

**MUNICIPALITY OF ETHAN
ETHAN, SOUTH DAKOTA**

AUDIT REPORT

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

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF ETHAN

MUNICIPAL OFFICIALS
DECEMBER 31, 2014

GOVERNING BOARD:

Lisa Hjellum – Chairman
Robert Fitzgerald – Vice-Chairman
Howard Caylor
Dale Meinke

FINANCE OFFICER:

Sonya Hespe

ATTORNEY:

Tim Bottum

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**

Governing Board
Municipality of Ethan
Ethan, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities and the business-type activities of the Municipality of Ethan, South Dakota (Municipality), as of December 31, 2014 and for the year 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 August 26, 2015, which was qualified because we were unable to determine the accuracy of beginning balances by fund type.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items 2014-001 and 2014-002 to be material weaknesses.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 no opinion on them.

Purpose of this Report

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



Schoenfish & Co., Inc.
Certified Public Accountants
August 26, 2015

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

PRIOR FEDERAL AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2006-01:

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

Compliance – Related Finding:

Finding Number 2006-02:

The Municipality of Ethan did not secure audit services in a timely manner and, as a result, the audit of the Municipality for the year ended December 31, 2006, was not issued within nine months after the end of the audit period in violation of OMB Circular A-133 §___.320. This finding has been corrected.

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2014-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for the revenues. This is the second consecutive audit in which a similar comment has occurred.

Criteria:

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

Condition:

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

Effect:

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

Recommendation:

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

Management's Response:

The Municipality of Ethan Chairperson, Lisa Hjellum, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Ethan, 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.

Finding Number 2014-002:

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 first audit in which this comment has occurred.

Criteria:

Proper balances should be kept for each fund that the Municipality maintains.

Condition:

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

- a. The prior finance officer had not determined Cash balances and Net Position/Fund Balance could not be determined by fund type at the beginning of the audit period.

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SCHEDULE OF CURRENT AUDIT FINDINGS
(Continued)

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 for the Municipality of Ethan.

Recommendations:

2. We recommend that all necessary accounting records be established and properly maintained in order to maintain proper Cash balances and Net Position/Fund Balance for each major fund.

Management's Response:

The Municipality of Ethan Chairperson, Lisa Hjellum, is the contact person responsible for the response for this comment. This comment is due to the prior finance officer not maintaining proper balances for each major fund. The current finance officer is maintaining this information.

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the officials during the course of the audit and with one board member and the Finance Officer on September 10, 2015.

Schoenfish & Co., Inc.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Ethan
Ethan, 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 Ethan, South Dakota, (Municipality) as of December 31, 2014 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinions

We were not able to determine the accuracy of beginning balances by fund for each fund maintained by the Municipality.

Opinions

In our opinion, except for the effects of the items reported in the basis for qualified opinions paragraph, 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 Ethan as of December 31, 2014, and the respective changes in financial position, modified cash basis, where applicable, thereof the year 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 financial statements. The Schedule of Expenditures of State Awards, the Budgetary Comparison Schedules for the General Fund and Park Fund, and the Long-Term Liabilities schedule listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2015, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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
August 26, 2015

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MUNICIPALITY OF ETHAN
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
December 31, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	264,394.90	161,733.71	426,128.61
Investments	26,220.22	30,052.27	56,272.49
Restricted Assets:			
Investments	6,259.79	18,047.84	24,307.63
TOTAL ASSETS	296,874.91	209,833.82	506,708.73
NET POSITION:			
Restricted for:			
Capital Projects Purposes	79,726.25		79,726.25
Debt Service Purposes	6,259.79	18,047.84	24,307.63
Park Purposes	16,324.44		16,324.44
Preservation Purposes	482.61		482.61
Unrestricted	194,081.82	191,785.98	385,867.80
TOTAL NET POSITION	296,874.91	209,833.82	506,708.73

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

MUNICIPALITY OF ETHAN
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	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	77,580.81	1,422.50			(76,158.31)		(76,158.31)
Public Safety	7,371.73				(7,371.73)		(7,371.73)
Public Works	1,060,159.25	19,099.77	12,375.60	533,713.99	(494,969.89)		(494,969.89)
Health and Welfare	11,448.70				(11,448.70)		(11,448.70)
Culture and Recreation	26,487.73	14,449.80			(12,037.93)		(12,037.93)
Long-Term Debt	4,419.36				(4,419.36)		(4,419.36)
Total Governmental Activities	1,187,467.58	34,972.07	12,375.60	533,713.99	(606,405.92)		(606,405.92)
Business-type Activities:							
Water	78,021.33	81,972.98				3,951.65	3,951.65
Sewer	33,242.94	75,736.08				42,493.14	42,493.14
Total Business-Type Activities	111,264.27	157,709.06	0.00	0.00		46,444.79	46,444.79
Total Primary Government	1,298,731.85	192,681.13	12,375.60	533,713.99	(606,405.92)	46,444.79	(559,961.13)
General Revenues:							
Taxes:							
Property Taxes					65,950.36		65,950.36
Sales Taxes					137,599.17		137,599.17
State Shared Revenues					3,050.64		3,050.64
Unrestricted Investment Earnings					307.03	339.74	646.77
Debt Issued					514,236.52		514,236.52
Miscellaneous Revenue					4,853.24	600.00	5,453.24
Total General Revenues					725,996.96	939.74	726,936.70
Change in Net Position					119,591.04	47,384.53	166,975.57
Net Position-Beginning					177,283.87	162,449.29	339,733.16
NET POSITION-ENDING					296,874.91	209,833.82	506,708.73

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

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

	<u>General Fund</u>	<u>Park Fund</u>	<u>Preservation Fund</u>	<u>Capital Projects - Water</u>	<u>Capital Projects - Sewer</u>	<u>Total</u>
ASSETS:						
Cash and Cash Equivalents	167,861.60	16,324.44	482.61	12,237.90	67,488.35	264,394.90
Investments	26,220.22					26,220.22
Restricted Investments	6,259.79					6,259.79
TOTAL ASSETS	<u>200,341.61</u>	<u>16,324.44</u>	<u>482.61</u>	<u>12,237.90</u>	<u>67,488.35</u>	<u>296,874.91</u>
FUND BALANCES:						
Restricted for Debt Service	6,259.79					6,259.79
Restricted for Park		16,324.44				16,324.44
Restricted for Preservation			482.61			482.61
Restricted for Capital Projects				12,237.90	67,488.35	79,726.25
Assigned for Next Year's Budget	61,671.00					61,671.00
Unassigned	132,410.82					132,410.82
TOTAL FUND BALANCES	<u>200,341.61</u>	<u>16,324.44</u>	<u>482.61</u>	<u>12,237.90</u>	<u>67,488.35</u>	<u>296,874.91</u>

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

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

	General Fund	Park Fund	Preservation Fund	Capital Projects - Water	Capital Projects - Sewer	Total
Revenues:						
Taxes:						
General Property Taxes	65,503.69					65,503.69
General Sales and Use Taxes	137,599.17					137,599.17
Amusement Taxes	72.00					72.00
Penalties & Interest on Delinquent Taxes	374.67					374.67
Total Taxes	203,549.53	0.00	0.00	0.00	0.00	203,549.53
Licenses and Permits	1,422.50	0.00	0.00	0.00	0.00	1,422.50
Intergovernmental Revenue:						
State Grants				71,370.24	462,343.75	533,713.99
State Shared Revenue:						
Bank Franchise Tax	768.56					768.56
Liquor Tax Reversion	2,282.08					2,282.08
Motor Vehicle Licenses	3,719.32					3,719.32
Local Government Highway and Bridge Fund	8,129.54					8,129.54
Other	508.57					508.57
County Shared Revenue:						
County Wheel Tax	18.17					18.17
Total Intergovernmental Revenue	15,426.24	0.00	0.00	71,370.24	462,343.75	549,140.23
Charges for Goods and Services:						
Sanitation	19,099.77					19,099.77
Total Charges for Goods and Services	19,099.77	0.00	0.00	0.00	0.00	19,099.77
Miscellaneous Revenue:						
Investment Earnings	307.03					307.03
Contributions and Donations from Private Sources			14,449.80			14,449.80
Other	4,853.24					4,853.24
Total Miscellaneous Revenue	5,160.27	0.00	14,449.80	0.00	0.00	19,610.07
Total Revenue	244,658.31	0.00	14,449.80	71,370.24	462,343.75	792,822.10

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

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

	General Fund	Park Fund	Preservation Fund	Capital Projects - Water	Capital Projects - Sewer	Total
Expenditures:						
General Government:						
Legislative	21,033.57					21,033.57
Elections	633.11					633.11
Financial Administration	34,021.29					34,021.29
Other	21,892.84					21,892.84
Total General Government	77,580.81	0.00	0.00	0.00	0.00	77,580.81
Public Safety:						
Police	7,200.00					7,200.00
Protective Inspection	171.73					171.73
Total Public Safety	7,371.73	0.00	0.00	0.00	0.00	7,371.73
Public Works:						
Highways and Streets	99,730.49					99,730.49
Sanitation	21,466.80				794,974.85	816,441.65
Water				143,987.11		143,987.11
Total Public Works	121,197.29	0.00	0.00	143,987.11	794,974.85	1,060,159.25
Health and Welfare:						
Health	11,448.70					11,448.70
Total Health and Welfare	11,448.70	0.00	0.00	0.00	0.00	11,448.70
Culture and Recreation:						
Parks	11,399.72	1,120.82				12,520.54
Historical Preservation			13,967.19			13,967.19
Total Culture and Recreation	11,399.72	1,120.82	13,967.19	0.00	0.00	26,487.73
Debt Service	4,419.36	0.00	0.00	0.00	0.00	4,419.36
Total Expenditures	233,417.61	1,120.82	13,967.19	143,987.11	794,974.85	1,187,467.58
Excess Revenues Over (Under) Expenditures	11,240.70	(1,120.82)	482.61	(72,616.87)	(332,631.10)	(394,645.48)
Other Financing Sources (Uses):						
Long-Term Debt Issued				51,894.52	462,342.00	514,236.52
Total Other Financing Sources (Uses)	0.00	0.00	0.00	51,894.52	462,342.00	514,236.52
Net Change in Fund Balance	11,240.70	(1,120.82)	482.61	(20,722.35)	129,710.90	119,591.04
Fund Balance - Beginning	189,100.91	17,445.26	0.00	32,960.25	(62,222.55)	177,283.87
FUND BALANCE - ENDING	200,341.61	16,324.44	482.61	12,237.90	67,488.35	296,874.91

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

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

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	49,188.66	112,545.05	161,733.71
Investments	6,997.72	23,054.55	30,052.27
Total Current Assets	56,186.38	135,599.60	191,785.98
Noncurrent Assets:			
Restricted Investments	6,259.80	11,788.04	18,047.84
Total Noncurrent Assets	6,259.80	11,788.04	18,047.84
TOTAL ASSETS	62,446.18	147,387.64	209,833.82
NET POSITION:			
Restricted for:			
Revenue Bond Debt Service	6,259.80	11,788.04	18,047.84
Unrestricted	56,186.38	135,599.60	191,785.98
TOTAL NET POSITION	62,446.18	147,387.64	209,833.82

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

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

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Charges for Goods and Services	48,298.74	45,657.38	93,956.12
Revenue Dedicated to Servicing Debt	33,674.24	30,078.70	63,752.94
Total Operating Revenue	81,972.98	75,736.08	157,709.06
Operating Expenses:			
Personal Services	16,324.09	18,756.00	35,080.09
Other Current Expense	7,430.90	6,630.30	14,061.20
Materials	49,847.10		49,847.10
Total Operating Expenses	73,602.09	25,386.30	98,988.39
Operating Income (Loss)	8,370.89	50,349.78	58,720.67
Nonoperating Revenue (Expense):			
Investment Earnings	125.15	214.59	339.74
Rent Revenue	600.00		600.00
Debt Service (Principal)	(2,564.71)	(2,200.44)	(4,765.15)
Interest Expense	(1,854.53)	(5,656.20)	(7,510.73)
Total Nonoperating Revenue (Expense)	(3,694.09)	(7,642.05)	(11,336.14)
Change in Net Position	4,676.80	42,707.73	47,384.53
Net Position - Beginning	57,769.38	104,679.91	162,449.29
NET POSITION - ENDING	62,446.18	147,387.64	209,833.82

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

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.

a. Financial Reporting Entity:

The reporting entity of the Municipality of Ethan (Municipality) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position 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. 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 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 Municipality or it meets the following criteria:

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

Governmental Funds:

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

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

Park Fund – to account for fees received for park purposes to include ball grounds and other athletic, amusement, and necessary facilities in connection with the park system. This is a major fund.

Preservation Fund – to account for the contributions and other financial resources for the purpose of maintaining the municipal museum. This is a major fund.

Capital Projects Funds – capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Capital Projects - Water Fund – to account for financial resources to be used for the construction of the water system. This is a major fund.

Capital Projects - Sewer Fund – to account for financial resources to be used for the construction of the sewer system. This is 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 unity – 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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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.

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:

Government-wide Financial Statements:

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

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used, applied with the limitations of the 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, the statement of financial position reports only cash and cash equivalents, those investments with terms to maturity of 90 days (three months) or less at the date of acquisition. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

- a. Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

d. Deposits and Investments:

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

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

e. Long-Term Liabilities:

Long-term liabilities include, but are not limited to, Revenue Bonds

As discussed in Note 1c. above 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 Municipality has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the Municipality. The Municipality does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

The Municipality has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

f. 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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

g. 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, noncapital financing activities, or investing activities are not reported as components of operating revenues and expenses.

h. Equity Classifications:

Government-wide Financial 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 Net Position.

Fund Financial Statements:

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

i. Application of Net Position:

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

j. Fund Balance Classification Policies and Procedures:

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

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- 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 re 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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

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

The purpose of each major special revenue fund and revenue source is listed below:

Major Special Revenue Fund	Revenue Source
Park Fund	Fees and Donations
Historic Preservation Fund	Donations

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 to the disbursements compared to appropriations:

	Year Ended 12/31/14
General Fund:	
Legislative	\$ 333.57
General Government - Other	\$ 492.84

The Municipality plans to take the following actions to address these violations: supplement the budget when legal authority exists.

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

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

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

Investments – In general, SDCL 4-5-6 permits Municipality funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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

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 the investment. The Municipality's policy is to credit all income from investments to the fund making the investment.

4. RESTRICTED CASH AND INVESTMENTS

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

Amount:	Purpose:
\$ 24,307.63	For Debt Service, by debt covenants

5. 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.

6. RESTRICTED NET POSITION

Restricted net position for the year ended December 31, 2014 were as follows:

<u>Purpose:</u>	<u>Amount</u>
Major Funds:	
General Fund - Debt Service	\$ 6,259.79
Park Fund - Park Purposes	\$ 16,324.44
Preservation Fund - Preservation Purposes	\$ 482.61
Capital Projects - Water	\$ 12,237.90
Capital Projects - Sewer	\$ 67,488.35
Water Fund - Debt Service	\$ 6,259.80
Sewer Fund - Debt Service	\$ 11,788.04

These balances are restricted due to donor and statutory requirements.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

7. OPERATING LEASES

The Municipality of Ethan entered into a forty year operating lease with Hanson Rural Water System to provide water to the Municipality. A monthly service charge in the amount of \$1,115 is paid by the Municipality to Hanson Rural Water System along with a charge of \$3.70 per 1,000 gallons of water consumed. The monthly service charge represents a contribution by the Municipality to aid Hanson Rural Water System 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 these lease payments. Payments are made from the Municipality 's Water Fund.

The following are the minimum payments on this operating lease:

2015	\$ 13,380.00
2016	\$ 13,380.00
2017	\$ 13,380.00
2018	\$ 13,380.00
2019	\$ 13,380.00
2020-2024	\$ 66,900.00
2025-2029	\$ 66,900.00
2030-2034	\$ 66,900.00
2035-2039	\$ 66,900.00
2040-2044	\$ 66,900.00
2045-2049	\$ 53,520.00

8. RETIREMENT PLAN

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provide retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provision are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal year ended December 31, 2014, 2013, 2012 was \$4,299.01, \$2,031.14, and \$1,930.22 respectively, equal to the required contributions each year.

9. SIGNIFICANT CONTINGENCIES – LITIGATION

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

10. RISK MANAGEMENT

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2014, the Municipality managed its risks as follows:

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 purchases liability insurance for worker's compensation from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The Municipality has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended December 31, 2014, no claims for unemployment benefits were paid. At December 31, 2014 no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

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

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes	75,700.00	75,700.00	65,503.69	(10,196.31)
General Sales and Use Taxes	90,000.00	90,000.00	137,599.17	47,599.17
Amusement Taxes	0.00	0.00	72.00	72.00
Penalties & Interest on Delinquent Taxes	0.00	0.00	374.67	374.67
Total Taxes	165,700.00	165,700.00	203,549.53	37,849.53
Licenses and Permits	500.00	500.00	1,422.50	922.50
Intergovernmental Revenue:				
State Shared Revenue:				
Bank Franchise Tax	0.00	0.00	768.56	768.56
Liquor Tax Reversion	1,500.00	1,500.00	2,282.08	782.08
Motor Vehicle Licenses	0.00	0.00	3,719.32	3,719.32
Local Government Highway and Bridge Fund	5,000.00	5,000.00	8,129.54	3,129.54
Other	0.00	0.00	508.57	508.57
County Shared Revenue:				
County Wheel Tax	0.00	0.00	18.17	18.17
Total Intergovernmental Revenue	6,500.00	6,500.00	15,426.24	8,926.24
Charges for Goods and Services:				
Sanitation	20,000.00	20,000.00	19,099.77	(900.23)
Total Charges for Goods & Services	20,000.00	20,000.00	19,099.77	(900.23)
Miscellaneous Revenue:				
Investment Earnings	1,000.00	1,000.00	307.03	(692.97)
Other	0.00	0.00	4,853.24	4,853.24
Total Miscellaneous Revenue	1,000.00	1,000.00	5,160.27	4,160.27
Total Revenue	193,700.00	193,700.00	244,658.31	50,958.31

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

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
General Government:				
Legislative	16,000.00	20,700.00	21,033.57	(333.57)
Contingency	17,700.00	17,700.00		
Amount Transferred		(13,850.00)		3,850.00
Elections	1,000.00	1,000.00	633.11	366.89
Financial Administration	23,000.00	34,600.00	34,021.29	578.71
Other	20,000.00	21,400.00	21,892.84	(492.84)
Total General Government	<u>77,700.00</u>	<u>81,550.00</u>	<u>77,580.81</u>	<u>3,969.19</u>
Public Safety:				
Police	8,000.00	8,000.00	7,200.00	800.00
Protective Inspection	0.00	300.00	171.73	128.27
Total Public Safety	<u>8,000.00</u>	<u>8,300.00</u>	<u>7,371.73</u>	<u>928.27</u>
Public Works:				
Highways and Streets	130,000.00	130,000.00	99,730.49	30,269.51
Sanitation	22,000.00	22,700.00	21,466.80	1,233.20
Total Public Works	<u>152,000.00</u>	<u>152,700.00</u>	<u>121,197.29</u>	<u>31,502.71</u>
Health and Welfare:				
Health	2,000.00	11,500.00	11,448.70	51.30
Total Health and Welfare	<u>2,000.00</u>	<u>11,500.00</u>	<u>11,448.70</u>	<u>51.30</u>
Culture and Recreation:				
Parks	11,000.00	11,500.00	11,399.72	100.28
Total Culture and Recreation	<u>11,000.00</u>	<u>11,500.00</u>	<u>11,399.72</u>	<u>100.28</u>
Debt Service	<u>5,000.00</u>	<u>5,000.00</u>	<u>4,419.36</u>	<u>580.64</u>
Total Expenditures	<u>255,700.00</u>	<u>270,550.00</u>	<u>233,417.61</u>	<u>37,132.39</u>
Net Change in Fund Balances	<u>(62,000.00)</u>	<u>(76,850.00)</u>	<u>11,240.70</u>	<u>88,090.70</u>
Fund Balance - Beginning	<u>189,100.91</u>	<u>189,100.91</u>	<u>189,100.91</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>127,100.91</u>	<u>112,250.91</u>	<u>200,341.61</u>	<u>88,090.70</u>

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF ETHAN
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PARK FUND
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Total Revenues	0.00	0.00	0.00	0.00
Expenditures:				
Culture and Recreation:				
Parks	17,000.00	17,000.00	1,120.82	15,879.18
Total Culture and Recreation	17,000.00	17,000.00	1,120.82	15,879.18
Total Expenditures	17,000.00	17,000.00	1,120.82	15,879.18
Net Change in Fund Balances	(17,000.00)	(17,000.00)	(1,120.82)	15,879.18
Fund Balance - Beginning	17,445.26	17,445.26	17,445.26	0.00
FUND BALANCE - ENDING	445.26	445.26	16,324.44	15,879.18

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.

The Municipality did not encumber any amounts at December 31, 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 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 cash basis. Utilizing the 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.

SCHEDULE OF EXPENDITURES OF STATE AWARDS
December 31, 2014

	<u>TOTAL GRANT AWARD</u>	<u>EXPENDED 2014</u>
<u>South Dakota Consolidated</u> <u>Water Facilities Construction</u>		
<u>Program-Grant No. 2015G-110</u>	<u>\$ 103,000.00</u>	<u>\$ 71,370.24</u>
<u>Program - Loan No. 2015L-111</u>	<u>\$ 75,000.00</u>	<u>\$ 51,894.52</u>
<u>Program-Grant No. 2013G-102</u>	<u>\$ 550,000.00</u>	<u>\$ 462,343.75</u>

SUPPLEMENTARY INFORMATION

LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended December 31, 2014 is as follows:

	Balance 01/01/14	Additions	Deletions	Balance 12/31/14	Due Within One Year
Primary Government:					
Governmental Activities:					
Drainage Revenue Bonds, Series 2003	77,695.61		1,237.75	76,457.86	1,285.78
Total Governmental Activities	<u>77,695.61</u>	<u>0.00</u>	<u>1,237.75</u>	<u>76,457.86</u>	<u>1,285.78</u>
Business-Type Activities:					
Water Utility Revenue Bonds, Series 1996	37,353.13		2,564.71	34,788.42	2,699.13
Drainage Revenue Bonds, Series 2003	138,125.53		2,200.44	135,925.09	2,285.83
SRF Clean Water Revenue Bonds	0.00	462,342.00		462,342.00	2,423.27
Consolidated Water Revenue Bonds Series 2014	0.00	51,894.52		51,894.52	2,057.29
Total Business-Type Activities	<u>175,478.66</u>	<u>514,236.52</u>	<u>4,765.15</u>	<u>684,950.03</u>	<u>9,465.52</u>
TOTAL PRIMARY GOVERNMENT	<u><u>253,174.27</u></u>	<u><u>514,236.52</u></u>	<u><u>6,002.90</u></u>	<u><u>761,407.89</u></u>	<u><u>10,751.30</u></u>

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

Revenue Bonds:

Drainage Revenue Bond – Series 2003, Monthly Payments of \$1,023.00, Maturity 6-2045, Interest Rate 4.125% Payable from General and Sewer Funds	\$ 212,382.95
Water Utility Revenue Bond – Series 1996, Monthly Payments of \$ 368.27, Maturity 6-2025, Interest Rate 5.125% Payable from Water Fund	\$ 34,788.42
SRF Clean Water Revenue Bonds, Quarterly payments of \$6,399.24, Maturity 8-15-2045, Interest Rate 3.25% Payable from Sewer Fund	\$ 462,342.00
Consolidate Water Revenue Bond – Series 2014, Semi-annual payments of \$4,285.71, Maturity 5-1-2025, Interest Rate 2.25% Payable from Water Fund	\$ 51,894.52

SUPPLEMENTARY INFORMATION

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

Annual Requirements to Maturity for Long-Term Debt
December 31, 2014

Year Ending December 31,	Drainage Revenue Bonds, Series 2003		Water Utility Revenue Bonds, Series 1996		SRF Clean Water Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	3,571.61	8,704.39	2,699.13	1,720.11	2,423.27	3,975.97
2016	3,721.76	8,554.24	2,840.77	1,578.47	9,891.59	15,705.37
2017	3,878.22	8,397.78	2,989.83	1,429.41	10,217.00	15,378.96
2018	4,041.27	8,234.73	3,146.73	1,272.51	10,553.13	15,043.83
2019	4,211.15	8,064.85	3,311.82	1,107.42	10,900.30	14,696.66
2020-2024	23,864.79	37,515.21	19,355.46	2,740.75	60,122.43	67,862.37
2025-2029	29,320.95	32,059.05	444.68	2.23	70,684.49	57,300.31
2030-2034	36,030.47	25,349.53			83,102.07	44,882.73
2035-2039	44,260.59	17,119.41			97,701.11	30,283.69
2040-2044	54,379.71	7,000.29			114,864.88	13,119.92
2045-2049	5,102.43	321.85			18,888.73	307.77
Totals	<u>212,382.95</u>	<u>161,321.33</u>	<u>34,788.42</u>	<u>9,850.90</u>	<u>489,349.00 *</u>	<u>278,557.58</u>

Year Ending December 31,	Consolidated Water Revenue Bonds, Series 2014		Total	
	Principal	Interest	Principal	Interest
2015	2,057.29	2,228.42	10,751.30	16,628.89
2016	6,965.04	1,606.38	23,419.16	27,444.46
2017	7,127.18	1,444.24	24,212.23	26,650.39
2018	7,288.44	1,282.98	25,029.57	25,834.05
2019	7,453.35	1,118.07	25,876.62	24,987.00
2020-2024	39,870.29	2,986.81	143,212.97	111,105.14
2025-2029	4,238.41	47.30	104,688.53	89,408.89
2030-2034			119,132.54	70,232.26
2035-2039			141,961.70	47,403.10
2040-2044			169,244.59	20,120.21
2045-2049			23,991.16	629.62
Totals	<u>75,000.00 *</u>	<u>10,714.20</u>	<u>811,520.37</u>	<u>460,444.01</u>

The above long-term debt information is presented for informational purposes only. The financial statements are prepared on the modified cash basis so no liabilities are shown.

* Payment schedules reflect the full drawdowns as shown on the loan amortization schedule. Additional drawdowns were received in 2015 to result in the full amount of the loan.