MUNICIPALITY OF HERREID
HERREID, SOUTH DAKOTA
AUDIT REPORT
FOR THE YEARS THEN ENDED
DECEMBER 31, 2015 AND 2014

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CAHILL BAUER & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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 Herreid
Herreid, 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 financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the Municipality of Herreid (Municipality), South Dakota, as of December 31, 2015 and for each of the years in the biennial period then ended and the related notes to the financial statements, which collectively comprises the Municipality's basic financial statements and have issued our report thereon dated June 7, 2016, which was adverse on the aggregate discretely presented component units because the financial statements do not include financial data for the Municipality's legally separate component unit.

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 significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses 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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items 2015-01, 2015-02, and 2015-03, to be material weaknesses.

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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 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.

Caliwell Barnes

Mobridge, South Dakota

June 7, 2016

MUNICIPALITY OF HERREID
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2015

PRIOR AUDIT FINDINGS

Finding 2013-01

A lack of proper segregation of duties existed for the revenue function resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This finding continues to exist, see 2015-01.

Finding 2013-02

The Municipality does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements. This finding continues to exist, see 2015-02.

Finding 2013-03

The organization's internal control structure is not sufficient to provide for the recording of all necessary material adjustments in order to ensure that the accounting records are in accordance with other comprehensive basis of accounting - modified cash basis. This finding continues to exists, see 2015-03.

CURRENT AUDIT FINDINGS:

Internal Control-Related Findings - Material Weaknesses:

Finding 2015-01:

Criteria:

To obtain adequate internal control over cash management, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process.

Condition Found:

A lack of proper segregation of duties existed for the duties for cash, equity, revenue, expenditures and the payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This lack of segregation of duties has a direct effect on the cash management of the Municipality.

(Continued on next page)

Effect:

The Municiaplity of Herreid, has a limited number of employees who prepare all records for cash, revenues, equity, expenditures and payroll. This lack of segregation of duties could result in inaccurate financial statement and/or misappropriations of funds.

Recommendation

We recommend that Municipality 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.

Corrective Action Plan

The Municipality of Herreid agrees with this finding and is willing to accept the risk. The Municipality is continuing its work on correcting this deficiency and implementing compensating controls where possible and practical.

Finding 2015-02:

Criteria:

An organization's internal control structure should provide for the preparation of financial statements in accordance with other comprehensive basis of accounting - modified cash basis.

Condition Found:

The Municipality does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements.

Effect:

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

Recommendation

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

(Continued on next page)

Corrective Action Plan

The Municipality's finance officer, Tina Kary, is the contact person responsible for the corrective action plan for this comment. The Municipality is continuing its work on correcting this deficiency.

Finding 2015-03:

Criteria:

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that the accounting records are in accordance with other comprehensive basis of accounting - modified cash basis.

Condition Found:

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the Municipality's existing internal controls, and therefore could have resulted in a material misstatement of the Municipality's financial statements.

Effect:

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

Recommendation

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of the cost of other considerations.

Corrective Action Plan

The Municipality of Herreid is continuing its work in correcting this deficiency.

Closing Conference

The contents of this report were discussed with Tina Kary, Finance Officer on June 24, 2016.

CAHILL BAUER & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Municipal Council
Municipality of Herreid
Herreid, 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, each major fund, and the aggregate remaining fund information of the Municipality of Herreid, South Dakota, as of December 31, 2015, and each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprises 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 do not express such an 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 reasonable basis for our opinions.

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Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for the Municipality's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Municipality's primary government unless the Municipality also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Municipality has not issued such reporting entity financial statements.

Adverse Opinion

In our opinion, because of the signficance of the matter discussed in the "Basis of Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the Municipality of Herreid, South Dakota, as of December 31, 2015 and December 31, 2014.

Unmodified Opinion

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, each major fund, and the aggregate remaining fund information of the Municipality of Herreid, South Dakota, as of December 31, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the biennial periods then ended in conformity with the modified cash basis of accounting as described in the Note 1.c. to the financial statements.

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 opinion on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Budgetary Comparison Schedule, the Schedule of Changes in Long-Term Debt, and the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset) listed in the Table of Contents are presented for the 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 June 7, 2016 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.

Mobridge, South Dakota
June 7, 2016

MUNICIPALITY OF HERREID
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	$ 269,153	$ 200,926	$ 470,079
Investments	1,016,554	100,000	1,116,554
TOTAL ASSETS	1,285,707	300,926	1,586,633
NET POSITION:			
Unrestricted	1,285,707	300,926	1,586,633
TOTAL NET POSITION	$ 1,285,707	$ 300,926	$ 1,586,633

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

MUNICIPALITY OF HERREID
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

		Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
				Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
General government	$ 70,111	$ 2,721	$ -	$ (67,390)	$ -	$ (67,390)
Public safety	26,904	30	-	(26,874)	-	(26,874)
Public works	108,084	-	30,242	(77,842)	-	(77,842)
Health and welfare	1,009	-	-	(1,009)	-	(1,009)
Culture and recreation	50,907	11,795	-	(39,112)	-	(39,112)
Conservation and development	2,724	-	-	(2,724)	-	(2,724)
Total governmental activities	259,739	14,546	30,242	(214,951)	-	(214,951)
Business-type activities						
Water	104,636	97,901	-	-	(6,735)	(6,735)
Sewer	82,088	110,260	-	-	28,172	28,172
Sanitation	49,128	59,532	-	-	10,404	10,404
Total business-type activities	235,852	267,693	-	-	31,841	31,841
Total primary government	$ 495,591	$ 282,239	$ 30,242	$ (214,951)	$ 31,841	$ (183,110)
General Revenues						
Taxes						
Property taxes				95,816	-	95,816
Sales tax				244,868	-	244,868
State shared revenue				3,987	-	3,987
Grants and contributions not restricted to specific programs				1,000	-	1,000
Unrestricted investment earnings				5,836	24	5,860
Miscellaneous revenue				7,157	-	7,157
Total general revenues				358,664	24	358,688
Change in net position				143,713	31,865	175,578
Net position - beginning				1,141,994	269,061	1,411,055
Net position - ending				$ 1,285,707	$ 300,926	$ 1,586,633

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

MUNICIPALITY OF HERREID
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

		Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental activities							
General government	$ 87,909	$ 5,033	$ -	$ -	$ (82,876)	$ -	$ (82,876)
Public safety	27,197	-	-	-	(27,197)	-	(27,197)
Public works	84,798	-	28,765	2,868	(53,165)	-	(53,165)
Health and welfare	1,499	-	-	-	(1,499)	-	(1,499)
Culture and recreation	94,829	8,370	-	-	(86,459)	-	(86,459)
Conservation and development	15,000	-	-	-	(15,000)	-	(15,000)
Total governmental activities	311,232	13,403	28,765	2,868	(266,196)	-	(266,196)
Business-type activities							
Water	137,259	88,868	-	-	-	(48,391)	(48,391)
Sewer	132,651	109,037	-	148,150	-	124,536	124,536
Sanitation	41,167	51,014	-	-	-	9,847	9,847
Total business-type activities	311,077	248,919	-	148,150	-	85,992	85,992
Total primary government	$ 622,309	$ 262,322	$ 28,765	$ 151,018	$ (266,196)	$ 85,992	$ (180,204)
General Revenues							
Taxes							
Property taxes					87,941	-	87,941
Sales tax					252,525	-	252,525
State shared revenue					4,806	-	4,806
Grants and contributions not restricted to specific programs					700	-	700
Unrestricted investment earnings					4,939	24	4,963
Miscellaneous revenue					1,904	-	1,904
Total general revenues					352,815	24	352,839
Change in net position					86,619	86,016	172,635
Net position - beginning					1,055,375	183,045	1,238,420
Net position - ending					$ 1,141,994	$ 269,061	$ 1,411,055

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

MUNICIPALITY OF HERREID
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	$ 269,153	$ 269,153
Investments	1,016,554	$ 1,016,554
TOTAL ASSETS	1,285,707	1,285,707
FUND BALANCES		
Unassigned	1,285,707	1,285,707
TOTAL FUND BALANCES	$ 1,285,707	$ 1,285,707

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

MUNICIPALITY OF HERREID

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2015

	Primary Government	
	General Fund	Total Governmental Funds
REVENUES		
Taxes		
General property taxes	$ 95,505	$ 95,505
General sales and use taxes	244,868	244,868
Amusement taxes	108	108
Penalties and interest on delinquent taxes	203	203
Licenses and permits	1,560	1,560
State shared revenue		
Bank franchise tax	1,263	1,263
Liquor tax reversion	2,724	2,724
Motor vehicle licenses (5%)	13,449	13,449
Local government highway and bridge fund	16,276	16,276
County shared revenue		
County road tax (25%)	517	517
Charges for goods and services		
Culture and recreation	11,795	11,795
Fines and forfeits		
Court fines and costs	30	30
Miscellaneous revenue		
Investment earnings	5,836	5,836
Rentals	1,161	1,161
Contributions and donations from private sources	1,000	1,000
Other	4,926	4,926
Total Revenues	$ 401,221	$ 401,221

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

MUNICIPALITY OF HERREID

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2015

	Primary Government	
	General Fund	Total Governmental Funds
EXPENDITURES		
General government		
Legislative	$ 9,651	$ 9,651
Executive	3,058	3,058
Elections	67	67
Financial administration	49,583	49,583
Other	7,752	7,752
Public safety		
Police	21,275	21,275
Fire	5,629	5,629
Public works		
Highways and streets	104,869	104,869
Sanitation	604	604
Airport	1,343	1,343
Cemeteries	1,268	1,268
Health and welfare		
Health	1,009	1,009
Culture and recreation		
Recreation	50,240	50,240
Parks	417	417
Libraries	250	250
Conservation and development		
Economic development and assistance (Industrial development)	2,724	2,724
Total expenditures	259,739	259,739
Excess of revenue over (under) expenditures	141,482	141,482
Other financing sources (uses)		
Compensation for loss to capital assets	2,231	2,231
Total other financing sources	2,231	2,231
Net change in fund balances	143,713	143,713
Fund balance - Beginning	1,141,994	1,141,994
Fund Balance - Ending	$ 1,285,707	$ 1,285,707

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

MUNICIPALITY OF HERREID
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Primary Government	
	General Fund	Total Governmental Funds
REVENUES		
Taxes		
General property taxes	$ 87,635	$ 87,635
General sales and use taxes	252,525	252,525
Amusement taxes	156	156
Penalties and interest on delinquent taxes	150	150
Licenses and permits	2,690	2,690
Intergovernmental revenue		
State grants	2,868	2,868
State shared revenue		
Bank franchise tax	1,472	1,472
Liquor tax reversion	3,334	3,334
Motor vehicle licenses (5%)	12,223	12,223
Local government highway and bridge fund	16,025	16,025
County shared revenue		
County road tax (25%)	517	517
Charges for goods and services		
Culture and recreation	8,370	8,370
Miscellaneous revenue		
Investment earnings	4,939	4,939
Rentals	2,343	2,343
Contributions and donations from private sources	700	700
Other	1,904	1,904
Total Revenues	$ 397,851	$ 397,851

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

MUNICIPALITY OF HERREID
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Primary Government	
	General Fund	Total Governmental Funds
EXPENDITURES		
General government		
Legislative	$ 13,142	$ 13,142
Executive	1,936	1,936
Elections	47	47
Financial administration	55,453	55,453
Other	17,331	17,331
Public safety		
Police	20,663	20,663
Fire	6,534	6,534
Public works		
Highways and streets	81,146	81,146
Sanitation	428	428
Airport	1,674	1,674
Cemeteries	1,550	1,550
Health and welfare		
Health	1,499	1,499
Culture and recreation		
Recreations	93,972	93,972
Parks	607	607
Libraries	250	250
Conservation and development		
Economic development and assistance (Industrial development)	15,000	15,000
Total expenditures	311,232	311,232
Excess of revenue over (under) expenditures	86,619	86,619
Net change in fund balances	86,619	86,619
Fund balance - Beginning	1,055,375	1,055,375
Fund Balance - Ending	$ 1,141,994	$ 1,141,994

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

MUNICIPALITY OF HERREID
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2015

	Enterprise Funds			
	Water Fund	Sewer Fund	Sanitation Fund	Totals
ASSETS				
Current assets				
Cash and cash equivalents	$ 38,572	$ 108,117	$ 54,237	$ 200,926
Investments	-	100,000	-	100,000
TOTAL ASSETS	38,572	208,117	54,237	300,926
NET POSITION				
Unrestricted	38,572	208,117	54,237	300,926
TOTAL NET POSITION	$ 38,572	$ 208,117	$ 54,237	$ 300,926

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

MUNICIPALITY OF HERREID
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Enterprise Funds			
	Water Fund	Sewer Fund	Sanitation Fund	Totals
OPERATING REVENUE				
Charges for goods and services	$ 97,901	$ 110,260	$ 59,532	$ 267,693
Total operating revenue	97,901	110,260	59,532	267,693
OPERATING EXPENSES				
Personal services	10,714	10,480	-	21,194
Other current expense	85,270	17,627	49,128	152,025
Total operating expenses	95,984	28,107	49,128	173,219
Operating income	1,917	82,153	10,404	94,474
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	24	-	-	24
Debt service (principal)	(3,662)	(22,467)	-	(26,129)
Interest expense and fiscal charges	(4,990)	(31,514)	-	(36,504)
Total nonoperating revenues (expenses)	(8,628)	(53,981)	-	(62,609)
INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEMS, EXTRAORDINARY ITEMS AND TRANSFERS	(6,711)	28,172	10,404	21,461
CHANGE IN NET POSITION	(6,711)	28,172	10,404	31,865
NET POSITION - BEGINNING	45,283	179,945	43,833	269,061
NET POSITION - ENDING	$ 38,572	$ 208,117	$ 54,237	$ 300,926

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

MUNICIPALITY OF HERREID
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Enterprise Funds			
	Water Fund	Sewer Fund	Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 97,901	$ 110,260	$ 59,532	$ 267,693
Payments to employees for services	(10,714)	(10,480)	-	(21,194)
Payments to suppliers of goods and services	(85,270)	(17,627)	(49,128)	(152,025)
Net cash provided by operating activities	1,917	82,153	10,404	94,474
CASH FLOWS FROM (FOR) CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on capital debt	(3,662)	(22,467)	-	(26,129)
Interest paid on capital debt	(4,990)	(31,514)	-	(36,504)
Net cash used by capital and related financing activities	(8,652)	(53,981)	-	(62,633)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest earnings	24	-	-	24
Net cash provided by investing activities	24	-	-	24
NET CHANGE IN CASH AND CASH EQUIVALENTS	(6,711)	28,172	10,404	31,865
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	45,283	179,945	43,833	269,061
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 38,572	$ 208,117	$ 54,237	$ 300,926
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income	$ 1,917	$ 82,153	$ 10,404	$ 94,474

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

MUNICIPALITY OF HERREID
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Enterprise Funds			
	Water Fund	Sewer Fund	Sanitation Fund	Totals
OPERATING REVENUE				
Charges for goods and services	$ 88,868	$ 109,037	$ 51,014	$ 248,919
Total operating revenue	88,868	109,037	51,014	248,919
OPERATING EXPENSES				
Personal services	20,466	-	-	20,466
Other current expense	108,141	14,916	41,167	164,224
Total operating expenses	128,607	14,916	41,167	184,690
Operating income	(39,739)	94,121	9,847	64,229
NONOPERATING REVENUES (EXPENSES)				
Grants	-	148,150	-	148,150
Investment earnings	24	-	-	24
Debt service (principal)	(3,902)	(85,641)	-	(89,543)
Interest expense and fiscal charges	(4,750)	(32,094)	-	(36,844)
Total nonoperating revenues (expenses)	(8,628)	30,415	-	21,787
INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEMS, EXTRAORDINARY ITEMS AND TRANSFERS	(48,367)	124,536	9,847	86,016
CHANGE IN NET POSITION	(48,367)	124,536	9,847	86,016
NET POSITION - BEGINNING	93,650	55,409	33,986	183,045
NET POSITION - ENDING	$ 45,283	$ 179,945	$ 43,833	$ 269,061

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

MUNICIPALITY OF HERREID
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Enterprise Funds			
	Water Fund	Sewer Fund	Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 88,868	$ 109,037	$ 51,014	$ 248,919
Payments to employees for services	(20,466)	-	-	(20,466)
Payments to suppliers of goods and services	(108,141)	(14,916)	(41,167)	(164,224)
Net cash provided by operating activities	(39,739)	94,121	9,847	64,229
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Subsidies	-	148,150	-	148,150
Net cash provided by noncapital financing activities	-	148,150	-	148,150
CASH FLOWS FROM (FOR) CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on capital debt	(3,902)	(85,641)	-	(89,543)
Interest paid on capital debt	(4,750)	(32,094)	-	(36,844)
Net cash used by capital and related financing activities	(8,652)	(117,735)	-	(126,387)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest earnings	24	-	-	24
Net cash provided by investing activities	24	-	-	24
NET CHANGE IN CASH AND CASH EQUIVALENTS	(48,367)	124,536	9,847	86,016
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	93,650	55,409	33,986	183,045
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 45,283	$ 179,945	$ 43,833	$ 269,061
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income	$ (39,739)	$ 94,121	$ 9,847	$ 64,229

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c, these financial statements are presented on the 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 Herreid (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.

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

The Housing and Redevelopment Commission of the Municipality of Herreid, South Dakota (Commission), is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission.

The Municipality has created a Housing and Redevelopment Commission under the authority of South Dakota Codified Law 11-7-7. The financial information of the component unit is available upon request from the Herreid Housing and Redevelopment Commission, Herreid, South Dakota.

(Continued on next page)

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 and those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

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

a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and;

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or;

c. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the Municipality financial reporting entity are described below within their respective fund types:

(Continued on next page)

Governmental Funds

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

Proprietary Funds

Enterprise Funds - enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

a. 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.

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

c. Sanitation Fund - financed primarily by user charges this fund accounts for the operation of the sanitation (garbage collection services) system and related facilities. 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.

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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 within the limitations of 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 fianncial statements are:

a. Recording long-term investments (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.

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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 and fiduciary 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 investments authorized by South Dakota Codified Law (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

e. Long-Term Liabilities

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances is recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category. Under the modified cash basis of accounting, all long-term debts arising from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the respective columns on the government-wide financial statements.

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

f. 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:

a: 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.

b: 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.

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c: 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.

g. Proprietary Funds Revenue and Expense Classifications

In the Proprietary Fund's Statement of Revenues, Expenses, and Changes in 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.

h. 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.

i. Equity Classifications

Government-wide Statements

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

a: Restricted Net Position - Consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

b: Unrestricted Net Position - All other net assets 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.

j. Application of Net Positions

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.

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k. Fund Balance Classification and Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and

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

Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Municipal Council or Finance Officer.

Unassigned - includes positive fund balance within the General Fund which has not been classified within the

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.

NOTE 2 - DEPOSITS AND INVESTMENTS 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.

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Investments - In general, SDCL 4-5-6 permits municipality funds to be invested only 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 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 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.

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.

Credit Risk - State law limits eligible investments for the Municipality. The Municipality has no investment policy that would further limit its investment choices.

Custodial Credit Risk - The risk that, in the even of a depository failure, the Municipality's deposits may not be returned to it. The Municipality does not a have deposit policy for custodial credit risk. As of December 31, 2015, none of the Municipality's deposits were exposed to custodial credit risk.

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 to the fund making the investment.

NOTE 3 - PROPERTY TAXES

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payables 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 statues to levy varying amounts of taxes per $1,000 of taxable valuation on taxable real property in the Municipality.

NOTE 4- RETIREMENT PLAN

Plan Information:

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and 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 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) 773-3731.

(Continued on next page)

Benefits Provided:

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

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

If the SDRS market value funded ratio is 100% or more - 3.1% COLA

If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
90% to 99.9% funded - 2.1% minimum and 2.8% maximum COLA
80% to 90% funded - 2.1% minimum and 2.4% maximum COLA

If the SDRS market value funded ratio is less than 80% - 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6% of salary; Class B Judiciary Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the years ended December 31, 2015, 2014, and 2013 were $4,502, $4,357, and $4,221, respectively, equal to the required contributions each year.

Pension Liabilities (Assets):

(Continued on next page)

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

	Govermental Activities	Business-Type Activities	**Total**
Proportionate share of net position restricted for pension benefits	$ 329,901	$ 104,533	**$ 434,434**
Less proportionate share of total pension liability	316,917	100,420	**(417,337)**
Proportionate share of net pension asset	**$ 646,818**	**$ 204,953**	**$ 851,770**

The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the Municipaly's proportion was .0040313%, which is a decrease of .0000951% from its proportion measured as of June 30, 2014.

Actuarial Assumptions:

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

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense

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

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

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Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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

Discount Rate:

The discount rate used to measure the total pension asset was 7.25 percent through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

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

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

	1% Decrease	Current Discount	1% Increase
Municipality's proportionate share of the net pension liability (asset)	$ 43,035	$ (17,098)	$ (66,131)

(Continued on next page)

Pension Plan Fiduciary Net Position:

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

NOTE 5 - 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 year ended December 31, 2015, the Municipality managed its risks as follows:

Insurance

The Municipality purchases liability insurance for risks related to torts; theft 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.

Workmen's Compensation

The Municipality purchases liability insurace for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage over 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.

NOTE 6 - LITIGATION

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

NOTE 7 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

MUNICIPALITY OF HERREID
SCHEDULE OF CHANGES IN LONG-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2015

Indebtedness	Long-Term Debt 1/1/15	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/15
Enterprise Long-Term Debt				
USDA Rural Development Loan #93-03	$ 250,312	$ -	$ 5,884	$ 244,428
USDA Rural Development Loan #92-04	216,273	-	6,518	209,755
SRF #461252-01 Wastewater Loan	680,379	-	14,379	666,000
Total	$ 1,146,964	$ -	$ 26,781	$ 1,120,183

MUNICIPALITY OF HERREID
SCHEDUEL OF CHANGES IN LONG-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2014

Indebtedness	Long-Term Debt 1/1/14	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/14
Enterprise Long-Term Debt				
USDA Rural Development Loan #93-03	$ 256,008	$ -	$ 5,696	$ 250,312
USDA Rural Development Loan #92-04	174,648	111,550	69,925	216,273
SRF #461252-01 Wastewater Loan	694,300	-	13,921	680,379
Total	$ 1,124,956	$ 111,550	$ 89,542	$ 1,146,964

MUNICIPALITY OF HERREID
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
REVENUES				
Taxes				
General property tax	$ 97,789	$ 97,789	$ 95,505	$ (2,284)
General sales and use tax	200,000	200,000	244,868	44,868
Amusement taxes	200	200	108	(92)
Penalties and interest on delinquent	200	200	203	3
Licenses and permits	2,000	2,000	1,560	(440)
Intergovernmental revenue				
State shared revenue				
Bank franchise tax	1,500	1,500	1,263	(237)
Liquor tax reversion	3,100	3,100	2,724	(376)
Motor vehicle licenses (5%)	9,000	9,000	13,449	4,449
Local government highway and bridge fund	14,000	14,000	16,276	2,276
County shared revenue				
County road tax (25%)	500	500	517	17
Charges for goods and services				
Culture and recreation	9,300	9,300	11,795	2,495
Fines and forfeits				
Court fines and penalties	50	50	30	(20)
Miscellaneous revenue				
Investment earnings	6,000	6,000	5,836	(164)
Rentals	2,500	2,500	1,161	(1,339)
Contributions and donations from private sources	-	-	1,000	1,000
Other	4,050	4,050	4,926	876
Total revenue	$ 350,189	$ 350,189	$ 401,221	$ 51,032

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MUNICIPALITY OF HERREID
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
EXPENDITURES				
General government				
Legislative	$ 13,700	$ 13,700	$ 9,651	$ 4,049
Contingency	15,500	15,500	-	-
Amount transferred	-	-	-	15,500
Executive	2,400	2,400	3,058	(658)
Elections	700	700	67	633
Financial administration	52,050	52,050	49,583	2,467
Other	16,200	16,200	7,752	8,448
Public safety				
Police	22,000	22,000	21,275	725
Fire	7,000	7,000	5,629	1,371
Public works				
Highways and streets	123,600	123,600	104,869	18,731
Sanitation	500	500	604	(104)
Airport	2,000	2,000	1,343	657
Cemetary	1,600	1,600	1,268	332
Health and welfare				
Health	1,900	1,900	1,009	891
Culture and recreation				
Recreation	52,700	52,700	50,240	2,460
Parks	800	800	417	383
Libraries	250	250	250	-
Conservation and development				
Economic development and assistance (industrial development)	15,000	15,000	2,724	12,276
Total Expenditures	327,900	327,900	259,739	68,161
Excess revenue over/under expenditures	22,289	22,289	141,482	119,193
Other financing sources/(uses)				
Sale of municipal property	-	-	2,231	2,231
Total other financing sources (uses)	-	-	2,231	2,231
Net change in fund balances	22,289	22,289	143,713	121,424
Fund balance - beginning	1,141,994	1,141,994	1,141,994	-
Fund balance - ending	$ 1,164,283	$ 1,164,283	$ 1,285,707	$ 121,424

MUNICIPALITY OF HERREID
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
REVENUES				
Taxes				
General property tax	$ 89,150	89,150	87,635	$ (1,515)
General sales and use tax	190,000	190,000	252,525	62,525
Amusement taxes	200	200	156	(44)
Penalties and interest on delinquent taxes	300	300	150	(150)
Licenses and permits	2,000	2,000	2,690	690
Intergovernmental revenue				
State grants	-	-	2,868	2,868
State shared revenue				
Bank franchise tax	1,400	1,400	1,472	72
Liquor tax reversion	3,000	3,000	3,334	334
Motor vehicle licenses (5%)	8,500	8,500	12,223	3,723
Local government highway and bridge fund	13,000	13,000	16,025	3,025
County shared revenue				
County road tax (25%)	500	500	517	17
Charges for goods and services				
Culture and recreation	8,600	8,600	8,370	(230)
Fines and forfeits				
Court fines and costs	50	50	-	(50)
Miscellaneous revenue				
Investment earnings	7,000	7,000	4,939	(2,061)
Rentals	2,500	2,500	2,343	(157)
Contributions and donations from private sources	-	-	700	700
Other	1,550	1,550	1,904	354
Total revenue	$ 327,750	$ 327,750	$ 397,851	$ 70,101

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MUNICIPALITY OF HERREID
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
EXPENDITURES				
General government				
Legislative	$ 14,300	$ 14,300	$ 13,142	$ 1,158
Contingency	13,350	13,350	-	-
Amount transferred	-	-	-	13,350
Executive	2,000	2,000	1,936	64
Elections	700	700	47	653
Financial administration	50,950	50,950	55,453	(4,503)
Other	15,300	15,300	17,331	(2,031)
Public safety				
Police	21,900	21,900	20,663	1,237
Fire	6,400	6,400	6,534	(134)
Public works				
Highways and streets	87,400	87,400	81,146	6,254
Sanitation	400	400	428	(28)
Airport	2,800	2,800	1,674	1,126
Cemetary	1,700	1,700	1,550	150
Health and welfare				
Health	1,900	1,900	1,499	401
Culture and recreation				
Recreation	98,968	98,968	93,972	4,996
Parks	800	800	607	193
Libraries	300	300	250	50
Conservation and development				
Economic development and assistance (industrial development)	15,000	15,000	15,000	-
Total Expenditures	334,168	334,168	311,232	22,936
Excess revenue over/under expenditures	(6,418)	(6,418)	86,619	93,037
Net change in fund balances	(6,418)	(6,418)	86,619	93,037
Fund balance - beginning	1,055,375	1,055,375	1,055,375	-
Fund balance - ending	$ 1,048,957	$ 1,048,957	$ 1,141,994	$ 93,037

MUNICIPALITY OF HERREID
NOTES TO SUPPLEMENTARY INFORMATION
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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/Municipality Commission introduces the annual appropriation ordinance for 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 total municipal budget and may be transferred by resolution of the Governing Board/Municipality Commission to any other budget category that is deemed insufficient during the year.

4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.

5. Unexpended appropriations lapse at year end unless encumbered by resolution of the Governing Board/Municipality Commission.

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

   The Municipality did not encumber any amounts at December 31, 2015 or December 31, 2014.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and major special revenue funds.

7. Budgets for the General Fund are adopted on a basis consistent with the modified cash basis of accounting.

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NOTE 2 - OTHER COMPREHENSIVE BASIS OF ACCOUNTING MODIFIED CASH BASIS/BUDGETARY ACCOUNTING BASIS DIFFERENCES

The financial statements prepared in conformity with USGAAP applied within the context of the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI 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 HERREID
SCHEDULE OF THE MUNICIPALITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
SOUTH DAKOTA RETIREMENT SYSTEM

	2015
District's proportion of the net pension liability (asset)	0.0040313%
District's proportionate share of net pension liability (asset)	$ (851,770)
District's covered-employee payroll	$ 132,473
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-642.974582%
Plan fiduciary net position as a percentage of the total pension liability	104.0969086%

*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of previous fiscal year.

Changes of benefit terms:

No changes were made.

Changes of assumptions:

No changes were made.