

**MUNICIPALITY OF HECLA  
SCHEDULE OF FINDINGS  
INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
For the Year Ended December 31, 2014**

**MUNICIPALITY OF HECLA  
MUNICIPAL OFFICIALS  
December 31, 2014**

Jay Osterloh	Mayor	
Harry Sukut	Council Member	Ward I
Barb Cowley	Council Vice President	Ward I
Cathy Jones	Council President	Ward II
Richard Dehne	Council Member	Ward II
Hal Treeby	Council Member	Ward III
Carol Scott-Robb	Council Member	Ward III
Gayle Lloyd	Finance Officer	
Dana J. Frohling	Attorney	

**MUNICIPALITY OF HECLA  
TABLE OF CONTENTS**

	<u>Exhibit</u>	<u>Page</u>
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		3 ó 4
Schedule of Prior Audit Findings		5
Schedule of Current Audit Findings		6
Independent Auditor's Report		7 ó 8
<i>Basic Financial Statements</i>		
<b><u>Government-wide Financial Statements:</u></b>		
Statement of Net Position ó Modified Cash Basis	I	10
Statement of Activities ó Modified Cash Basis	II	11 ó 12
<b><u>Fund Financial Statements:</u></b>		
<u>Governmental Funds</u>		
Balance Sheet ó Modified Cash Basis	III	14
Statement of Revenues, Expenditures and Changes in Fund Balances ó Modified Cash Basis	IV	15 ó 16
<u>Proprietary Funds</u>		
Statement of Net Position ó Modified Cash Basis	V	18
Statement of Revenues, Expenses and Changes in Fund Net Positions ó Modified Cash Basis	VI	19
Statement of Cash Flows ó Modified Cash Basis	VII	20
Notes to the Modified Cash Basis Financial Statements		21 ó 32
<i>Supplementary Information:</i>		
	<u>Schedule</u>	
Budgetary Comparison Schedule ó Budgetary Basis ó General Fund	1	35 ó 36
Notes to the Supplementary Information ó Schedule of Budgetary Comparison		37
Schedule of Changes in Long-Term Debt	2	38

# GRANT AND WILLIAMS INC.

CERTIFIED PUBLIC ACCOUNTANTS

[www.grantandwilliams.com](http://www.grantandwilliams.com)

Rose M. Grant, CPA, MST, CGMA  
Aleene A. Williams, CPA

501 WEST 27<sup>th</sup> STREET  
Sioux Falls, SD 57105  
(605) 274-2163  
(605) 336-3783 FAX

## 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 Hecla  
Hecla, 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, the business-type activities, and each major fund, of the Municipality of Hecla, 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 September 8, 2015.

### **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 a certain deficiency in internal control that we consider to be a material weakness.

*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 deficiency described in the accompanying Schedule of Current Audit Findings as item 2014-001 to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. The Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 Municipality'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.

*Grant and Williams Inc.*

Grant and Williams Inc.  
Certified Public Accountants  
September 8, 2015

**MUNICIPALITY OF HECLA  
SCHEDULE OF PRIOR AUDIT FINDINGS**

**Prior Audit Finding:**

**Finding No. 2013-01: Segregation Duties**

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

**MUNICIPALITY OF HECLA  
SCHEDULE OF CURRENT AUDIT FINDINGS**

**Finding No. 2014-001: Segregation of Duties**

A material weakness in internal controls was noted due to a lack of proper segregation of duties that existed for the revenues.

**Analysis:**

Two financial officers processed all revenue transactions from beginning to end. The finance officers were able to receive money, issue receipts, record receipts, post receipts in the accounting records, prepare bank deposits, reconcile bank statements and prepare financial statements. Due to a limited budget for city payroll, these employees are cross-trained and perform their duties as necessary to fill the administrative needs of the municipality. As a result, an inadequate segregation of duties existed for the revenue function of the municipality.

**Recommendation:**

We recommend that municipal 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.

**Auditee's Corrective Action Plan:**

The municipal council will continue to monitor the finance office's revenue process through monthly council reports and the implementation of compensating internal controls, whenever, and wherever possible.

Gayle Lloyd, Finance Officer is the contact person at this entity responsible for the corrective action plan for this comment. This comment is a result of the size of the entity which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The entity has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. Municipality of Hecla is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist.

**CLOSING CONFERENCE**

The contents of this report were discussed with Finance Officer Gayle Lloyd and Council Members Jay Osterloh and Cathy Jones on September 8, 2015.

# GRANT AND WILLIAMS, INC.

CERTIFIED PUBLIC ACCOUNTANTS

[www.grantandwilliams.com](http://www.grantandwilliams.com)

Rose M. Grant, CPA, MST, CGMA  
Aleene A. Williams, CPA

501 WEST 27<sup>th</sup> STREET  
Sioux Falls, SD 57105  
(605) 274-2163  
Fax: (605)-336-6783

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Municipality of Hecla  
Hecla, 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 Hecla, 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.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, the business-type activities, and each major fund of the Municipality of Hecla as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1c to the financial statements.

### **Basis of Accounting**

We draw attention to Note 1c 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 Budgetary Comparison Schedule Budgetary Basis ó General Fund and Schedule of Changes in Long-Term Debt as 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 September 8, 2015 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

*Grant and Williams Inc.*

Grant and Williams Inc.  
Certified Public Accountants  
September 8, 2015

**MUNICIPALITY OF HECLA, SOUTH DAKOTA  
BASIC FINANCIAL STATEMENTS**

**MUNICIPALITY OF HECLA**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**DECEMBER 31, 2014**

**Exhibit I**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 70,658.08	\$ 108,512.24	\$ 179,170.32
Investments	15,286.89	199,926.26	215,213.15
Restricted Assets:			
Cash and cash equivalents	-	37,938.48	37,938.48
Investments	78,720.24	-	78,720.24
	<u>\$ 164,665.21</u>	<u>\$ 346,376.98</u>	<u>\$ 511,042.19</u>
<b>TOTAL ASSETS</b>	<b>\$ 164,665.21</b>	<b>\$ 346,376.98</b>	<b>\$ 511,042.19</b>
<b>NET POSITION:</b>			
Restricted for:			
Debt Service Purposes	\$ -	\$ 15,016.02	\$ 15,016.02
Customer Deposits	-	22,922.46	22,922.46
Permanently Restricted Purposes			
Expendable	53,726.94	-	53,726.94
Non-Expendable	24,993.30	-	24,993.30
Unrestricted	85,944.97	308,438.50	394,383.47
	<u>\$ 164,665.21</u>	<u>\$ 346,376.98</u>	<u>\$ 511,042.19</u>
<b>TOTAL NET POSITION</b>	<b>\$ 164,665.21</b>	<b>\$ 346,376.98</b>	<b>\$ 511,042.19</b>

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

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Primary Government:			
Governmental Activities:			
General Government	\$ 138,284.39	\$ 795.00	\$ 6,321.45
Public Safety	6,501.00	-	-
Public Works	85,788.89	57,130.97	750.00
Health and Welfare	46,995.39	14,284.82	2,847.00
Culture and Recreation	11,002.13	3,183.20	-
Intergovernmental Expenditures	1,000.00	-	-
Miscellaneous Expenditures	6,897.23	26,482.61	-
Total Governmental Activities	296,469.03	101,876.60	9,918.45
Business-type Activities:			
Water	78,245.91	83,472.28	-
Electric	365,395.14	376,081.27	-
Sewer	42,324.93	49,446.14	-
Total Business-Type Activities	485,965.98	508,999.69	-
Total Primary Government	<u>\$ 782,435.01</u>	<u>\$ 610,876.29</u>	<u>\$ 9,918.45</u>

**General Revenues:**

Taxes:

    Property Taxes

    Sales Taxes

State Shared Revenues

Unrestricted Investment Earnings

Miscellaneous Revenue

**Transfers**

Total General Revenues and Transfers

Change in Net Position

Net Position-Beginning

NET POSITION-ENDING

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

**Exhibit II**

<b>Net (Expense) Revenue and Changes in Net Position</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (131,167.94)	\$ -	\$ (131,167.94)
(6,501.00)	-	(6,501.00)
(27,907.92)	-	(27,907.92)
(29,863.57)	-	(29,863.57)
(7,818.93)	-	(7,818.93)
(1,000.00)	-	(1,000.00)
19,585.38	-	19,585.38
(184,673.98)		(184,673.98)
-	5,226.37	5,226.37
-	10,686.13	10,686.13
-	7,121.21	7,121.21
-	23,033.71	23,033.71
(184,673.98)	23,033.71	(161,640.27)
92,536.20	-	92,536.20
55,151.02	-	55,151.02
3,461.70	-	3,461.70
40.26	73.66	113.92
21,829.10	612.41	22,441.51
66.51	(66.51)	-
173,084.79	619.56	173,704.35
(11,589.19)	23,653.27	12,064.08
176,254.40	322,723.71	498,978.11
<u>\$ 164,665.21</u>	<u>\$ 346,376.98</u>	<u>\$ 511,042.19</u>

**MUNICIPALITY OF HECLA, SOUTH DAKOTA  
GOVERNMENTAL FUNDS**

**MUNICIPALITY OF HECLA  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014**

**Exhibit III**

	<u>General Fund</u>	<u>Ambulance Fund</u>	<u>Cemetery Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 70,658.08	\$ -	\$ -	\$ 70,658.08
Investments	15,286.89	-	-	15,286.89
Restricted Investments	1,283.68	52,443.26	24,993.30	78,720.24
<b>TOTAL ASSETS</b>	<u>87,228.65</u>	<u>52,443.26</u>	<u>24,993.30</u>	<u>164,665.21</u>
<b>FUND BALANCES:</b>				
Nonspendable	-	-	24,993.30	24,993.30
Restricted	1,283.68	52,443.26	-	53,726.94
Unassigned	85,944.97	-	-	85,944.97
<b>TOTAL FUND BALANCES</b>	<u>\$ 87,228.65</u>	<u>\$ 52,443.26</u>	<u>\$ 24,993.30</u>	<u>\$ 164,665.21</u>

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

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

	<b>General</b>	<b>Ambulance</b>	<b>Cemetery</b>	<b>Total</b>
	<b>Fund</b>	<b>Fund</b>	<b>Fund</b>	<b>Governmental</b>
				<b>Funds</b>
<b>Revenues:</b>				
Taxes:				
General Property Taxes	\$ 92,046.53	\$ -	\$ -	\$ 92,046.53
General Sales and Use Taxes	55,151.02	-	-	55,151.02
Amusement Taxes	60.00	-	-	60.00
Penalties and Interest on				
Delinquent Taxes	429.67	-	-	429.67
Total Taxes	147,687.22	-	-	147,687.22
Licenses and Permits	795.00	-	-	795.00
Intergovernmental Revenue:				
Federal Grants	2,847.00	-	-	2,847.00
State Shared Revenue:				
Bank Franchise Tax	1,289.17	-	-	1,289.17
Motor Vehicle Commercial Prorate	1,332.22	-	-	1,332.22
Liquor Tax Reversion	2,172.53	-	-	2,172.53
Motor Vehicle Licenses (5%)	7,535.68	-	-	7,535.68
Local Government Highway and				
Bridge Fund	16,979.63	-	-	16,979.63
County Shared Revenue:				
County Wheel Tax	425.46	-	-	425.46
Other	750.00	-	-	750.00
Total Intergovernmental Revenue	33,331.69	-	-	33,331.69
Charges for Goods and Services:				
Sanitation	25,632.14	-	-	25,632.14
Culture and Recreation	3,183.20	-	-	3,183.20
Ambulance	14,284.82	-	-	14,284.82
Cemetery	5,225.84	-	-	5,225.84
Total Charges for Goods and Services	48,326.00	-	-	48,326.00
Miscellaneous Revenue:				
Investment Earnings	22.33	13.15	4.78	40.26
Rentals	19,031.00	-	-	19,031.00
Contributions and Donations from				
Private Sources	2,821.45	3,500.00	-	6,321.45
Liquor Operating Agreement	26,482.61	-	-	26,482.61
Other	2,758.10	-	-	2,758.10
Total Miscellaneous Revenue	51,115.49	3,513.15	4.78	54,633.42
Total Revenue	\$ 281,255.40	\$ 3,513.15	\$ 4.78	\$ 284,773.33

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

**Exhibit IV**

	<b>General Fund</b>	<b>Ambulance Fund</b>	<b>Cemetery Fund</b>	<b>Total Governmental Funds</b>
<b>Expenditures:</b>				
General Government:				
Legislative	\$ 11,437.00	\$ -	\$ -	\$ 11,437.00
Financial Administration	74,769.55	-	-	74,769.55
Other	52,077.84	-	-	52,077.84
Total General Government	138,284.39	-	-	138,284.39
Public Safety:				
Police	6,450.00	-	-	6,450.00
Total Public Safety	6,501.00	-	-	6,501.00
Public Works:				
Highways and Streets	46,638.62	-	-	46,638.62
Sanitation	30,368.50	-	-	30,368.50
Cemeteries	8,781.77	-	-	8,781.77
Total Public Works	85,788.89	-	-	85,788.89
Health and Welfare:				
Health	5,960.01	-	-	5,960.01
Ambulance	18,035.38	-	-	18,035.38
Total Health and Welfare	23,995.39	-	-	23,995.39
Culture and Recreation:				
Parks	10,242.79	-	-	10,242.79
Libraries	759.34	-	-	759.34
Total Culture and Recreation	11,002.13	-	-	11,002.13
Intergovernmental Expenditures	1,000.00			1,000.00
Capital Outlay		23,000.00		23,000.00
Miscellaneous:				
Liquor Operating Agreements	6,897.23			6,897.23
Total Miscellaneous	6,897.23	-	-	6,897.23
Total Expenditures	273,469.03	23,000.00	-	296,469.03
Excess of Revenues Over (Under)				
Expenditures	7,786.37	(19,486.85)	4.78	(11,695.70)
<b>Other Financing Sources (Uses):</b>				
Transfers In (Out)	(1,428.71)	1,500.00	(4.78)	66.51
Sale of Municipal Property	40.00	-	-	40.00
Total Other Financing Sources (Uses)	(1,388.71)	1,500.00	(4.78)	106.51
Net Change in Fund Balance	6,397.66	(17,986.85)	-	(11,589.19)
Fund Balance - Beginning	80,830.99	70,430.11	24,993.30	176,254.40
<b>FUND BALANCE- ENDING</b>	<b>\$ 87,228.65</b>	<b>\$ 52,443.26</b>	<b>\$ 24,993.30</b>	<b>\$ 164,665.21</b>

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

**MUNICIPALITY OF HECLA, SOUTH DAKOTA  
PROPRIETARY FUNDS**

**MUNICIPALITY OF HECLA**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2014**

**Exhibit V**

	Enterprise Funds			Totals
	Water Fund	Electric Fund	Sewer Fund	
<b>ASSETS:</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 29,432.52	\$ 46,634.74	\$ 32,444.98	\$ 108,512.24
Investments	35,000.00	149,926.26	15,000.00	199,926.26
Restricted Cash and Cash Equivalents	19,073.61	13,375.00	5,489.87	37,938.48
Total Current Assets	83,506.13	209,936.00	52,934.85	346,376.98
<b>TOTAL ASSETS</b>	<b>83,506.13</b>	<b>209,936.00</b>	<b>52,934.85</b>	<b>346,376.98</b>
 <b>NET POSITION:</b>				
Restricted for:				
Debt Service	9,526.15	-	5,489.87	15,016.02
Customer Deposits	9,547.46	13,375.00	-	22,922.46
Unrestricted	64,432.52	196,561.00	47,444.98	308,438.50
<b>TOTAL NET POSITION</b>	<b>\$ 83,506.13</b>	<b>\$ 209,936.00</b>	<b>\$ 52,934.85</b>	<b>\$ 346,376.98</b>

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

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

**Exhibit VI**

	<b>Enterprise Funds</b>			<b>Totals</b>
	<b>Water Fund</b>	<b>Electric Fund</b>	<b>Sewer Fund</b>	
<b>Operating Revenue:</b>				
Charges for Goods and Services	\$ 74,045.29	\$ 373,452.31	\$ 48,692.72	\$ 496,190.32
Revenue Dedicated to Servicing Debt	3,026.34	-	627.42	3,653.76
Miscellaneous	6,400.65	2,628.96	126.00	9,155.61
<b>Total Operating Revenue</b>	<b>83,472.28</b>	<b>376,081.27</b>	<b>49,446.14</b>	<b>508,999.69</b>
<b>Operating Expenses:</b>				
Personal Services	28,037.62	79,571.01	12,882.71	120,491.34
Other Current Expense	17,398.79	46,986.55	8,572.75	72,958.09
Materials	23,353.50	226,737.58	3,664.35	253,755.43
<b>Total Operating Expenses</b>	<b>68,789.91</b>	<b>353,295.14</b>	<b>25,119.81</b>	<b>447,204.86</b>
Operating Income (Loss)	14,682.37	22,786.13	24,326.33	61,794.83
<b>Nonoperating Revenue (Expense):</b>				
Investment Earnings	20.15	40.50	13.01	73.66
Debt Service (Principal)	(4,307.08)	-	(12,110.02)	(16,417.10)
Interest Expense	(5,148.92)	-	(5,095.10)	(10,244.02)
Capital Assets	-	(12,100.00)	-	(12,100.00)
Sale of Municipal Property	-	612.41	-	612.41
<b>Total Nonoperating Revenue (Expense)</b>	<b>(9,435.85)</b>	<b>(11,447.09)</b>	<b>(17,192.11)</b>	<b>(38,075.05)</b>
Income (Loss) Before Transfers	5,246.52	11,339.04	7,134.22	23,719.78
Transfers (Out)	(15.19)	(40.50)	(10.82)	(66.51)
<b>Change in Net Position</b>	<b>5,231.33</b>	<b>11,298.54</b>	<b>7,123.40</b>	<b>23,653.27</b>
Net Position - Beginning	78,274.80	198,637.46	45,811.45	322,723.71
<b>NET POSITION - ENDING</b>	<b>\$ 83,506.13</b>	<b>\$ 209,936.00</b>	<b>\$ 52,934.85</b>	<b>\$ 346,376.98</b>

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

**MUNICIPALITY OF HECLA**  
**STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2014**

**Exhibit VII**

	<b>Enterprise Funds</b>			<b>Totals</b>
	<b>Water Fund</b>	<b>Electric Fund</b>	<b>Sewer Fund</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from Customers	\$ 84,787.28	\$ 376,940.82	\$ 48,692.72	\$ 510,420.82
(Payments) to Suppliers	(17,398.79)	(273,724.13)	(12,237.10)	(303,360.02)
(Payments) to Employees	(28,037.62)	(79,571.01)	(12,882.71)	(120,491.34)
Repayment of Customer Deposits	(1,315.00)	(970.00)	-	(2,285.00)
Other Receipts (Payments)	(23,353.50)	110.45	753.42	(22,489.63)
Net Cash Provided (Used) by Operating Activities	<u>14,682.37</u>	<u>22,786.13</u>	<u>24,326.33</u>	<u>61,794.83</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfer Net	(15.19)	(40.50)	(10.82)	(66.51)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(15.19)</u>	<u>(40.50)</u>	<u>(10.82)</u>	<u>(66.51)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchase (Paid) of Capital Assets	-	(12,100.00)	-	(12,100.00)
Principal (Paid) on Capital Debt	(4,307.08)	-	(12,110.02)	(16,417.10)
Interest (Paid) on Capital Debt	(5,148.92)	-	(5,095.10)	(10,244.02)
Sale of assets	-	612.41	-	612.41
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(9,456.00)</u>	<u>(11,487.59)</u>	<u>(17,205.12)</u>	<u>(38,148.71)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest Earnings	20.15	40.50	13.01	73.66
Net Cash Provided (Used) by Investing Activities	<u>20.15</u>	<u>40.50</u>	<u>13.01</u>	<u>73.66</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>5,231.33</u>	<u>11,298.54</u>	<u>7,123.40</u>	<u>23,653.27</u>
Cash and Cash Equivalents - Beginning	<u>78,274.80</u>	<u>198,637.46</u>	<u>45,811.45</u>	<u>322,723.71</u>
Cash and Cash Equivalents - Ending	<u>\$ 83,506.13</u>	<u>\$ 209,936.00</u>	<u>\$ 52,934.85</u>	<u>\$ 346,376.98</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating Income (Loss)	<u>\$ 14,682.37</u>	<u>\$ 22,786.13</u>	<u>\$ 24,326.33</u>	<u>\$ 61,794.83</u>

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

MUNICIPALITY OF HECLA  
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 Government Accounting Standards Board (GASB) pronouncements.

**a. Financial Reporting Entity:**

The reporting entity of the Municipality of Hecla (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 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 a whole or in a 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, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total of 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 form year to year, or because of public interest in the fund's operations.

MUNICIPALITY OF HECLA  
NOTES TO THE MODIFIED CASH BASIS  
FINANCIAL STATEMENTS

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

**Governmental Funds:**

General Fund ó 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 Fund ó special revenue funds are used to account for the proceeds of specific revenue sources, (other than trusts for individual, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Ambulance Fund ó is to account for the collection of funds for the Ambulance Service. This is not a major fund but has been deemed a major fund by the Municipality.

Cemetery Fund ó is to account for the payments received for the Cemetery to maintain and care for the Cemetery. This is not a major fund but has been deemed a major fund by the Municipality.

**Proprietary Funds:**

Enterprise Funds ó 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 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 ó even if that government is not expected to make any payments ó 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 ösolelyö from the revenues of the activity.
- b. Laws or regulations require that the activity's costs if 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 ó is financed primarily by user charges; this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL 9-47-1) This is a major fund.

Electric Fund ó is financed primarily by user charges; this fund accounts for the construction and operation of the municipal electrical system and related facilities. (SDCL 9-39-1 and 9-39-26) This is a major fund.

Sewer Fund ó is 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 öhowö transactions are recorded within the various financial statements. Basis of accounting refers to öwhenö revenues and expenditures or expenses are organized in the accounts and reported in the financial statements, regardless of the measurement focus.

The Municipality used the modified cash basis of accounting, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned

MUNICIPALITY OF HECLA  
NOTES TO THE MODIFIED CASH BASIS  
FINANCIAL STATEMENTS

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 limitation of the modified cash basis of accounting as defined below.

*Fund Financial Statements:*

In the fund financial statement the current financial resources measurement focus or the economic resources measurement focus is used, applied within 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 the 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:

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

As a result of the use of the 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 and liabilities) are not recorded in these financial statements.

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

**d. Deposits and Investments:**

For the purpose of financial reporting, cash and cash equivalents includes all demand 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, those types of investments 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, General Obligation Bonds, Revenue Bonds, Certificates of Participation, Financing (Capital Acquisition) Leases and Compensated Absences.

MUNICIPALITY OF HECLA  
NOTES TO THE MODIFIED CASH BASIS  
FINANCIAL STATEMENTS

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 ó 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 ó 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 ó 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 Revenues 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 or expenses.

**i. Cash and Cash Equivalents:**

The Municipality pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

**j. Equity Classifications:**

*Government-Wide Statements:*

Equity is classified as Net Position and is displayed in two components:

1. Restricted Net Position ó 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 ó All other net position that do not meet the definition of Restricted Net Position.

MUNICIPALITY OF HECLA  
NOTES TO THE MODIFIED CASH BASIS  
FINANCIAL STATEMENTS

*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.

**k. Application of Net Position:**

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

**l. 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 ó includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted ó 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 ó 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 ó 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 Municipal Council or Mayor.
- Unassigned ó 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 Nonspendable Fund Balance is comprised of the following:

- Amount legally or contractually required to be maintained intact such as the Cemetery Fund donations for maintaining the Cemetery.

The Municipality Governing Board has not committed any fund balance types in the current year.

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**

Ambulance Fund

Cemetery Fund

**Revenue Source**

Donations from the Public and City

Donations from the Public

MUNICIPALITY OF HECLA  
NOTES TO THE MODIFIED CASH BASIS  
FINANCIAL STATEMENTS

A schedule of fund balances is provided as follows:

	General Fund	Ambulance Fund	Cemetery Fund	Total
<b>FUND BALANCES:</b>				
Nonspendable				
Cemetery	\$ -	\$ -	\$ 24,993.30	\$ 24,993.30
Restricted				
Cemetery	1,283.68	-	-	1,283.68
Ambulance	-	52,443.26	-	52,443.26
Unassigned	85,944.97	-	-	85,944.97
<b>TOTAL FUND BALANCES</b>	<b>\$ 87,228.65</b>	<b>\$ 52,443.26</b>	<b>\$ 24,993.30</b>	<b>\$ 164,665.21</b>

**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. In the General Fund there were no department level appropriations that exceeded the budget.

**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** ó The Municipality's 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 "AAA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

**Investments** ó 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; or (b) repurchase agreements fully collateralized by securities described in (a) above; or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or they may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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

As of December 31, 2014, the Municipality had the following investments. All investments are in an external investment pool.

MUNICIPALITY OF HECLA  
NOTES TO THE MODIFIED CASH BASIS  
FINANCIAL STATEMENTS

Investment	Credit Rating	Maturities	Fair Value
External Investment Pool:			
SDFIT			\$ 313,865.37
Total Investments			\$ 313,865.37

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

**Custodial Credit Risk – Deposits** ó The risk that, in the event of a depository failure, the Municipality’s deposits may not be returned to it. The Municipality does not have a deposit policy for custodial credit risk. As of December 31, 2014 the Municipality did not have any investment exposed to such credit risk.

**Custodial Credit Risk – Investments** ó The risk that, in the event of the counterparty to a transaction, the Municipality will not be able to recover the value of investment or collateral securities that is in the possession of an outside party.

**Interest Rate Risk** ó 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** ó 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 deposits and investments to the General Fund, including investment income generated by the Cemetery Fund, which must be credited to the General Fund, and used only for maintenance of the municipal cemetery, as required by SDCL 9-32-18. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income except where legal or contractual requirements require investment income to be credited to a fund other than the one associated with the assets. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities.

**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:
\$ 52,443.26	Ambulance Replacement
\$ 1,283.68	Cemetery Maintenance - Expendable
\$ 24,993.30	Cemetery Maintenance - Non-Expendable
\$ 9,547.46	Water Customer Deposits
\$ 13,375.00	Electric Customer Deposits
\$ 9,526.15	Water Debt Service
\$ 5,489.87	Sewer Debt Service

MUNICIPALITY OF HECLA  
NOTES TO THE MODIFIED CASH BASIS  
FINANCIAL STATEMENTS

**5. INTERFUND TRANSFERS:**

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

Transfer to:	Transfer From:	Amount 2014
General Fund	Cemetery Fund	\$ 4.78
	Water Fund	15.19
	Electric Fund	40.50
	Sewer Fund	10.82
		\$ 71.29
Ambulance Fund	General Fund	\$ 1,500.00

**6. 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 real property in the Municipality.

**7. LONG-TERM DEBT:**

Debts payable at December 31, 2014 are comprised of the following:

<u>Revenue Bonds:</u>	December 31, 2014
Wastewater Utility Revenue Bond, Series 2006, matures on October 17, 2046; interest rate 4.125%; monthly payments of \$914; financed through the Sewer Fund. This note will be paid in full in 2020 on the current repayment schedule.	\$ 56,336.41
Sanitary Sewer Replacement Project Loan, matures on January 15, 2032; interest rate 3%; quarterly payments of \$903.72; financed through the Sewer Fund.	83,751.99
Water Storage Facility Revenue Bond, Series 1988; matures on March 29, 2028; interest rate 5.75%; monthly payments of \$788; financed through the Water Fund.	87,198.71
	\$ 227,287.11

MUNICIPALITY OF HECLA  
NOTES TO THE MODIFIED CASH BASIS  
FINANCIAL STATEMENTS

The annual requirements to amortize all debt outstanding as of December 31, 2014, including interest payments of \$295,553.28, are as follows:

YEAR	REVENUE BONDS		
	PRINCIPAL	INTEREST	TOTALS
2015	\$ 17,136.82	\$ 9,524.30	\$ 26,661.12
2016	17,891.31	8,769.81	26,661.12
2017	18,679.85	7,981.27	26,661.12
2018	19,505.32	7,155.80	26,661.12
2019	20,369.20	6,291.92	26,661.12
2020 - 2024	65,850.11	21,192.97	87,043.08
2025 - 2029	54,332.98	6,838.04	61,171.02
2030 - 2034	13,521.52	512.06	14,033.58
	\$ 227,287.11	\$ 68,266.17	\$ 295,553.28

The revenue bond covenant for the Wastewater Utility Revenue bond requires a debt service account with a balance not less than on year's debt service which shall be accumulated annually over a ten-year period. The total balance required is \$10,968; the current balance is \$5,489.87.

The revenue bond covenant for the Sanitary Sewer Replacement Revenue bond requires the charged rates for each fiscal year to ensure that its net revenues available for debt service will equal at least 110% of its system debt service for such fiscal year. The required amount was \$6,860.83 which was met.

The revenue bond covenant for the Water Storage Facility Revenue bond requires a debt service account with a balance not less than on year's debt service which shall be accumulated annually over a ten-year period. The total balance required is \$9,456.00; the current balance is \$9,526.15.

**8. RESTRICTED NET POSITION:**

Restricted Net Position for the year ended December 31, 2014 was as follows:

**Permanently Restricted Purposes:**

Cemetery Maintenance - Expendable	\$ 1,283.68
Ambulance Replacement - Expendable	52,443.26
Cemetery Maintenance - Nonexpendable	24,988.52
	\$ 78,715.46

**Other Purposes:**

Water Customer Deposits	\$ 9,547.46
Electric Customer Deposits	13,375.00
Water Debt Service	9,526.15
Sewer Debt Service	5,489.87
	\$ 37,938.48

These balances are restricted due to federal and statutory requirements

**9. RETIREMENT PLAN:**

All employees, except for part-time temporary employees and members of the Council, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS

MUNICIPALITY OF HECLA  
NOTES TO THE MODIFIED CASH BASIS  
FINANCIAL STATEMENTS

issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 77363731.

General 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. 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 and 2012 were \$9,115, \$9,227, and \$9,204, respectively, equal to the required contributions each year.

#### **10. SIGNIFICANT CONTINGENCIES – LITIGATION**

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

#### **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, 2014, the Municipality managed its risks as follows:

##### Employee Health Insurance:

The Municipality joined the South Dakota Municipal League Health Pool; this is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Municipality pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides a deductible of \$1,000 per person up to \$2,000 per family. The plan also provides for coinsurance of 10% up to \$5,000. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

The Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims, resulting from these risks, have never exceeded the liability coverage.

##### Liability Insurance:

The Municipality joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The Municipality's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the Municipality. The Municipality pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The Municipality pays an annual premium to the pool to provide coverage for public official bonds, auto liability, miscellaneous, general liability, employee dishonesty and liquor liability.

The agreement with the South Dakota Public Assurance provides that the above coverage's will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The Municipality would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

MUNICIPALITY OF HECLA  
NOTES TO THE MODIFIED CASH BASIS  
FINANCIAL STATEMENTS

End of Municipality's First Full Year	50%
End of Municipality's Second Full Year	60%
End of Municipality's Third Full Year	70%
End of Municipality's Fourth Full Year	80%
End of Municipality's Fifth Full Year	90%
End of Municipality's Sixth Full Year	100%

As of December 31, 2014, the Municipality has vested balance in the cumulative reserve fund of \$13,252.30.

The Municipality carries a \$400 deductible for wrongful acts and no deductible for public official bonds, auto liability, miscellaneous, general liability and liquor liability.

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.

Workmen'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 self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members.. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per incident.

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

Unemployment Benefits:

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

**12. COMMITMENTS AND CONTRACTS**

The Municipality has numerous operating agreements in place, as follows:

The Municipality has an ongoing agreement with Brown County to provide police services for \$537.50 per month from the general fund. This agreement is cancellable by either party at any time.

The Municipality entered into a solid waste collection agreement with Dependable Sanitation in November 2014 wherein the city finance office collects the fees from residents and businesses, and remits them to the hauler. These transactions are conducted through the general fund.

The Municipality contracted with BDM Rural Water System on December 8, 2008 for the purchase of potable water. The monthly service charge in the amount of \$1.50 per 1,000 gallons of metered water is paid by the Municipality in the month following the month of use. In addition, there will be a payment of \$937.50 due to BDM by the 10<sup>th</sup> of the month to repay costs of connecting to the BDM Rural Water System. This contract is for a term of 40 years, beginning on the date of initial water delivery in April, 2009. This is paid from the Water Fund.

MUNICIPALITY OF HECLA  
NOTES TO THE MODIFIED CASH BASIS  
FINANCIAL STATEMENTS

**13. RELATED PARTY TRANSACTIONS**

The Municipality purchased supplies and equipment from the Hecla Implement totaling \$4,868.96 as permitted by SDCL 6-1-2 (2) as there is no other source of supply in the community. The owner of Hecla Implement is the Mayor at the end of 2014.

**MUNICIPALITY OF HECLA**

## **SUPPLEMENTARY INFORMATION**

**MUNICIPALITY OF HECLA**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
<b>Revenues:</b>				
Taxes:				
General Property Taxes	\$ 92,775.00	\$ 92,775.00	\$ 92,046.53	\$ (728.47)
General Sales and Use Taxes	51,400.00	51,400.00	55,151.02	3,751.02
Amusement Taxes	140.00	140.00	60.00	(80.00)
Penalties and Interest on Delinquent Taxes	200.00	200.00	429.67	229.67
Total Taxes	<u>144,515.00</u>	<u>144,515.00</u>	<u>147,687.22</u>	<u>3,172.22</u>
Licenses and Permits	<u>875.00</u>	<u>875.00</u>	<u>795.00</u>	<u>(80.00)</u>
Intergovernmental Revenue:				
State Shared Revenue:				
Bank Franchise Tax	1,200.00	1,200.00	1,289.17	89.17
Motor Vehicle Commercial Prorate	1,000.00	1,000.00	1,332.22	332.22
Liquor Tax Reversion	2,000.00	2,000.00	2,172.53	172.53
Motor Vehicle Licenses (5%)	6,200.00	6,200.00	7,535.68	1,335.68
Local Government Highway and Bridge Fund	12,000.00	12,000.00	16,979.63	4,979.63
County Highway and Bridge Reserve Tax (25%)	206.00	206.00	-	(206.00)
County Wheel Tax	400.00	400.00	425.46	25.46
Other	750.00	750.00	750.00	-
Total Intergovernmental Revenue	<u>23,756.00</u>	<u>23,756.00</u>	<u>33,331.69</u>	<u>9,575.69</u>
Charges for Goods and Services:				
Sanitation	27,000.00	27,000.00	25,632.14	(1,367.86)
Culture and Recreation	2,200.00	2,200.00	3,183.20	983.20
Ambulance	15,000.00	15,000.00	14,284.82	(715.18)
Cemetery	2,600.00	2,600.00	5,225.84	2,625.84
Total Charges for Goods and Services	<u>46,800.00</u>	<u>46,800.00</u>	<u>48,326.00</u>	<u>1,526.00</u>
Fines and Forfeits:				
Court Fines and Costs	50.00	50.00	-	(50.00)
Total Fines and Forfeits	<u>50.00</u>	<u>50.00</u>	<u>-</u>	<u>(50.00)</u>
Miscellaneous Revenue:				
Investment Earnings	51.00	51.00	22.33	(28.67)
Rentals	17,500.00	17,500.00	19,031.00	1,531.00
Contributions and Donations from Private Sources	1,200.00	1,200.00	2,821.45	1,621.45
Liquor Operating Agreement Income	22,500.00	22,500.00	26,482.61	3,982.61
Other	2,150.00	2,150.00	2,758.10	608.10
Total Miscellaneous Revenue	<u>43,401.00</u>	<u>43,401.00</u>	<u>51,115.49</u>	<u>7,714.49</u>
Total Revenue	<u>259,397.00</u>	<u>259,397.00</u>	<u>281,255.40</u>	<u>21,858.40</u>

**MUNICIPALITY OF HECLA**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2014**

Schedule 1

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures:</b>				
General Government:				
Legislative	12,660.00	12,660.00	11,437.00	1,223.00
Contingency Amount Transferred	8,000.00	1,000.00	-	1,000.00
Elections	250.00	250.00	-	250.00
Financial Administration	71,770.00	75,270.00	74,769.55	500.45
Other	47,570.00	60,970.00	52,077.84	8,892.16
<b>Total General Government</b>	<b>140,250.00</b>	<b>150,150.00</b>	<b>138,284.39</b>	<b>11,865.61</b>
Public Safety:				
Police	6,450.00	6,450.00	6,450.00	-
Other Protection	100.00	100.00	51.00	49.00
<b>Total Public Safety</b>	<b>6,550.00</b>	<b>6,550.00</b>	<b>6,501.00</b>	<b>49.00</b>
Public Works:				
Highways and Streets	65,800.00	67,300.00	46,638.62	20,661.38
Sanitation	31,951.00	31,951.00	30,368.50	1,582.50
Cemeteries	8,350.00	9,350.00	8,781.77	568.23
<b>Total Public Works</b>	<b>106,101.00</b>	<b>108,601.00</b>	<b>85,788.89</b>	<b>22,812.11</b>
Health and Welfare				
Health	6,190.00	6,190.00	5,960.01	229.99
Ambulance	19,500.00	19,500.00	18,035.38	1,464.62
<b>Total Health and Welfare</b>	<b>25,690.00</b>	<b>25,690.00</b>	<b>23,995.39</b>	<b>1,694.61</b>
Culture and Recreation:				
Parks	9,415.00	10,415.00	10,242.79	172.21
Libraries	1,300.00	1,300.00	759.34	540.66
<b>Total Culture and Recreation</b>	<b>10,715.00</b>	<b>11,715.00</b>	<b>11,002.13</b>	<b>712.87</b>
Miscellaneous				
Miscellaneous expenditures	-	1,000.00	1,000.00	-
Liquor Operating Agreements	2,025.00	10,025.00	6,897.23	3,127.77
<b>Total Miscellaneous</b>	<b>2,025.00</b>	<b>11,025.00</b>	<b>7,897.23</b>	<b>3,127.77</b>
<b>Total Expenditures</b>	<b>291,331.00</b>	<b>314,731.00</b>	<b>273,469.03</b>	<b>40,261.97</b>
Excess of Revenue Over (Under) Expenditures	(31,934.00)	(55,334.00)	7,786.37	62,120.37
<b>Other Financing Sources (Uses):</b>				
Transfers In	15,200.00	15,200.00	-	(15,200.00)
Transfers Out (Enter as Negative)	(1,500.00)	(1,500.00)	(1,428.71)	71.29
Sale of Municipal Property	100.00	100.00	40.00	(60.00)
<b>Total Other Financing Sources (Uses)</b>	<b>13,800.00</b>	<b>13,800.00</b>	<b>(1,388.71)</b>	<b>(15,188.71)</b>
<b>Net Change in Fund Balances</b>	<b>(18,134.00)</b>	<b>(41,534.00)</b>	<b>6,397.66</b>	<b>47,931.66</b>
Fund Balance - Beginning	30,000.00	30,000.00	80,830.99	-
<b>FUND BALANCE - ENDING</b>	<b>\$ 11,866.00</b>	<b>\$ (11,534.00)</b>	<b>\$ 87,228.65</b>	<b>\$ 47,931.66</b>

MUNICIPALITY OF HECLA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
Schedules of Budgetary Comparisons for the General Fund

Note 1. Budgets and Budgetary Accounting:

The Municipality follows these procedures in establishing the budgetary data reflected in the schedules:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board/Municipality Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board/Municipality Commission, 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 municipal budget and may be transferred by resolution of the Governing Board/Municipality Commission to any other budget category, except for capital outlay, that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end, unless encumbered by resolution of the Governing Board/Municipality Commission. 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 each major special revenue fund.
7. Budget for the General Fund is adopted on a basis consistent with a modified cash basis of accounting.

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

The financial statements prepared in conformity with Other Comprehensive Basis of Accounting-Modified Cash Basis present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they related. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances; however, in the Budgetary Required Supplementary Information Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

**MUNICIPALITY OF HECLA**  
**SCHEDULE OF CHANGES IN LONG-TERM DEBT**  
**For the Year Ended December 31, 2014**

**Schedule 2**

<u>Indebtedness</u>	<u>Long-Term Debt 1/1/2014</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 12/31/2014</u>
<b>Enterprise Long-Term Debt:</b>				
Revenue Bonds - Sewer	64,790.69	-	8,454.28	56,336.41
Revenue Bonds - Water	91,505.79	-	4,307.08	87,198.71
Revenue Bonds - Sewer	87,407.73	-	3,655.74	83,751.99
<b>Total</b>	<u>\$ 243,704.21</u>	<u>\$ -</u>	<u>\$ 16,417.10</u>	<u>\$ 227,287.11</u>