants  
July 8, 2016

*Schoenfish & Co., Inc.*

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**MUNICIPALITY OF EMERY**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**December 31, 2015**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and Cash Equivalents	31,087.71	422,957.32	454,045.03
Investments	25,952.62		25,952.62
<b>TOTAL ASSETS</b>	<b>57,040.33</b>	<b>422,957.32</b>	<b>479,997.65</b>
<b>NET POSITION:</b>			
Restricted for:			
Equipment Repair/Replacement		91,605.11	91,605.11
Unrestricted	57,040.33	331,352.21	388,392.54
<b>TOTAL NET POSITION</b>	<b>57,040.33</b>	<b>422,957.32</b>	<b>479,997.65</b>

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

**MUNICIPALITY OF EMERY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	35,176.50	1,760.00			(33,416.50)		(33,416.50)
Public Safety	15,209.43		1,390.00		(13,819.43)		(13,819.43)
Public Works	238,287.67	7.20	24,043.05		(214,237.42)		(214,237.42)
Culture and Recreation	68,443.43	14,150.85			(54,292.58)		(54,292.58)
Conservation and Development	8,441.05				(8,441.05)		(8,441.05)
Miscellaneous Expenditures	500.00				(500.00)		(500.00)
<b>Total Governmental Activities</b>	<b>366,058.08</b>	<b>15,918.05</b>	<b>25,433.05</b>	<b>0.00</b>	<b>(324,706.98)</b>		<b>(324,706.98)</b>
Business-type Activities:							
Water	85,301.14	93,534.72				8,233.58	8,233.58
Sewer	41,759.40	61,571.30				19,811.90	19,811.90
Solid Waste	36,119.62	59,188.82				23,069.20	23,069.20
Daycare	115,570.74	84,667.78	3,280.73			(27,622.23)	(27,622.23)
<b>Total Business-Type Activities</b>	<b>278,750.90</b>	<b>298,962.62</b>	<b>3,280.73</b>	<b>0.00</b>		<b>23,492.45</b>	<b>23,492.45</b>
<b>Total Primary Government</b>	<b>644,808.98</b>	<b>314,880.67</b>	<b>28,713.78</b>	<b>0.00</b>	<b>(324,706.98)</b>	<b>23,492.45</b>	<b>(301,214.53)</b>
<b>General Revenues:</b>							
Taxes:							
Property Taxes					119,484.36		119,484.36
Sales Taxes					141,099.98		141,099.98
State Shared Revenues					3,246.02		3,246.02
Grants and Contributions not Restricted to Specific Programs					100.00		100.00
Unrestricted Investment Earnings					348.38		348.38
Miscellaneous Revenue					9,826.57		9,826.57
Transfers					(37,750.00)	37,750.00	0.00
<b>Total General Revenues and Transfers</b>					<b>236,355.31</b>	<b>37,750.00</b>	<b>274,105.31</b>
<b>Change in Net Position</b>					<b>(88,351.67)</b>	<b>61,242.45</b>	<b>(27,109.22)</b>
<b>Net Position - Beginning</b>					<b>145,392.00</b>	<b>361,714.87</b>	<b>507,106.87</b>
<b>NET POSITION - ENDING</b>					<b>57,040.33</b>	<b>422,957.32</b>	<b>479,997.65</b>

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

**MUNICIPALITY OF EMERY  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
December 31, 2015**

	<b>General Fund</b>
<b>ASSETS:</b>	
Cash and Cash Equivalents	31,087.71
Investments	25,952.62
<b>TOTAL ASSETS</b>	<b>57,040.33</b>
<b>FUND BALANCES:</b>	
Unassigned	57,040.33
<b>TOTAL FUND BALANCES</b>	<b>57,040.33</b>

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

**MUNICIPALITY OF EMERY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2015

	<b>General Fund</b>
<b>Revenues:</b>	
Taxes:	
General Property Taxes	118,930.71
General Sales and Use Taxes	141,099.98
Amusement Taxes	48.00
Penalties & Interest on Delinquent Taxes	553.65
Total Taxes	260,632.34
Licenses and Permits	1,760.00
Intergovernmental Revenue:	
State Grants	1,390.00
State Shared Revenue:	
Bank Franchise Tax	418.44
Prorate License Fees	1,687.77
Liquor Tax Reversion	2,779.58
Motor Vehicle Licenses	13,571.60
Local Government Highway and Bridge Fund	7,761.16
County Shared Revenue:	
County Road Tax	1,022.52
Total Intergovernmental Revenue	28,631.07
Charges for Goods and Services:	
Sanitation	7.20
Culture and Recreation	14,150.85
Total Charges for Goods and Services	14,158.05
Fines and Forfeits:	
Animal Control Fines	25.00
Total Fines and Forfeits	25.00
Miscellaneous Revenue:	
Investment Earnings	348.38
Contributions and Donations from Private Sources	100.00
Other	3,301.57
Total Miscellaneous Revenue	3,749.95
Total Revenue	308,956.41
<b>Expenditures:</b>	
General Government:	
Legislative	14,134.88
Executive	2,314.48
Financial Administration	16,854.07
Other	1,873.07
Total General Government	35,176.50

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

**MUNICIPALITY OF EMERY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2015

	<b>General Fund</b>
<b>Expenditures: (continued)</b>	
Public Safety:	
Police	12,900.00
Fire	(51.65)
Other Protection	2,361.08
Total Public Safety	15,209.43
Public Works:	
Highways and Streets	232,006.44
Sanitation	6,237.87
Water	43.36
Total Public Works	238,287.67
Culture and Recreation:	
Recreation	60,426.80
Parks	8,016.63
Total Culture and Recreation	68,443.43
Conservation and Development:	
Economic Development and Assistance (Industrial Development)	7,542.38
Economic Opportunity	898.67
Total Conservation and Development	8,441.05
Miscellaneous:	
Other Expenditures	500.00
Total Miscellaneous	500.00
Total Expenditures	366,058.08
Excess of Revenue Over (Under) Expenditures	(57,101.67)
<b>Other Financing Sources (Uses):</b>	
Transfers Out	(37,750.00)
Sale of Municipal Property	6,500.00
Total Other Financing Sources (Uses)	(31,250.00)
Net Change in Fund Balance	(88,351.67)
Fund Balance - Beginning	145,392.00
FUND BALANCE - ENDING	57,040.33

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

**MUNICIPALITY OF EMERY**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**December 31, 2015**

	<b>Enterprise Funds</b>				<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Daycare Fund</b>	
<b>ASSETS:</b>					
Current Assets:					
Cash and Cash Equivalents	122,267.18	151,564.63	142,650.33	6,475.18	422,957.32
Total Current Assets	122,267.18	151,564.63	142,650.33	6,475.18	422,957.32
<b>TOTAL ASSETS</b>	<b>122,267.18</b>	<b>151,564.63</b>	<b>142,650.33</b>	<b>6,475.18</b>	<b>422,957.32</b>
<b>NET POSITION:</b>					
Restricted for:					
Equipment Repair and/or Replacement	55,964.73		35,640.38		91,605.11
Unrestricted	66,302.45	151,564.63	107,009.95	6,475.18	331,352.21
<b>TOTAL NET POSITION</b>	<b>122,267.18</b>	<b>151,564.63</b>	<b>142,650.33</b>	<b>6,475.18</b>	<b>422,957.32</b>

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

**MUNICIPALITY OF EMERY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2015**

	<b>Enterprise Funds</b>				<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Daycare Fund</b>	
<b>Operating Revenue:</b>					
Charges for Goods and Services	82,919.84	61,571.30	53,795.93	84,667.78	282,954.85
Miscellaneous	2,192.97		14.70		2,207.67
Total Operating Revenue	<u>85,112.81</u>	<u>61,571.30</u>	<u>53,810.63</u>	<u>84,667.78</u>	<u>285,162.52</u>
<b>Operating Expenses:</b>					
Personal Services	4,408.38	2,664.90	14,488.63	87,391.58	108,953.49
Other Current Expense	68,210.63	31,165.74	16,252.80	28,179.16	143,808.33
Total Operating Expenses	<u>72,619.01</u>	<u>33,830.64</u>	<u>30,741.43</u>	<u>115,570.74</u>	<u>252,761.82</u>
Operating Income (Loss)	<u>12,493.80</u>	<u>27,740.66</u>	<u>23,069.20</u>	<u>(30,902.96)</u>	<u>32,400.70</u>
<b>Nonoperating Revenue (Expense):</b>					
Operating Grants				3,280.73	3,280.73
Debt Service	2,891.89	5,371.62			8,263.51
Interest Expense	(7,152.11)	(13,300.38)			(20,452.49)
Total Nonoperating Revenue (Expense)	<u>(4,260.22)</u>	<u>(7,928.76)</u>	<u>0.00</u>	<u>3,280.73</u>	<u>(8,908.25)</u>
Income (Loss) Before Transfers	<u>8,233.58</u>	<u>19,811.90</u>	<u>23,069.20</u>	<u>(27,622.23)</u>	<u>23,492.45</u>
Transfers In				37,750.00	37,750.00
Change in Net Position	<u>8,233.58</u>	<u>19,811.90</u>	<u>23,069.20</u>	<u>10,127.77</u>	<u>61,242.45</u>
Net Position - Beginning	114,033.60	131,752.73	119,581.13	(3,652.59)	361,714.87
<b>NET POSITION - ENDING</b>	<u><u>122,267.18</u></u>	<u><u>151,564.63</u></u>	<u><u>142,650.33</u></u>	<u><u>6,475.18</u></u>	<u><u>422,957.32</u></u>

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

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

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and Cash Equivalents	115,825.34	365,367.46	481,192.80
Investments	25,914.07		25,914.07
Internal Balances	3,652.59	(3,652.59)	0.00
<b>TOTAL ASSETS</b>	<b>145,392.00</b>	<b>361,714.87</b>	<b>507,106.87</b>
<b>NET POSITION:</b>			
Restricted for:			
Equipment Repair/Replacement		77,805.01	77,805.01
Unrestricted	145,392.00	283,909.86	429,301.86
<b>TOTAL NET POSITION</b>	<b>145,392.00</b>	<b>361,714.87</b>	<b>507,106.87</b>

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

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

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities
<b>Primary Government:</b>						
Governmental Activities:						
General Government	35,964.21	1,750.00			(34,214.21)	(34,214.21)
Public Safety	16,199.01	25.00	1,957.00		(14,217.01)	(14,217.01)
Public Works	212,315.22	391.23	22,793.76		(189,130.23)	(189,130.23)
Culture and Recreation	53,648.38	13,013.62			(40,634.76)	(40,634.76)
Conservation and Development	1,035.00				(1,035.00)	(1,035.00)
Miscellaneous Expenditures	500.00	26.75			(473.25)	(473.25)
Total Governmental Activities	319,661.82	15,206.60	24,750.76	0.00	(279,704.46)	(279,704.46)
Business-type Activities:						
Water	83,006.69	86,948.60				3,941.91
Sewer	24,456.08	63,107.33				38,651.25
Solid Waste	28,615.46	53,210.64				24,595.18
Daycare	101,482.40	80,116.52	2,613.65		(18,752.23)	(18,752.23)
Total Business-Type Activities	237,560.63	283,383.09	2,613.65	0.00	48,436.11	48,436.11
Total Primary Government	557,222.45	298,589.69	27,364.41	0.00	(279,704.46)	48,436.11
<b>General Revenues:</b>						
Taxes:						
Property Taxes					115,090.44	115,090.44
Sales Taxes					188,082.62	188,082.62
State Shared Revenues					3,502.41	3,502.41
Grants and Contributions not Restricted to Specific Programs					431.01	431.01
Unrestricted Investment Earnings					282.44	282.44
Miscellaneous Revenue					30,234.25	30,234.25
Transfers					(15,000.00)	15,000.00
Total General Revenues and Transfers					322,623.17	15,000.00
Change in Net Position					42,918.71	63,436.11
Net Position - Beginning					102,473.29	298,278.76
NET POSITION - ENDING					145,392.00	361,714.87

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

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

	<b>General Fund</b>
<b>ASSETS:</b>	
Cash and Cash Equivalents	115,825.34
Investments	25,914.07
Due from Daycare Fund	3,652.59
TOTAL ASSETS	145,392.00
<b>FUND BALANCES:</b>	
Unassigned	145,392.00
TOTAL FUND BALANCES	145,392.00

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

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

	<b>General Fund</b>
<b>Revenues:</b>	
Taxes:	
General Property Taxes	114,577.90
General Sales and Use Taxes	188,082.62
Amusement Taxes	24.00
Penalties & Interest on Delinquent Taxes	488.54
Total Taxes	303,173.06
Licenses and Permits	1,750.00
Intergovernmental Revenue:	
State Grants	1,957.00
State Shared Revenue:	
Bank Franchise Tax	468.16
Prorate License Fees	1,678.22
Liquor Tax Reversion	3,034.25
Motor Vehicle Licenses	12,451.91
Local Government Highway and Bridge Fund	7,641.11
County Shared Revenue:	
County Road Tax	1,022.52
Total Intergovernmental Revenue	28,253.17
Charges for Goods and Services:	
Public Safety	25.00
Highways and Streets	387.50
Sanitation	3.73
Culture and Recreation	13,013.62
Other	26.75
Total Charges for Goods and Services	13,456.60
Miscellaneous Revenue:	
Investment Earnings	282.44
Contributions and Donations from Private Sources	431.01
Other	2,624.25
Total Miscellaneous Revenue	3,337.70
Total Revenue	349,970.53
<b>Expenditures:</b>	
General Government:	
Legislative	13,836.80
Executive	2,411.36
Financial Administration	17,602.58
Other	2,113.47
Total General Government	35,964.21

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

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

	<b>General Fund</b>
<b>Expenditures: (continued)</b>	
Public Safety:	
Police	9,900.00
Fire	1,056.96
Other Protection	5,242.05
Total Public Safety	16,199.01
Public Works:	
Highways and Streets	207,916.06
Sanitation	4,314.34
Water	84.82
Total Public Works	212,315.22
Culture and Recreation:	
Recreation	47,216.18
Parks	6,432.20
Total Culture and Recreation	53,648.38
Conservation and Development:	
Economic Development and Assistance (Industrial Development)	1,035.00
Total Conservation and Development	1,035.00
Miscellaneous:	
Other Expenditures	500.00
Total Miscellaneous	500.00
Total Expenditures	319,661.82
Excess of Revenue Over (Under) Expenditures	30,308.71
<b>Other Financing Sources (Uses):</b>	
Transfers Out	(15,000.00)
Sale of Municipal Property	27,610.00
Total Other Financing Sources (Uses)	12,610.00
Net Change in Fund Balance	42,918.71
Fund Balance - Beginning	102,473.29
FUND BALANCE - ENDING	145,392.00

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

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

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Solid Waste Fund	Daycare Fund	
<b>ASSETS:</b>					
Current Assets:					
Cash and Cash Equivalents	114,033.60	131,752.73	119,581.13		365,367.46
Total Current Assets	114,033.60	131,752.73	119,581.13	0.00	365,367.46
<b>TOTAL ASSETS</b>	<b>114,033.60</b>	<b>131,752.73</b>	<b>119,581.13</b>	<b>0.00</b>	<b>365,367.46</b>
<b>LIABILITIES:</b>					
Current Liabilities:					
Due to General Fund				3,652.59	3,652.59
Total Current Liabilities	0.00	0.00	0.00	3,652.59	3,652.59
<b>TOTAL LIABILITIES</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>3,652.59</b>	<b>3,652.59</b>
<b>NET POSITION:</b>					
Restricted for:					
Equipment Repair and/or Replacement	47,542.82		30,262.19		77,805.01
Unrestricted	66,490.78	131,752.73	89,318.94	(3,652.59)	283,909.86
<b>TOTAL NET POSITION</b>	<b>114,033.60</b>	<b>131,752.73</b>	<b>119,581.13</b>	<b>(3,652.59)</b>	<b>361,714.87</b>

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

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

	<b>Enterprise Funds</b>				<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Daycare Fund</b>	
<b>Operating Revenue:</b>					
Charges for Goods and Services	86,948.60	63,107.33	53,153.29	80,116.52	283,325.74
Miscellaneous			57.35		57.35
Total Operating Revenue	<u>86,948.60</u>	<u>63,107.33</u>	<u>53,210.64</u>	<u>80,116.52</u>	<u>283,383.09</u>
<b>Operating Expenses:</b>					
Personal Services	5,103.69	2,093.98	23,619.02	75,691.31	106,508.00
Other Current Expense	77,903.00	22,362.10	4,996.44	25,791.09	131,052.63
Total Operating Expenses	<u>83,006.69</u>	<u>24,456.08</u>	<u>28,615.46</u>	<u>101,482.40</u>	<u>237,560.63</u>
Operating Income (Loss)	<u>3,941.91</u>	<u>38,651.25</u>	<u>24,595.18</u>	<u>(21,365.88)</u>	<u>45,822.46</u>
<b>Nonoperating Revenue (Expense):</b>					
Operating Grants				2,613.65	2,613.65
Total Nonoperating Revenue (Expense)	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>2,613.65</u>	<u>2,613.65</u>
Income (Loss) Before Transfers	<u>3,941.91</u>	<u>38,651.25</u>	<u>24,595.18</u>	<u>(18,752.23)</u>	<u>48,436.11</u>
Transfers In				15,000.00	15,000.00
Change in Net Position	<u>3,941.91</u>	<u>38,651.25</u>	<u>24,595.18</u>	<u>(3,752.23)</u>	<u>63,436.11</u>
Net Position - Beginning	110,091.69	93,101.48	94,985.95	99.64	298,278.76
<b>NET POSITION - ENDING</b>	<u><u>114,033.60</u></u>	<u><u>131,752.73</u></u>	<u><u>119,581.13</u></u>	<u><u>(3,652.59)</u></u>	<u><u>361,714.87</u></u>

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

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c, these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. 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 not 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 the Municipality of Emery (Municipality) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

Government-wide Financial Statements:

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or if it meets the following criteria:

See Independent Auditor's Report.

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the Municipality financial reporting entity are described below:

Governmental Funds:

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

Proprietary Funds:

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

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

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

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

Solid Waste Fund – financed primarily by user charges, this fund accounts for the collection and disposal of solid waste from the municipality. (SDCL 9-32-11 and 34A-6) This is a major fund.

Daycare Fund – financed primarily by user charges, this fund accounts for the operation of a municipal daycare facility. This is a major fund.

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

c. Measurement Focus and Basis of Accounting:

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

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

Measurement Focus:

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

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used, applied with the limitations of the modified cash basis of accounting.

Basis of Accounting:

In the Government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental 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 modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

- a. Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.
- b. Recording assets and liabilities related to interfund receivables and payables resulting from cash transactions between funds.

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

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

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

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

e. Long-Term Liabilities:

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances is recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category.

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

f. Revenue Received in Advance:

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

g. Program Revenues:

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

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

h. Proprietary Funds Revenue and Expense Classifications:

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

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

i. Equity Classifications:

Government-wide Statements:

Equity is classified as net position and is displayed in two components.

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

Fund Financial Statements:

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

j. Application of Net Position:

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

k. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Municipality classifies governmental fund balances as follows:

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Finance Officer.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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

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

	Year Ended <u>12/31/2015</u>	Year Ended <u>12/31/2014</u>
General Fund:		
Police	\$ 1,000.00	
Fire		\$ 956.96
Other Protection		\$ 1,785.05
Highways and Streets	\$ 1,226.44	
Water	\$ 43.36	
Economic Development and Assistance	\$ 2,042.38	
Economic Opportunity	\$ 898.67	\$ 84.82
Other Expenditures	\$ 500.00	\$ 500.00

The Municipality plans to take the following actions to address these violations: use contingency transfers and supplemental budgets when legal authority exists.

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

The Municipality follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

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

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

Investments - In general, SDCL 4-5-6 permits Municipality funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government, provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above and meeting the requirements of Section 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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).

Credit Risk – State law limits eligible investments for the Municipality, as discussed above. The Municipality has no investment policy that would further limit its investment choices.

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

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

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

#### 4. PROPERTY TAXES

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

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

#### 5. LONG-TERM COMMITMENTS

The Municipality of Emery entered into a forty-year commitment with Hanson Rural Water District to provide water to the Municipality. A monthly charge in the amount of \$715.00 is paid by the Municipality to Hanson Rural Water District. The monthly charge represents a contribution by the Municipality to aid Hanson Rural Water District in the construction of the facilities necessary to provide the Municipality with water. The Municipality will not acquire ownership of any of these water facilities through lease payments. Payments are made from the Municipality's Water Fund.

The following are the minimum payments on this commitment:

2016	\$ 8,580.00
2017	\$ 8,580.00
2018	\$ 8,580.00
2019	\$ 8,580.00
2020	\$ 8,580.00
2021	\$ 4,290.00

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

6. RESTRICTED NET POSITION

Restricted net position for the year ended December 31, 2015 and 2014 was as follows:

	<u>Year Ended</u> <u>12/31/2015</u>	<u>Year Ended</u> <u>12/31/2014</u>
Major Funds:		
Equipment Repair/Replacement:		
Water Fund	\$ 55,964.73	\$ 47,542.82
Solid Waste Fund	35,640.38	30,262.19
Totals	<u>\$ 91,605.11</u>	<u>\$ 77,805.01</u>

These balances are restricted due to statutory requirements.

7. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2015 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u> <u>Daycare</u> <u>Fund</u>
Major Funds:	
General Fund	<u>\$ 37,750.00</u>

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

<u>Transfers From:</u>	<u>Transfers To:</u> <u>Daycare</u> <u>Fund</u>
Major Funds:	
General Fund	<u>\$ 15,000.00</u>

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

8. INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at December 31, 2014 were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General Fund	\$ 3,652.59	
Daycare Fund		\$3,652.59

The purpose for the interfund receivable and payable balances is to supplement deficits cash balances at year end. The Municipality expects all interfund receivables and payables to be paid within one year.

9. RETIREMENT PLAN

**Plan Information:**

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS 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 SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or 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 percent prior to 2008 and 1.55 percent 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 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent 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 1<sup>st</sup> 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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

**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, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal year ended December 31, 2015, was \$6,781.44, equal to the required contributions each year. The Municipality joined the SDRS on April 1, 2015.

**Pension Liabilities (Assets):**

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of June 30, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 211,015.30
Less proportionate share of total pension liability	<u>\$ 202,710.44</u>
Proportionate share of net pension liability (asset)	<u>\$ ( 8,304.86)</u>

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 0.0019581%, which is an increase of 0.0019581% from its proportion measured as of June 30, 2014.

**Actuarial Assumptions:**

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

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent 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-

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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 weighing 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%
Total	<u>100%</u>	

**Discount Rate:**

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2016 and 7.50 percent thereafter. The projection of cash flows used to determine the discount rate assumed that plan member 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 liability (asset).

**Sensitivity of liability (asset) to changes in the discount rate:**

The following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$20,903.24	\$(8,304.86)	\$(32,121.56)

**Pension Plan Fiduciary Net Position:**

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

**10. SIGNIFICANT CONTINGENCIES - LITIGATION**

At December 31, 2015, the Municipality was not involved in any significant litigation.

See Independent Auditor's Report.

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

#### 11. RISK MANAGEMENT

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2015, the Municipality managed its risks as follows:

Employee Health Insurance:

The Municipality does not provide health insurance for its employees.

Liability Insurance:

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

Worker's Compensation:

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual and has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

The Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

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

#### 12. RELATED PARTIES

The mayor and the finance officer are husband and wife which affects the internal control of the Municipality.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF EMERY**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2015**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes:				
General Property Taxes	121,350.00	121,350.00	118,930.71	(2,419.29)
General Sales and Use Taxes	243,500.00	243,500.00	141,099.98	(102,400.02)
Amusement Tax	48.00	48.00	48.00	0.00
Penalties and Interest on Delinquent Taxes	150.00	150.00	553.65	403.65
Total Taxes	365,048.00	365,048.00	260,632.34	(104,415.66)
Licenses and Permits	1,770.00	1,770.00	1,760.00	(10.00)
Intergovernmental Revenue:				
State Grants	0.00	1,390.00	1,390.00	0.00
State Shared Revenue:				
Bank Franchise Tax	500.00	500.00	418.44	(81.56)
Prorate License Fees	1,750.00	1,750.00	1,687.77	(62.23)
Liquor Tax Reversion	3,000.00	3,000.00	2,779.58	(220.42)
Motor Vehicle Licenses	11,500.00	11,500.00	13,571.60	2,071.60
Local Government Highway and Bridge Fund	5,000.00	5,000.00	7,761.16	2,761.16
County Shared Revenue:				
County Road Tax	1,500.00	1,500.00	1,022.52	(477.48)
Total Intergovernmental Revenue	23,250.00	24,640.00	28,631.07	3,991.07
Charges for Goods and Services:				
Sanitation	0.00	0.00	7.20	7.20
Culture and Recreation	13,000.00	13,000.00	14,150.85	1,150.85
Total Charges for Goods and Services	13,000.00	13,000.00	14,158.05	1,158.05
Fines and Forfeits:				
Animal Control Fines	25.00	25.00	25.00	0.00
Total Fines and Forfeits	25.00	25.00	25.00	0.00
Miscellaneous Revenue:				
Investment Earnings	400.00	400.00	348.38	(51.62)
Contributions and Donations from Private Sources	0.00	0.00	100.00	100.00
Other	3,613.49	3,613.49	3,301.57	(311.92)
Total Miscellaneous Revenue	4,013.49	4,013.49	3,749.95	(263.54)
Total Revenue	407,106.49	408,496.49	308,956.41	(99,540.08)

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF EMERY**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2015**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures:</b>				
General Government:				
Legislative	14,610.00	14,610.00	14,134.88	475.12
Executive	3,230.00	3,230.00	2,314.48	915.52
Financial Administration	23,876.94	23,876.94	16,854.07	7,022.87
Other	5,150.00	5,150.00	1,873.07	3,276.93
Total General Government	<b>46,866.94</b>	<b>46,866.94</b>	<b>35,176.50</b>	<b>11,690.44</b>
Public Safety:				
Police	10,800.00	11,900.00	12,900.00	(1,000.00)
Fire	194.68	194.68	(51.65)	246.33
Other Protection	2,000.00	3,390.00	2,361.08	1,028.92
Total Public Safety	<b>12,994.68</b>	<b>15,484.68</b>	<b>15,209.43</b>	<b>275.25</b>
Public Works:				
Highways and Streets	228,780.00	230,780.00	232,006.44	(1,226.44)
Sanitation	5,068.00	7,068.00	6,237.87	830.13
Water	0.00	0.00	43.36	(43.36)
Total Public Works	<b>233,848.00</b>	<b>237,848.00</b>	<b>238,287.67</b>	<b>(439.67)</b>
Culture and Recreation:				
Recreation	82,951.57	82,951.57	60,426.80	22,524.77
Parks	42,812.50	42,812.50	8,016.63	34,795.87
Total Culture and Recreation	<b>125,764.07</b>	<b>125,764.07</b>	<b>68,443.43</b>	<b>57,320.64</b>
Conservation and Development				
Economic Development and Assistance (Industrial Development)	5,500.00	5,500.00	7,542.38	(2,042.38)
Economic Opportunity	0.00	0.00	898.67	(898.67)
Total Conservation and Development	<b>5,500.00</b>	<b>5,500.00</b>	<b>8,441.05</b>	<b>(2,941.05)</b>
Miscellaneous:				
Other Expenditures	0.00	0.00	500.00	(500.00)
Total Miscellaneous	<b>0.00</b>	<b>0.00</b>	<b>500.00</b>	<b>(500.00)</b>
Total Expenditures	<b>424,973.69</b>	<b>431,463.69</b>	<b>366,058.08</b>	<b>65,405.61</b>
Excess of Revenue Over (Under) Expenditures	<b>(17,867.20)</b>	<b>(22,967.20)</b>	<b>(57,101.67)</b>	<b>(34,134.47)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers Out	(15,000.00)	(15,000.00)	(37,750.00)	(22,750.00)
Sale of Municipal Property	0.00	0.00	6,500.00	6,500.00
Total Other Financing Sources (Uses)	<b>(15,000.00)</b>	<b>(15,000.00)</b>	<b>(31,250.00)</b>	<b>(16,250.00)</b>
Net Change in Fund Balances	<b>(32,867.20)</b>	<b>(37,967.20)</b>	<b>(88,351.67)</b>	<b>(50,384.47)</b>
Fund Balance - Beginning	145,392.00	145,392.00	145,392.00	0.00
FUND BALANCE - ENDING	<b>112,524.80</b>	<b>107,424.80</b>	<b>57,040.33</b>	<b>(50,384.47)</b>

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

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Taxes:				
General Property Taxes	117,080.00	117,080.00	114,577.90	(2,502.10)
General Sales and Use Taxes	150,000.00	150,000.00	188,082.62	38,082.62
Amusement Tax	48.00	48.00	24.00	(24.00)
Penalties and Interest on Delinquent Taxes	150.00	150.00	488.54	338.54
Total Taxes	<u>267,278.00</u>	<u>267,278.00</u>	<u>303,173.06</u>	<u>35,895.06</u>
Licenses and Permits	<u>1,500.00</u>	<u>1,500.00</u>	<u>1,750.00</u>	<u>250.00</u>
Intergovernmental Revenue:				
State Grants	0.00	1,957.00	1,957.00	0.00
State Shared Revenue:				
Bank Franchise Tax	1,450.00	1,450.00	468.16	(981.84)
Prorate License Fees	1,750.00	1,750.00	1,678.22	(71.78)
Liquor Tax Reversion	3,000.00	3,000.00	3,034.25	34.25
Motor Vehicle Licenses	10,000.00	10,000.00	12,451.91	2,451.91
Local Government Highway and Bridge Fund	5,000.00	5,000.00	7,641.11	2,641.11
County Shared Revenue:				
County Road Tax	1,500.00	1,500.00	1,022.52	(477.48)
Total Intergovernmental Revenue	<u>22,700.00</u>	<u>24,657.00</u>	<u>28,253.17</u>	<u>3,596.17</u>
Charges for Goods and Services:				
Public Safety	0.00	0.00	25.00	25.00
Highways and Streets	0.00	0.00	387.50	387.50
Sanitation	0.00	0.00	3.73	3.73
Culture and Recreation	13,000.00	13,000.00	13,013.62	13.62
Other	0.00	0.00	26.75	26.75
Total Charges for Goods and Services	<u>13,000.00</u>	<u>13,000.00</u>	<u>13,456.60</u>	<u>456.60</u>
Miscellaneous Revenue:				
Investment Earnings	400.00	400.00	282.44	(117.56)
Contributions and Donations from Private Sources				
Other	0.00	0.00	431.01	431.01
Other	1,600.00	1,600.00	2,624.25	1,024.25
Total Miscellaneous Revenue	<u>2,000.00</u>	<u>2,000.00</u>	<u>3,337.70</u>	<u>1,337.70</u>
Total Revenue	<u>306,478.00</u>	<u>308,435.00</u>	<u>349,970.53</u>	<u>41,535.53</u>

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

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures:</b>				
General Government:				
Legislative	14,610.00	14,610.00	13,836.80	773.20
Executive	3,230.00	3,230.00	2,411.36	818.64
Financial Administration	22,655.00	22,655.00	17,602.58	5,052.42
Other	5,150.00	5,150.00	2,113.47	3,036.53
Total General Government	<u>45,645.00</u>	<u>45,645.00</u>	<u>35,964.21</u>	<u>9,680.79</u>
Public Safety:				
Police	11,760.00	11,760.00	9,900.00	1,860.00
Fire	100.00	100.00	1,056.96	(956.96)
Other Protection	1,500.00	3,457.00	5,242.05	(1,785.05)
Total Public Safety	<u>13,360.00</u>	<u>15,317.00</u>	<u>16,199.01</u>	<u>(882.01)</u>
Public Works:				
Highways and Streets	200,580.00	207,916.06	207,916.06	0.00
Sanitation	5,068.00	5,068.00	4,314.34	753.66
Water	0.00	0.00	84.82	(84.82)
Total Public Works	<u>205,648.00</u>	<u>212,984.06</u>	<u>212,315.22</u>	<u>668.84</u>
Culture and Recreation:				
Recreation	72,322.00	72,322.00	47,216.18	25,105.82
Parks	8,012.50	8,012.50	6,432.20	1,580.30
Total Culture and Recreation	<u>80,334.50</u>	<u>80,334.50</u>	<u>53,648.38</u>	<u>26,686.12</u>
Conservation and Development				
Economic Development and Assistance (Industrial Development)	5,500.00	5,500.00	1,035.00	4,465.00
Total Conservation and Development	<u>5,500.00</u>	<u>5,500.00</u>	<u>1,035.00</u>	<u>4,465.00</u>
Miscellaneous:				
Other Expenditures	0.00	0.00	500.00	(500.00)
Total Miscellaneous	<u>0.00</u>	<u>0.00</u>	<u>500.00</u>	<u>(500.00)</u>
Total Expenditures	<u>350,487.50</u>	<u>359,780.56</u>	<u>319,661.82</u>	<u>40,118.74</u>
Excess of Revenue Over (Under) Expenditures	<u>(44,009.50)</u>	<u>(51,345.56)</u>	<u>30,308.71</u>	<u>81,654.27</u>
<b>Other Financing Sources (Uses):</b>				
Transfers Out	(15,000.00)	(15,000.00)	(15,000.00)	0.00
Sale of Municipal Property	0.00	0.00	27,610.00	27,610.00
Total Other Financing Sources (Uses)	<u>(15,000.00)</u>	<u>(15,000.00)</u>	<u>12,610.00</u>	<u>27,610.00</u>
Net Change in Fund Balances	<u>(59,009.50)</u>	<u>(66,345.56)</u>	<u>42,918.71</u>	<u>109,264.27</u>
Fund Balance - Beginning	<u>102,473.29</u>	<u>102,473.29</u>	<u>102,473.29</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>43,463.79</u>	<u>36,127.73</u>	<u>145,392.00</u>	<u>109,264.27</u>

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

NOTE 1. Budgets and Budgetary Accounting:

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

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

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

The Municipality 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.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with the modified cash basis of accounting.

NOTE 2. GAAP/Budgetary Accounting Basis Differences:

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

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SUPPLEMENTARY INFORMATION

LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance 01/01/14	Additions	Deletions	Ending Balance 12/31/15	Due Within One Year
<b>Primary Government:</b>					
<b>Business-Type Activities:</b>					
Bonds Payable:					
Sewer Project Revenue Bonds, Series 2008	369,363.95		10,941.24	358,422.71	5,772.87
Water Revenue Bonds, Series 2008	<u>198,622.16</u>		<u>5,890.39</u>	<u>192,731.77</u>	<u>3,108.00</u>
<b>Total Business-Type Activities</b>	<u>567,986.11</u>	<u>0.00</u>	<u>16,831.63</u>	<u>551,154.48</u>	<u>8,880.87</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>567,986.11</u>	<u>0.00</u>	<u>16,831.63</u>	<u>551,154.48</u>	<u>8,880.87</u>

Debt payable at December 31, 2015 is comprised of the following:

## Revenue Bonds:

Sewer Project Revenue Bonds - Series 2008

Interest Rate at 3.625%; Maturity November 21, 2048;

Payable from Sewer Fund

\$ 358,422.71

Water Revenue Bonds - Series 2008

Interest Rate at 3.625%; Maturity November 21, 2048;

Payable from Sewer Fund

\$ 192,731.77

The annual requirements to amortize all debt outstanding as of December 31, 2015, are as follows:

Annual Requirements to Maturity for Long-Term Debt  
December 31, 2015

Year Ending Dec. 31,	Sewer Project Revenue Bond, Series 2008		Water Revenue Bond, Series 2008		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	5,772.87	12,899.13	3,108.00	6,936.00	8,880.87	19,835.13
2017	5,985.65	12,686.35	3,222.54	6,821.46	9,208.19	19,507.81
2018	6,206.28	12,465.72	3,341.33	6,702.67	9,547.61	19,168.39
2019	6,435.02	12,236.98	3,464.48	6,579.52	9,899.50	18,816.50
2020	6,672.21	11,999.79	3,592.17	6,451.83	10,264.38	18,451.62
2021-2025	37,236.34	56,123.66	20,047.25	30,172.75	57,283.59	86,296.41
2026-2030	44,623.53	48,736.45	24,024.36	26,213.64	68,647.89	74,950.09
2031-2035	53,476.30	39,883.70	28,790.49	21,429.51	82,266.79	61,313.21
2036-2040	64,085.32	29,274.68	34,502.17	15,717.83	98,587.49	44,992.51
2041-2045	76,799.04	16,560.96	41,346.96	8,873.04	118,146.00	25,434.00
2046-2050	51,130.15	2,846.57	27,292.02	1,507.16	78,422.17	4,353.73
Totals	<u>358,422.71</u>	<u>255,713.99</u>	<u>192,731.77</u>	<u>137,405.41</u>	<u>551,154.48</u>	<u>393,119.40</u>