

TOWN OF KEYSTONE
KEYSTONE, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE YEAR ENDING DECEMBER 31, 2015
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

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TOWN OF KEYSTONE
KEYSTONE, SOUTH DAKOTA

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FOR THE YEAR ENDING DECEMBER 31, 2015

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NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, PC

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Governing Board
Town of Keystone
Keystone, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying modified cash basis of accounting financial statements of governmental activities, business-type activities, and each major fund of the Town of Keystone (Town), Pennington County, South Dakota, as of December 31, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Town'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 these 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 judgement, including the assessment of the risk 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 Town'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 Town's internal control. Accordingly, I 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.

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my audit opinions.

Unmodified Opinions

In my 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 governmental activities, business-type activities, and each major fund of the Town of Keystone, South Dakota, as of December 31, 2015, and the respective changes in its 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 1.c to these financial statements.

Basis of Accounting

I draw attention to note 1.c of these financial statements, which describes the basis of accounting. These 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. My opinion is not modified with respect to this matter.

Other Matters - Supplementary Information (No Opinion)

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of Keystone's financial statements.

The management's discussion and analysis (page 4 to 9), budgetary comparison schedules (page 31 to 33), schedule of net pension liability (asset) (page 35), and schedule of pension contributions (page 35) listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

I have applied certain limited procedures to this supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on this information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Matters - Other Supplementary Information (Opinion)

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Town of Keystone's financial statements. The schedule of changes in long-term debt (page 34) is presented for the purpose of additional analysis and is not a required part of the modified cash basis of accounting 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 modified cash basis of accounting financial statements. The information has been subject 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 my opinion, the schedule of changes in long-term debt is fairly stated, in all material respects, in relation to the modified cash basis of accounting financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 36) dated August 16, 2016 on my tests of Town of Keystone's compliance with certain provisions of laws, regulations, contracts and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's compliance and internal control over financial reporting.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota
August 16, 2016

A handwritten signature in black ink that reads "Benjamin Elliott". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the Town of Keystone's (Town) financial report presents our discussion and analysis of the Town's financial performance during the year ending December 31, 2015 within the limitations of the Town's modified cash basis of accounting. Please read it in conjunction with the Town's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Financial highlights for the Town of Keystone for 2015 are as follows:

Receipts:	
Charges for goods and services	526,800
Operating grants	4,945
Capital grants	0
General receipts	1,338,307

Total	1,870,052

Disbursements:	
Governmental	1,102,373
Business-type	322,438

Total	1,424,811

Increase in Net Position	445,241
Net Position:	
December 31, 2014	2,367,694

December 31, 2015	2,812,935
	=====
Governmental Funds:	
General	596,329
Library Fines	41
2nd Cent	415,096
3rd Cent (promotion)	304,002
TIF #1	263,686
Enterprise Funds:	
Water	817,498
Sewer	416,283

Total	2,812,935
	=====

During 2015 the Town:

Paid:

- \$ 239,810 for the lease/purchase of the sewer plant.
- 55,000 for a community building.
- 94,000 to the Keystone Chamber of Commerce.
- 18,469 to the Keystone Area Historical Society.
- 4,287 to the Keystone Senior Citizens.
- 33,366 to pay down on the 2004 Sales Tax Revenue SRF Loan.
- 35,124 to pay down on the 2005 Tax Increment Revenue Bonds.
- 6,341 to pay down on the 1986 Water Revenue Bond (FmHA).

Received:

- 230,649 from property taxes
- 936,504 from sales taxes

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This financial report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement-34.

The financial report consists of three parts: (1) management's discussion and analysis (page 4 to 9), (2) the basic financial statements (page 10 to 30) and (3) other supplementary information (page 31 to 35). The basic financial statements include two types of statements that present the Town from two different financial points of view.

Government-wide financial statements (View #1):

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Town's overall financial status.

Fund financial statements (View #2):

The remaining financial statements are fund financial statements that focus on significant operations of the governmental and enterprise activities of the Town.

The governmental financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. Governmental funds operated by the Town at the end of 2015 are the General, Library Fines, 2nd Cent Sales Tax, 3rd Cent Sales Tax, and Tax Increment Financing District #1 Funds.

The enterprise fund financial statements offer short-term and long-term financial information about the activities of the Town that operate like a business. Enterprise funds operated by the Town include the Water and Sewer Funds.

The fiduciary fund financial statements provide information about the financial status of activities in which the Town acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. In 2015 the Town had no fiduciary funds.

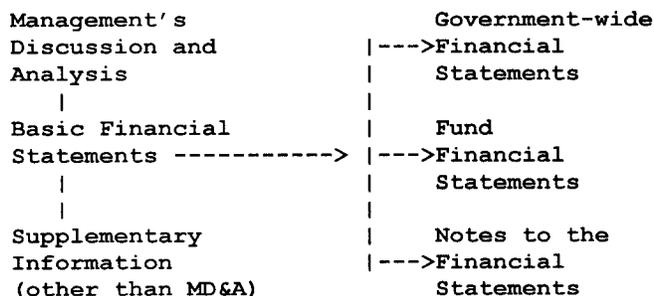
The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of supplementary information that presents a budgetary analysis for the general fund and major special revenue funds.

Supplementary Information:

This Management's Discussion and Analysis (page 4 to 9), the Budgetary Comparison Schedules (page 31 to 33), Schedule of Net Pension Liability (Asset) (page 35), and Schedule of Pension Contributions (page 35) are financial information required to be presented by GASB. Such information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

The schedule of changes in debt (page 34) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Here is an overview of the Town's financial statements.



Here is a summary of the major features of these financial statement.

	Government-wide	-----Fund Statements-----	
	Statements	Governmental	Enterprise
		Funds	Funds
Scope	Entire Town (including component units if any)	Town activities except enterprise	Activities operated like a private business (water and sewer)
Required Financial Statements	Statement of Net Position	Balance Sheet	Statement of Net Position
Required Financial Statements	Statement of Activities	Statement of Receipts Disbursements and Changes in Fund Balances	Statement of Cash Receipts, Disbursements and Changes in Net Position
Basis of Accounting	Modified Cash	Modified Cash	Modified Cash
Measurement Focus	Modified Cash	Modified Cash	Modified Cash
Types of assets & Liabilities	Only cash No liabilities	Only cash No liabilities	Only cash No liabilities
Types of Revenue and Expenditures or Expense	Cash receipts Cash disbursements	Cash receipts Cash disbursements	Cash receipts Cash disbursements

BASIS OF ACCOUNTING

The Town has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the Town's modified cash basis of accounting, revenues and expenses and related assets are recorded when they result from cash transactions, except for the recording of investments.

GOVERNMENT-WIDE STATEMENTS

(Reporting the Town as a whole)

The government-wide statements (page 10 and 11) report information about the Town as a whole using cash accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Town's cash. The statement of activities includes all of the year's receipts and disbursements.

The two government-wide statements report the Town's net position and how it has changed. Net position is the Town's petty cash, checking accounts, savings accounts, certificate of deposit and money market accounts. The change in these accounts is one way to measure the Town's financial health. Increases or decreases in net position measures improvements or declines in the Town's financial health. To assess the Town's overall financial health you also need to consider other factors such as changes in the property tax base, and/or sales tax receipts generated from local businesses.

The government-wide financial statements have two broad categories of information: governmental activity and business-type activity.

The governmental activities include basic services such care of streets, police protection, library, community center, and debt service payments. Property taxes, sales taxes, and interest earnings finance most of these activities.

The business-type activities account for the Town's water and sewer activities. These services are funded by user fees. Bonds and federal and state grants pay for capital improvements to the water and sewer systems.

FUND FINANCIAL STATEMENTS

(Reporting the Town's most significant funds)

The fund financial statements (page 12 to 16) provide more detailed information about the Town's most significant funds - not the Town as a whole. Funds are accounting tools used to keep track of the Town's receipts and disbursements. State law requires the use of some funds and the Town board establishes other funds to manage money for a specific purpose, like a tax increment district.

The fund financial statements show information in two broad categories: governmental and enterprise (business-type).

Governmental funds: Most of the Town's basic services are included in the governmental funds, which focus on (1) how cash flows in and out of that fund, and (2) cash balances left at year-end which are available for spending in the next year. The governmental funds financial statements provide detail that helps you determine whether there is more or fewer cash resources available for spending in the near future to finance the Town's programs.

Enterprise fund: Services for which the Town charges the customer a fee are generally reported in enterprise funds. These funds account for cash and the receipt and disbursement of cash, the same as the governmental funds. The water and sewer funds are the only enterprise funds maintained by the Town.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

For the Year Ending December 31, 2015

(Material changes for governmental activities = changes greater than \$75,000)

(Material changes for business-type activities = changes greater than \$30,000)

	Increase (Decrease)	Reason
Governmental Activities:		
Cash	346,339	Excess of receipts over disbursements
Sales tax	113,948	Increased business activity
Public works	(168,361)	Fewer projects in 2015
Culture and rec.	79,522	Community Center roof repair
Business-type Activities:		
Cash	98,902	Excess of receipts over disbursements
Charges for services	42,476	Increased usage

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

In 2015 the Town adopted a general fund budget of \$578,190 which is an increase of \$8,353 or 1.47% from 2014. The increase was spread across several line items. There were no supplemental appropriations to the general fund budget. See page 31 for more information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Significant capital asset activity is reported above.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

Significant long-term debt activity is reported above.
See also page 34 for more information.

CURRENTLY KNOWN FACTS

In January 2016 the Town paid-off its 7.625% FmHA water revenue bond which had a remaining balance of \$101,383.

In 2016 the Town intends to retro fit well #3 for \$98,000 with funding coming from a new SRF loan.

In 2016 the Town expects to begin Phase I of a \$738,000 water/sewer upgrade project with funding from a \$375,205 CDBG grant and a \$362,795 Consolidated Water Facility loan.

In 2016 the Town expects to re-roof the museum for \$60,000 with funding of \$45,000 from grants and a \$15,000 insurance settlement.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional information, contact the Town of Keystone's finance office at P.O. Box 689, Keystone, SD 57751 or telephone us at (605) 666-4827.

TOWN OF KEYSTONE

TABLE 1 - NET POSITION
 MODIFIED CASH BASIS - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 AS OF DECEMBER 31, 2015 AND 2014

	Governmental Activities		Business-Type Activities		Total Government	
	2015	2014	2015	2014	2015	2014
Assets:						
Petty cash	191	299			191	299
Checking	18	2,601			18	2,601
Savings	1,120,427	817,065	1,219,166	1,120,271	2,339,593	1,937,336
Certificate of deposit			14,615	14,608	14,615	14,608
Cash deposit for TIF loan pym	263,686	218,227			263,686	218,227
Money market	194,832	194,623			194,832	194,623
Total assets	1,579,154	1,232,815	1,233,781	1,134,879	2,812,935	2,367,694
Net Position:						
Restricted:						
Debt service	458,518	458,605	57,589	75,133	516,107	533,738
Promotion	304,002	230,829			304,002	230,829
Library fines	41	149			41	149
Meter deposits			24,492	23,976	24,492	23,976
Unrestricted	816,593	543,232	1,151,700	1,035,770	1,968,293	1,579,002
Total net position	1,579,154	1,232,815	1,233,781	1,134,879	2,812,935	2,367,694

TABLE 2 - CHANGES IN NET POSITION
 MODIFIED CASH BASIS - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 FOR THE TWO YEARS ENDING DECEMBER 31, 2015

	Governmental Activities		Business-Type Activities		Total Government	
	2015	2014	2015	2014	2015	2014
Receipts:						
Program receipts:						
Charges for services	51,992	60,387	474,808	432,332	526,800	492,719
Operating grants and contri.	4,945	21,599			4,945	21,599
Capital grants and contri.					0	0
General receipts:						
Property taxes	230,649	197,507			230,649	197,507
Sales taxes	936,503	822,556			936,503	822,556
Receipts from state sources	23,284	22,909			23,284	22,909
Receipts from county sources	15,476	5,782			15,476	5,782
Interest received	5,631	5,260	325	305	5,956	5,565
Other general receipts	70,393	5,360			70,393	5,360
Total receipts	1,338,873	1,141,360	475,133	432,637	1,814,006	1,573,997
Disbursements:						
General government	275,370	243,551			275,370	243,551
Public safety	69,151	64,795			69,151	64,795
Public works	129,982	298,343			129,982	298,343
Culture and recreation	187,480	107,958			187,480	107,958
Economic development	94,001	90,828			94,001	90,828
Debt service	346,389	360,134			346,389	360,134
Water			122,580	146,933	122,580	146,933
Sewer			199,858	221,326	199,858	221,326
Total disbursements	1,102,373	1,165,609	322,438	368,259	1,424,811	1,533,868
Excess of receipts over (under) disbursements	236,500	(24,249)	152,695	64,378	389,195	40,129
Compensation for damaged proper Transfers	56,046	(7,501)	(53,793)	7,501	56,046	0
Change in net position	346,339	(31,750)	98,902	71,879	445,241	40,129
Net position:						
December 31, 2013		1,264,565		1,063,000		2,327,565
December 31, 2014	1,232,815	1,232,815	1,134,879	1,134,879	2,367,694	2,367,694
December 31, 2015	1,579,154		1,233,781		2,812,935	

TOWN OF KEYSTONE

STATEMENT OF NET POSITION
 MODIFIED CASH BASIS
 AS OF DECEMBER 31, 2015

	Primary Government		
	Governmental	Business-	Total
	Activities	Type	
	-----	-----	-----
ASSETS:			
Petty cash	191		191
Checking	18		18
Savings	1,120,427	1,219,166	2,339,593
Certificate of deposit		14,615	14,615
Restricted assets:			
Checking	263,686		263,686
Money market	194,832		194,832
-----		-----	-----
Total assets	1,579,154	1,233,781	2,812,935
	=====	=====	=====
NET POSITION:			
Restricted for:			
Debt service	458,518	57,589	516,107
Promotion	304,002		304,002
Library fines	41		41
Meter deposits		24,492	24,492
Unrestricted	816,593	1,151,700	1,968,293
-----		-----	-----
Total net position	1,579,154	1,233,781	2,812,935
	=====	=====	=====

See accompanying notes.

TOWN OF KEYSTONE

STATEMENT OF ACTIVITIES
 MODIFIED CASH BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2015

Functions/Programs:	Program Receipts			Net Receipts (Disbursements) and Changes in Net Position		
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Primary government:						
<i>Governmental activities:</i>						
General government	275,370	47,331			(228,039)	(228,039)
Public safety	69,151				(69,151)	(69,151)
Public works	129,982	2,800	4,945		(122,237)	(122,237)
Culture and recreation	187,480	1,861			(185,619)	(185,619)
Economic development	94,001				(94,001)	(94,001)
Debt service - principal	278,489				(278,489)	(278,489)
Debt service - interest and fees	67,900				(67,900)	(67,900)
Total governmental activities	1,102,373	51,992	4,945	0	(1,045,436)	(1,045,436)
<i>Business-type activities:</i>						
Water	122,580	200,896				78,316
Sewer	199,858	273,912				74,054
Total business-type activities	322,438	474,808	0	0	0	152,370
Total primary government	1,424,811	526,800	4,945	0	(1,045,436)	(893,066)
General receipts:						
Property taxes					230,649	230,649
Sales taxes					936,503	936,503
Amusement taxes					96	96
State shared receipts					23,284	23,284
County shared receipts					15,476	15,476
Interest received					5,631	5,956
Rents and deposits					43,025	43,025
Donations					505	505
Miscellaneous					26,767	26,767
Compensation for damaged property					56,046	56,046
Transfers					53,793	(53,793)
Total general receipts and transfers					1,391,775	(53,468)
Change in net position					346,339	98,902
Net position, January 1, 2015					1,232,815	1,134,879
Net position, December 31, 2015					1,579,154	1,233,781

See accompanying notes.

TOWN OF KEYSTONE

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

	General Fund	Library Fines Fund	2nd Cent (Debt) Fund	3rd Cent (Promotion) Fund	TIF #1 Fund	Total Governmental Funds
	-----	-----	-----	-----	-----	-----
ASSETS:						
Petty Cash	150	41				191
Checking	18					18
Savings	596,161		220,264	304,002		1,120,427
Restricted assets:						
Checking					263,686	263,686
Money Market			194,832			194,832
Total assets	596,329	41	415,096	304,002	263,686	1,579,154
	=====	=====	=====	=====	=====	=====
FUND BALANCES:						
Nonspendable: (none)						0
Restricted for:						
Debt service			194,832		263,686	458,518
Promotion				304,002		304,002
Library fines		41				41
Committed - capital projects			220,264			220,264
Assigned: (none)						0
Unassigned	596,329					596,329
Total fund balances	596,329	41	415,096	304,002	263,686	1,579,154 *
	=====	=====	=====	=====	=====	=====

* Equals net position on
 Statement of Net Position

See accompanying notes.

TOWN OF KEYSTONE

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCES -- MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2015

	General Fund	Library Fines Fund	2nd Cent (Debt) Fund	3rd Cent (Promotion) Fund	TIF #1 Fund	Total Governmental Funds
Receipts:						
Receipts from local sources:						
Taxes:						
Ad valorem taxes			132,404		98,245	230,649
General sales and use taxes	358,175		355,105	223,223		936,503
Amusement taxes	96					96
Licenses and permits:	35,805					35,805
Intergovernmental receipts:						
State shared receipts:						
Grant	4,945					4,945
Bank franchise tax	2,096					2,096
Liquor tax reversion	2,096					2,096
Highway and bridge	19,092					19,092
County shared receipts:						
Wheel tax	6,248					6,248
Library services	9,228	1,166				10,394
Charges for goods and services:						
General government	7,406					7,406
Public works - cemetery lots	2,800					2,800
Culture and recreation	695					695
Fines and forfeits:	4,120					4,120
Miscellaneous receipts:						
Interest received	2,312		3,319			5,631
Rents and deposits	43,025					43,025
Donations	505					505
Other	26,767					26,767
Total receipts	525,411	1,166	490,828	223,223	98,245	1,338,873
Disbursements:						
General government:						
Governing Board	17,154					17,154
Elections	432					432
Financial administration	179,308					179,308
Other	78,120					78,120
Public safety:						
Police	69,151					69,151
Public works:						
Highways and streets	96,222		11,900			108,122
Cemetery	295					295
Sewer lift station						0
Culture and recreation:						
Parks and recreation	3,194					3,194
Library	48,249	1,274				49,523
KCC Community Center	4,748		7,520	10,680		22,948
Historical Society				18,469		18,469
Senior citizens	4,287					4,287
Economic development:						
Chamber of Commerce				94,001		94,001
Debt service:						
Principal			243,366			243,366
Interest and fees			50,237			50,237
Tax Increment Rev. Bond - principal					35,123	35,123
Tax Increment Rev. Bond - interest					17,663	17,663
Capital outlay	27,200		56,880	26,900		110,980
Total disbursements	528,360	1,274	369,903	150,050	52,786	1,102,373
Excess of receipts over (under) disbursements	(2,949)	(108)	120,925	73,173	45,459	236,500
Other financing sources (uses):						
Transfer in (out)			53,793			53,793
Compensation for damaged property	56,046					56,046
Net change in fund balances	53,097	(108)	174,718	73,173	45,459	346,339
Fund balances:						
January 1, 2015	543,232	149	240,378	230,829	218,227	1,232,815
December 31, 2015	596,329	41	415,096	304,002	263,686	1,579,154

* Equals change in net position on
Statement of Activities

See accompanying notes.

TOWN OF KEYSTONE

STATEMENT OF NET POSITION -- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 AS OF DECEMBER 31, 2015

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
ASSETS:			
Current assets:			
Checking			0
Savings	817,498	401,668	1,219,166
Certificates of deposit (3 month maturity)		14,615	14,615
	-----	-----	-----
Total assets	817,498	416,283	1,233,781
	=====	=====	=====
NET POSITION			
Restricted for:			
Debt service	57,589		57,589
Meter deposits	24,492		24,492
Unrestricted	735,417	416,283	1,151,700
	-----	-----	-----
Total net position	817,498	416,283	1,233,781
	=====	=====	=====

See accompanying notes.

TOWN OF KEYSTONE

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN NET POSITION -- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2015

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
Operating receipts:			
Charges for goods and services	200,896	273,912	474,808
	-----	-----	-----
Total operating receipts	200,896	273,912	474,808
	-----	-----	-----
Operating disbursements:			
Personal services	40,950	83,814	124,764
Other current services	67,075	116,044	183,119
Equipment			0
	-----	-----	-----
Total operating disbursements	108,025	199,858	307,883
	-----	-----	-----
Excess of operating receipts over operating disbursements	92,871	74,054	166,925
Nonoperating receipts (disbursements):			
Interest earnings	104	221	325
Debt service: Principal	(6,341)		(6,341)
Interest	(8,214)		(8,214)
	-----	-----	-----
Total nonoperating receipts (disbursements)	(14,451)	221	(14,230)
Total receipts (disbursements) before transfers	78,420	74,275	152,695
Transfers (out)	(53,793)		(53,793)
	-----	-----	-----
Change in net position	24,627	74,275	98,902
Net position:			
January 1, 2015	792,871	342,008	1,134,879
	-----	-----	-----
December 31, 2015	817,498	416,283	1,233,781
	=====	=====	=====

See accompanying notes.

TOWN OF KEYSTONE

STATEMENT OF CASH FLOWS-- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2015

	Water Fund -----	Sewer Fund -----	Total -----
Cash flows from:			
Operating activities:			
Receipts from customers	196,543	269,559	466,102
Interfund services provided	4,353	4,353	8,706
Cost of employees	(40,950)	(83,814)	(124,764)
Payments to suppliers	(67,075)	(116,044)	(183,119)
Net cash provided (used) by operating activities	----- 92,871	----- 74,054	----- 166,925
Noncapital financing activities:			
Transfers (out)	(53,793)		(53,793)
Capital financing activities:			
Debt service - principal	(6,341)		(6,341)
Debt service - interest	(8,214)		(8,214)
Investing activities:			
Interest received	104	221	325
Net increase (decrease) in cash and cash equivalents	----- 24,627	----- 74,275	----- 98,902
Cash and cash equivalents:			
January 1, 2015	792,871	342,008	1,134,879
December 31, 2015	----- 817,498 =====	----- 416,283 =====	----- 1,233,781 =====
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Excess operating receipts or (disbursements)	92,871	74,054	166,925
Net cash provided (used) by operating activities	----- 92,871 =====	----- 74,054 =====	----- 166,925 =====
Noncash investing, capital and financing activities: None			

See accompanying notes.

TOWN OF KEYSTONE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in note 1.c, these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

a. Reporting Entity:

The funds and account groups included in this report are controlled by or dependent upon the Town of Keystone's (Town) Governing Board.

The Town's officials at December 31, 2015 are:

President:	Finance Officer:
Nikki Ball	Vanessa Row

Trustees:	Attorney:
Cathy Madison	Mitch Johnson
Sandra McLain	
Kwinn Neff	
A. Gideon Oakes	

The reporting entity of the Town of Keystone consists of (1) 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; (2) those organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Town is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the Town (the primary government). The Town may also be financially accountable for another organization if that organization is fiscally dependent on the Town unless that organization can, without the approval of the Town: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

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

b. Basis of Presentation:

Government-wide Financial Statements:

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds (if any). 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 good and services.

The Statement of Net Position reports all cash assets. Net position is displayed in two components: restricted (distinguishing between major categories of restrictions) and unrestricted.

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

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its cash, net position, receipts and disbursements. Funds are organized into three major categories: governmental, enterprise, and fiduciary (if any). An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the Town or if it meets the following criteria:

- a. Total cash, receipts or disbursements of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (cash, receipts or disbursements) for all funds of that category (that is, total governmental or total enterprise), and
- b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
- c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

The Town has elected to classify all of its funds as major funds.

Funds of the Town are described below within their respective fund type:

Governmental Funds

General Fund - a fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the Town except those required to be accounted for in another fund. The general fund is always a major fund.

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

Library Fines Fund - A fund established by SDCL 14-2-42 and AGR 82-33 to account for library fines. The library fines fund is a major fund.

2nd Cent Sales Tax Fund - A fund established by Town of Keystone under Ordinance No. 31, to collect an additional 1% sales tax "...to provide revenue for the Town of Keystone..." including revenue to support payment of the Town's 2004 sales tax revenue drinking water SRF loan for water improvements. The 2nd cent sales tax fund is a major fund.

3rd Cent Sales Tax Fund - A fund established by SDCL 10-52-8, to account for the collection of a 1% tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including promotion and advertising of the Town. The 3rd cent sales tax fund is a major fund.

Debt Service Funds - debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The Town has the following debt service fund:

Tax Increment Financing District #1 fund - TIF #1 is allowed by SDCL 11-9-24 to account for the proceeds of incremental property taxes, restricted to the payment of principal and interest on debt issued to finance a public improvement. The TIF #1 fund is a major fund.

Enterprise Funds
(Business-Type)

Enterprise Funds - Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The Town has the following enterprise funds:

Water Fund - A fund established by SDCL 9-47-1 to provide water to customers within the Town of Keystone. The water fund is a major fund.

Sewer Fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the own of Keystone. The sewer fund is a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

The Town of Keystone has no fiduciary funds.

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 (disbursements) are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Town's basis of accounting is the modified cash basis of accounting, which is a basis of accounting other than US-GAAP. Under US-GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis of accounting, transactions are recorded when cash is received or disbursed.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as described 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 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, business-type, and major fund 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 receipts and disbursement transactions. Under the modified cash basis of accounting, the statement of net position reports only cash and cash equivalents. 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 cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the Town in these financial statements are certificates of deposit (if any) whose maturity when purchased is more than 90 days.

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 and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Town applied US-GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for enterprise funds and fiduciary funds (if any) would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

d. Cash and Cash Equivalents:

For purposes 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 (if any) in open-end mutual funds shares or similar investments in external investment pools, are also considered to be cash equivalents.

The Town's certificate of deposit has a maturity of three months when purchased and is considered a cash equivalent.

Under the modified cash basis of accounting, investments are carried at cost.

e. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed. All other interfund transactions are reported as transfers.

f. Program Receipts and General Receipts:

Program Receipts:

In the government-wide Statement of Activities, reported program receipts derive directly from the program itself or from parties other than the Town's taxpayers or citizenry, as a whole. Program receipts are classified in three categories, as follows:

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

General Receipts:

General receipts include all receipts not specifically earmarked for a specific program. General receipts include all taxes, interest received, unrestricted receipts from federal, state, or county governments, and miscellaneous receipts not related to a program. These receipts are not restricted and can be used for the regular operation of the Town.

g. Enterprise Fund Receipt Classifications:

In both the government-wide statements and fund financial statements, enterprise fund operating receipts, such as charges for water and sewer services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, if any, such as grants, operating subsidies, interest received, and transfers in, result from nonexchange transactions.

h. Equity Classifications:

Government-wide financial Statements:

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

1. Restricted Net Position - Consists of net position with constraints placed on their use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position - All other net position that does 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. Enterprise fund equity is classified as "Net Position", the same as in the government-wide financial statements. Fiduciary fund equity (if any) (except for agency funds, which have no fund equity) is reported as "Net Position Held in Agency Capacity."

i. Application of Net Position:

It is the Town's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred which can be charged to either restricted or unrestricted net position.

j. Fund Balance Classification Policies and Procedures:

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

- * Nonspendable - includes fund cash balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- * Restricted - includes fund cash 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 (or modified or rescinded) by the government through formal action at the highest level of decision making authority and does not lapse at year-end.
- * Assigned - includes fund cash balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund cash balance may be assigned by the Board of Trustees or Finance Officer.
- * Unassigned - includes positive fund cash balance within the general fund which has not been classified within the above categories and negative fund balance amounts in other governmental funds.

The Town of Keystone fund cash balance classifications are made up of:

<u>Fund Balance</u> <u>Classifications</u>	<u>Account</u> <u>or Fund</u>	<u>Authority</u> <u>or Action</u>	<u>Amount</u>
Nonspendable	None		0
Restricted	Library Fines	Statute	41
	2nd Cent: Debt service	Trust Agreement	194,832
	3rd Cent: Promotion	Statute	304,002
	TIF #1 cash	Contract and Ordinance	263,686
Committed	2nd Cent: Capital projects	Ordinance	220,264
Assigned	None		0
Unassigned	General		596,329

			1,579,154

The Town uses "restricted" and "committed" amounts first when 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 Town would first use "committed", then "assigned", and lastly "unassigned" amounts of unrestricted fund balance when expenditures are made.

The Town does not have a formal minimum fund cash balance policy.

The purpose of each special revenue fund and revenue source is:

Special Revenue Fund:	Revenue Source: (see page 13)
* Library Fines	Library fines
* 2nd Cent	Property tax and Sales tax
* 3rd Cent	Sales tax

Debt Service Fund:	
* TIF #1	Property tax

2. DEPOSITS, INVESTMENTS AND RELATED RISKS

Except for restricted cash held by 3rd parties and bank certificates of deposit purchased for an individual fund, the Town follows the practice of aggregating deposits of its various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The Town 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. 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 FDIC and

NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

Actual bank balances at December 31, 2015 were as follows: Insured \$510,635, Collateralized ** \$2,117,890, for a total of \$2,628,525.

** Uninsured, collateral jointly held by state's/municipality's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits at December 31, 2015 was \$2,617,912 held as follows.

1st Interstate Bank, (Hill City, SD):			
Checking	\$	18	
Savings		2,339,593	
Sewer certificate of deposit (3 months)		14,615	
Wells Fargo Bank, (Rapid City, SD):			
Checking		263,686	TIF #1

	\$	2,617,912	
Money market (note 3)		194,832	Lease/purchase debt service
Petty cash		191	

	\$	2,812,935	
		=====	

Certificates of deposit (if any), with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

3. INVESTMENTS AND RELATED RISKS

In general, SDCL 4-5-6 permits Town money 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) or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

At December 31, 2015, the Town had the following investments:

	Credit Rating	Maturities	Fair Value	Interest Rate Risk
First National Bank: (100%)				
Money Market Mutual Funds:				
Goldman Sachs Financial Square				
Treasury obligations	AAAm	NA	\$194,832	note 1 note 2

		Total investments	\$194,832	

notes

- 1 Fixed principal. Interest rate varies. Not subject to interest rate risk.
- 2 Held in trust accounts for the Town's 2011 lease/purchase of sewer plant.

Investment Risk - State law limits eligible investments for the Town as discussed above. The Town has no investment policy that would further limit its investment choices.

Custodial Risk (Investments) - The risk that, in the event of a default by the counterparty to a transaction, the Town will not be able to recover the value of an investment or collateral securities held by the counterparty. The Town's investment in 2014 were in U.S. Government securities and so the Town was not exposed to custodial risk for investments.

Custodial Risk (Deposits) - The risk that, in the event of a depository failure, the Town's deposits may not be returned to it. At December 31, 2015, the Town's deposits in financial institutions were not exposed to custodial deposit risks.

Concentration of Credit Risk - the Town places no limit on the amount that may be invested in any one institution. The amount of investment in an institution is shown above.

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

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The Town's policy is to credit all income from deposits and investments to the fund making the investment except for the 3rd cent special revenue fund interest (if any) which is credited to the general fund.

4. RESTRICTED NET POSITION

The following table shows the December 31, 2015 net position restricted for specific purposes as shown on the statement of net position

Purpose:	Restricted By:	Governmental	Business-Type
Debt	Covenants	194,832	57,589
Promotion	Statute	304,002	
Debt (TIF #1)	Contract	263,686	
Library fines	Statute	41	
Meter deposits	Contract		24,492
		-----	-----
Total Restricted Net Position		762,561	82,081

5. INTERFUND TRANSFERS

Transfers "in" and "(out)" between funds were:

	<u>Governmental</u>	<u>Enterprise</u>	<u>Purpose</u>
2nd Cent	53,793		Debt service
Water		(53,793)	Debt service

6. LEASE/PURCHASE AGREEMENT OF THE TOWN'S SEWER PLANT

On December 14, 2011 the Town entered into an agreement to lease/purchase the Town's sewer plant with the First National Bank in Sioux Falls as Trustee. The Town will be making lease payment of approximately \$240,000 a year for 8 years. See page 34 for more information.

7. FUTURE REVENUES PLEDGED TO SECURE DEBT

All water fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure the 1986 FmHA Water Revenue Bond, which has a remaining balance of \$101,383. The bond was incurred to cover the cost of water improvements as described on page 34. The bond will mature in 2026. In 2015 the bond had pledged revenue of \$92,871 and total bond payments of \$14,555. This bond was paid-off in January 2016.

8. PENSION PLAN

Summary of Significant Accounting Policies:

As mentioned in note 1c above, these financial statements, both government-wide and fund financial statements, are presented on a modified cash basis of accounting rather than an accrual/ modified accrual basis of accounting. Consequently, these financial statements do not measure the net pension liability (assets), deferred outflows of resources and deferred inflows of resources related to pensions, pension expense (revenue), and information about the fiduciary net position of the South Dakota Retirement System (SDRS).

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to SDRS, PO Box 1098, Pierre, SD 57501-1098 or calling (605)773-3731.

Benefits Provided:

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

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

- If the SDRS market value funded ratio is 100% or more - 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - > 90.0% to 99.9% funded - 2.1% minimum and 2.8% maximum COLA
 - > 80.0% to 89.9% 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 SDRS 3-12, contributions requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to

the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the years ending December 31, 2015, 2014, and 2013 were \$13,743, \$14,018, and \$14,337 (employer's share) respectively, equal to the required contribution each year.

Pension Liabilities (Assets):

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

Proportionate share of SDRS net position restricted for pension benefits	\$ 1,352,002
Less: proportionate share of total pension liability	1,298,792

Proportionate share of net pension liability (asset)	\$ (53,210)

The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contribution to the pension plan relative to the contributions of all participating entities. At June 30, 2015 the City's proportion was .0125458%, which is a decrease of .0008989% from its proportion as of June 30, 2014.

Actuarial Assumptions:

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

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Discount rate	7.25% through 2016 and 7.50% thereafter, net of pension plan investment expense

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

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

Investments:

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 Standard (ie: 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 discussion of the pension plan's investment policy above) 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%

	100.0%	

Discount Rate:

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

Sensitivity of Asset to Changes in the Discount Rate:

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

	1% Decrease	Current Discount Rate	1% Increase
City's share of SDRS net pension liability (asset)	\$ 133,930 liability	\$ (53,210) asset	\$ (205,807) asset

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in the separately issued South Dakota Retirement System financial report.

9. PROPERTY TAX

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

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

10. INSURANCE

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

Employee Health Insurance:

The Town joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Town 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 Town does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Property Insurance:

The Town carries property insurance from a commercial carrier.

Liability Insurance:

The Town joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Town pays an annual premium to the pool to provide coverage for general liability, officials liability, automobile insurance, and law enforcement liability, property, boiler and machinery insurance.

The agreement with the SDPAA provides that the above coverage's will be provided to a \$1,000,000 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. The Town carries a \$500 deductible for officials liability.

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 cost for that coverage. The Town's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the Town. The Town pays an annual premium, to provide liability coverage detailed above, under a claims-made policy and the premiums are accrued on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage.

A portion of the member premiums are also allocated to a cumulative reserve fund. The Town would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve on the following formula:

End of the Town's:

First Full Year (50%), Second Full Year (60%), Third Full Year (70%)
Fourth Full Year (80%), Fifth Full Year (90%), Sixth Full Year (100%)

As of December 31, 2015, the Town has a vested balance in the cumulative reserve fund of \$6,782.

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

Worker's Compensation:

The Town joined the South Dakota Municipal League Workers' Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Town pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

The Town's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Town pays an annual premium, to provide worker's compensation coverage 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. The Town may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs.

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

Unemployment Benefits:

The Town provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota. No unemployment payments were made during the year ending December 31, 2015 and none are expected in 2016.

11. LITIGATION

The Town may a party to litigation regarding facilities for which corrective actions have been taken. No determination can be made at this time regarding the potential outcome of such matters. However, as discussed in the risk management note above, the Town has liability coverage for itself and its employees through South Dakota Public Assurance Alliance. Therefore, any such litigation is not expected to have a potential material effect on the Town's financial statements.

12. RELATED ORGANIZATION

The Keystone Commission on Housing for the Elderly (aka: Keystone Elderly Apartments) is a related organization to the Town of Keystone. The Town appoints the Commission's governing board but is not financially accountable for the Commission. The Commission is under the jurisdiction of the U.S. Dept. of Agriculture - Rural Development (RD) - Rural Housing Services (RHS).

RD provides long-term financing. RHS provides budgetary control and rental assistance. The following unaudited data summarizes financial position and results of operations for the Commission as of and for the three years ending December 31, 2015:

	12-31-15 UNAUDITED 12 months -----	12-31-14 UNAUDITED 12 months -----	12-31-13 UNAUDITED 12 months -----
Current assets	58,584	42,563	
Current liabilities	(6,029)		(4,772)
Land	71,394	50,000	NOT
Buildings	322,003	322,003	AVAILABLE
Equipment and improvements	52,826	74,219	
Accumulated depreciation	(253,604)	(253,604)	
RD note payable	(330,738)	(331,510)	
	-----	-----	-----
Net position	(85,564)	(101,101)	
	=====	=====	=====

	12-31-15 UNAUDITED 12 months -----	12-31-14 UNAUDITED 12 months -----	12-31-13 UNAUDITED 12 months -----
Rents	36,691	37,501	
RD rental assistance	21,222	16,899	
RECD interest subsidy	14,921	14,921	
Other income	2,932	4,222	
Expenses	(66,423)	(75,372)	
Depreciation	0	0	
	-----	-----	-----
Operating income (loss)	9,343	(1,829)	
Beginning net position	(101,101)	(99,272)	
Prior period adjustment	6,194		
	-----	-----	-----
Ending net position	(85,564)	(101,101)	
	=====	=====	=====

13. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The Town does not operate a landfill.

The Town does not offer any Other Post Employment Benefits.

The Town does not have any material related party transactions.

In January 2016 the Town paid-off its 7.625% FmHA water revenue bond which had a remaining balance of \$101,383.

In 2016 the Town intends to retro fit well #3 for \$98,000 with funding coming from a new SRF loan.

In 2016 the Town expects to begin Phase I of a \$738,000 water/sewer upgrade project with funding from a \$375,205 CDBG grant and a \$362,795 Consolidated Water Facility loan.

In 2016 the Town expects to re-roof the museum for \$60,000 with funding of \$45,000 from grants and a \$15,000 insurance settlement.

TOWN OF KEYSTONE

SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2015

GENERAL FUND	Budget Amounts			Actual (Cash Basis)	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental		
Receipts:					
Receipts from local sources:					
Taxes	311,800			311,800	46,471
Licenses and permits	46,500			46,500	(10,695)
State shared receipts	21,000			21,000	7,229
County shared receipts	15,400			15,400	76
Charges for goods and services	9,900			9,900	1,001
Fines and forfeits	1,800			1,800	2,320
Miscellaneous receipts	7,500			7,500	65,109
Total receipts	413,900	0	0	413,900	111,511
Disbursements:					
General government:					
Governing Board	16,800	1,248		18,048	89
Contingency	35,000			35,000	35,000
Amount transferred		(7,016)		(7,016)	(7,016)
Elections	1,260			1,260	828
Financial administration	179,305			179,305	(3)
Other	75,179	3,395		78,574	98
Public safety:					
Police	72,884			72,884	3,733
Public works:					
Highways and streets	119,342			119,342	1,555
Cemetery	3,000			3,000	2,705
Culture and recreation:					
Parks and recreation	10,000			10,000	4,579
Library	58,420			58,420	7,119
Community Center	2,000	2,373		4,373	(375)
Senior citizens	5,000			5,000	713
Total disbursements	578,190	0	0	578,190	49,830
Excess of receipts over (under) disbursements	(164,290)	0	0	(164,290)	161,341
Other financing sources (uses):					
Compensation for damaged property				0	56,046
Net change in fund balance	(164,290)	0	0	(164,290)	217,387
Fund balance:					
January 1, 2015	543,232			543,232	0
December 31, 2015	378,942	0	0	378,942	217,387

TOWN OF KEYSTONE

SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2015

2ND CENT (DEBT SERVICE)	Budget Amounts			Actual (Cash Basis)	Variance Positive (Negative)
	Original	Supplemental	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Ad valorem taxes	120,000		120,000	132,404	12,404
General sales and use taxes	309,000		309,000	355,106	46,106
Miscellaneous:					
Interest received	0		0	3,319	3,319
Total receipts	429,000	0	429,000	490,829	61,829
Disbursements:					
Public works:					
Streets	25,000		25,000	11,900	13,100
Sewer lift station	24,000		24,000		24,000
Culture and recreation:					
Community Center	88,000		88,000	64,400	23,600
Debt service:					
2004 SRF loan	54,000		54,000	53,793	207
2011 lease/purchase and fees	242,000		242,000	239,810	2,190
Total disbursements	433,000	0	433,000	369,903	63,097
Excess of receipts over (under) disbursements	(4,000)	0	(4,000)	120,926	124,926
Other financing sources (uses):					
Transfer in			0	53,793	53,793
Net change in fund balance	(4,000)	0	(4,000)	174,719	178,719
Fund balance:					
January 1, 2015	240,378		240,378	240,378	0
December 31, 2015	236,378	0	236,378	415,097	178,719

3RD CENT (PROMOTION)	Budget Amounts			Actual (Cash Basis)	Variance Positive (Negative)
	Original	Supplemental	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
General sales and use taxes	181,000		181,000	223,223	42,223
Total receipts	181,000	0	181,000	223,223	42,223
Disbursements:					
Culture and Recreation:					
KCC Community Center & promotion	68,790		68,790	37,580	31,210
Historical Society	18,200		18,200	18,469	(269)
Economic development:					
Chamber of Commerce	94,010		94,010	94,001	9
Total disbursements	181,000	0	181,000	150,050	30,950
Excess of receipts over (under) disbursements	0	0	0	73,173	73,173
Other financing sources (uses):					
None			0		0
Net change in fund balance	0	0	0	73,173	73,173
Fund balance:					
January 1, 2015	230,829		230,829	230,829	0
December 31, 2015	230,829	0	230,829	304,002	73,173

TOWN OF KEYSTONE

BUDGETARY SUPPLEMENTARY INFORMATION

NOTES TO THE BUDGETARY COMPARISON SCHEDULES FOR THE GENERAL,
2ND CENT, AND 3RD CENT FUNDS FOR THE YEAR ENDING DECEMBER 31, 2015

1. BUDGETS AND BUDGETARY ACCOUNTING

The Town of Keystone (Town) follows these procedures in establishing the budgetary data reflected in the budgetary supplementary information:

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2015 there were no supplemental budgets. See page 31 and 32.
- e. Formal budgetary integration is employed as a management control device for the general, 2nd cent, and 3rd cent funds.
- f. The budget for the general, 2nd cent, and 3rd cent funds is not adopted on a basis consistent with generally accepted accounting principles (GAAP) because all accounting, and the adoption of the all budgets, is on a modified cash basis of accounting.

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE:

The financial statements prepared in conformity with US-GAAP (within the context of the modified cash basis of accounting) present capital outlay disbursement information as a separate category of disbursements. Under the budgetary basis of accounting, capital outlay disbursements are reported within the function to which they relate. For example, the purchase of a road grader would be reported as a capital outlay disbursement in the governmental funds statement of receipts, disbursements and changes in fund balances. However, in the budgetary schedule, the purchase of a road grader would be reported as a disbursement in the public works function of general fund, along with all other current public works disbursements.

TOWN OF KEYSTONE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN DEBT
 FOR THE ONE YEAR ENDING DECEMBER 31, 2015

Governmental Business-Type
 Activities Activities
 Ending Ending
 12-31-15 12-31-15
 Principal
 Due in
 2016

	Beginning 12-31-14	Additions	(Deletions)	Ending 12-31-15	Ending 12-31-15	Principal Due in 2016
GOVERNMENTAL						
2004 Sales Tax Revenue SRF Loan:						
From: State Revolving Funds - Drinking Water						
Amount disbursed: \$630,212						
Date of agreement: 3-25-2004						
Maturing: 2026						
Interest rate: 3.25%						
Collateral: Sales tax receipts						
Purpose: drinking water improvements						
Paid from the 2nd cent sales tax fund	404,139		(33,366)	370,773		30,984
2005 Tax Increment Revenue Bonds:						
Original issue of up to \$610,000						
Maturing on December 1, 2023						
Interest at 4.14%						
Purpose: infrastructure improvements						
Private guaranty of bonds: Riddle's Group, Inc.						
Paid by the TIF #1 debt service fund	420,709		(35,124)	385,585		37,582
2011 Lease/Purchase of Sewer Plant:						
Original issue of \$1,745,000						
Maturing on November 25, 2019						
Interest from 1.00% to 3.10%						
Prepayment allowed on or after December 15, 2016						
Purpose: lease/purchase of existing sewer treatment facility						
Paid from the 2nd cent sales tax fund	1,135,000		(210,000)	925,000		215,000
Totals	1,959,848	0	(278,490)	1,681,358		283,566

BUSINESS-TYPE						
1986 FmHA Water Revenue Bond:						
Original issue of \$180,000						
Maturing on August 26, 2026						
Interest at 7.625%						
Purpose: water line construction						
Paid by the water fund	107,724		(6,341)		101,383	6,825
Totals	107,724	0	(6,341)		101,383	6,825

Payment Schedules:	Total Payment	Principal	Interest	Balance
2004 Sales Tax Revenue SRF Loan:				
2016	43,034	30,984	12,050	339,789
2017	43,034	31,991	11,043	307,798
2018	43,034	33,031	10,003	274,767
2019	43,034	34,104	8,930	240,663
2020	43,035	35,213	7,822	205,450
2021-2025	215,171	193,992	21,179	11,458
2026	11,831	11,458	373	0
Totals	442,173	370,773	71,400	
2005 Tax Increment Revenue Bonds:				
2016	53,584	37,582	16,002	348,003
2017	54,655	40,213	14,442	307,790
2018	55,801	43,028	12,773	264,762
2019	57,027	46,040	10,987	218,722
2020	58,340	49,263	9,077	169,459
2021-2023	183,843	169,459	14,384	0
Totals	463,250	385,585	77,665	
2011 Lease/Purchase of Sewer Plant:				
2016	240,400	215,000	25,400	710,000
2017	240,348	220,000	20,348	490,000
2018	239,627	225,000	14,627	265,000
2019	273,215	265,000	8,215	0
Totals	993,590	925,000	68,590	
1986 FmHA Water Revenue Bond:				
2016	14,555	6,825	7,730	94,558
2017	14,555	7,345	7,210	87,213
2018	14,555	7,905	6,650	79,308
2019	14,555	8,508	6,047	70,800
2020	14,555	9,156	5,399	61,644
2021-2025	72,775	57,383	15,392	4,261
2026	4,586	4,261	325	0
Totals	150,136	101,383	48,753	

CITY OF KEYSTONE
FOR THE ONE YEAR ENDING DECEMBER 31, 2015

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
SOUTH DAKOTA RETIREMENT SYSTEM'S NET PENSION LIABILITY (ASSET)

SDRS Measurement Date Year Ended (1)	City's Percentage of the Net Pension Asset	City's Proportionate Share of Net Pension Liability (Asset)	City's Covered Employee Payroll	City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0125458%	(53,210)	229,050	23.23%	104.1%
June 30, 2014	0.0134447%	(96,864)	233,632	41.46%	107.3%

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

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF KEYSTONE
FOR THE ONE YEAR ENDING DECEMBER 31, 2015

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S CONTRIBUTIONS
TO THE SOUTH DAKOTA RETIREMENT SYSTEM

SDRS Measurement Date Year Ended (1)	Contractually Required Contribution	Contributions Related to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
June 30, 2015	13,743	13,743	0	229,050	6.00%
June 30, 2014	14,107	14,018	(89)	233,632	6.00%

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

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

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

Governing Board
Town of Keystone
Keystone, South Dakota

I 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 governmental activities, business-type activities, and each major fund, of the Town of Keystone (Town), Pennington County, South Dakota, as of December 31, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Town's modified cash basis of accounting financial statements and have issued my report thereon dated August 16, 2016 which was unmodified.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Town of Keystone's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

I did note minor matters involving compliance that I reported to the governing body and management of the Town of Keystone in separate Letters of Comments dated August 16, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exist 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 Town of Keystone's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency*, is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

I did note minor matters involving internal control that I reported to the governing body and management of the Town of Keystone in separate Letters of Comments dated August 16, 2016.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on the effectiveness of the Town's compliance or internal control over financial reporting. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's compliance and internal control over financial reporting. 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.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

August 16, 2016

A handwritten signature in black ink that reads "Benjamin Elliott". The signature is written in a cursive style with a large, stylized initial "B".

TOWN OF KEYSTONE
SCHEDULES OF FINDINGS
DECEMBER 31, 2015

Schedule of Prior Audit Findings:

There were no written prior audit findings to report.

Schedule of Current Audit Findings and Responses:

There are no written current audit findings to report.