

MUNICIPALITY OF KIMBALL
AUDIT REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2014
AND
FOR THE YEAR ENDED
DECEMBER 31, 2013

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

To the Council Members
Municipality of Kimball, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities and each major fund of the Municipality of Kimball, South Dakota, as of and for each of the years in the biennial period ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated September 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality of Kimball'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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

Our 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 may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "CIO Prof LLC".

Mitchell, South Dakota
September 30, 2015



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Municipality of Kimball, South Dakota

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Kimball, South Dakota, as of and for each of the years in the biennial period then ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Municipality's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1c; 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

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 from material misstatement.

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

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

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, and each major fund of the Municipality of Kimball as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for each of the years in the biennial period then ended in conformity with the modified cash basis of accounting described in Note 1c to the financial statements.

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The budgetary comparison schedule, schedule of changes in long-term debt, and other supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2015 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Mitchell, South Dakota
September 30, 2015

MUNICIPALITY OF KIMBALL, SD
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2014

| | <i>Primary Government</i> | | |
|-------------------------------|------------------------------------|-------------------------------------|---------------------|
| | <i>Governmental Activities</i> | <i>Business-Type Activities</i> | <i>Total</i> |
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,087,463 | \$ 277,666 | \$ 1,365,129 |
| <i>Total Assets</i> | \$ 1,087,463 | \$ 277,666 | \$ 1,365,129 |
| NET POSITION | | | |
| Restricted for: | | | |
| Facilities and promoting city | \$ 69,788 | \$ -- | \$ 69,788 |
| Unrestricted | 1,017,675 | 277,666 | 1,295,341 |
| <i>Total Net Position</i> | \$ 1,087,463 | \$ 277,666 | \$ 1,365,129 |

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

MUNICIPALITY OF KIMBALL, SD
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> <u>Charges for Services</u> | <u>Net (Expense) Revenue and Changes in Net Position</u> | | |
|---|-------------------|--|--|---------------------------------|---------------------|
| | | | <u>Primary Government</u> | | |
| | | | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
| <i>Primary Government:</i> | | | | | |
| <i>Governmental Activities:</i> | | | | | |
| General government | \$ 85,539 | \$ 5,591 | \$ (79,948) | \$ -- | \$ (79,948) |
| Public safety | 77,359 | -- | (77,359) | -- | (77,359) |
| Public works | 156,651 | -- | (156,651) | -- | (156,651) |
| Health and welfare | 187,514 | -- | (187,514) | -- | (187,514) |
| Culture and recreation | 97,289 | -- | (97,289) | -- | (97,289) |
| Conservation and development | 46,045 | -- | (46,045) | -- | (46,045) |
| Debt service | 7,895 | -- | (7,895) | -- | (7,895) |
| <i>Total Governmental Activities</i> | <u>658,292</u> | <u>5,591</u> | <u>(652,701)</u> | <u>--</u> | <u>(652,701)</u> |
| <i>Business-type Activities:</i> | | | | | |
| Water | 124,628 | 114,378 | -- | (10,250) | (10,250) |
| Sewer | 87,184 | 95,250 | -- | 8,066 | 8,066 |
| <i>Total Business-Type Activities</i> | <u>211,812</u> | <u>209,628</u> | <u>--</u> | <u>(2,184)</u> | <u>(2,184)</u> |
| <i>Total Primary Government</i> | <u>\$ 870,104</u> | <u>\$ 215,219</u> | <u>\$ (652,701)</u> | <u>\$ (2,184)</u> | <u>\$ (654,885)</u> |
| <i>General Revenues:</i> | | | | | |
| <i>Taxes:</i> | | | | | |
| Property tax | | | \$ 158,578 | \$ -- | \$ 158,578 |
| Sales tax | | | 319,774 | -- | 319,774 |
| State shared revenues | | | 62,002 | -- | 62,002 |
| Unrestricted investment earnings | | | 2,803 | 713 | 3,516 |
| Miscellaneous revenue | | | 23,015 | -- | 23,015 |
| Capital contributions | | | 385,614 | -- | 385,614 |
| <i>Total General Revenues and Transfers</i> | | | <u>951,786</u> | <u>713</u> | <u>952,499</u> |
| <i>Change in Net Position</i> | | | 299,085 | (1,471) | 297,614 |
| <i>Net Position-Beginning of Year</i> | | | <u>788,378</u> | <u>279,137</u> | <u>1,067,515</u> |
| <i>Net Position-End of Year</i> | | | <u>\$ 1,087,463</u> | <u>\$ 277,666</u> | <u>\$ 1,365,129</u> |

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

MUNICIPALITY OF KIMBALL, SD
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | <u>Net (Expense) Revenue and Changes in Net Position</u> | | |
|---|-------------------|---------------------------------|--|-------------------------------------|-------------------------------------|
| | | <u>Charges for Services</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Primary Government Total</u> |
| <i>Primary Government:</i> | | | | | |
| <i>Governmental Activities:</i> | | | | | |
| General government | \$ 55,480 | \$ 6,199 | \$ (49,281) | \$ -- | \$ (49,281) |
| Public safety | 77,012 | -- | (77,012) | -- | (77,012) |
| Public works | 201,297 | -- | (201,297) | -- | (201,297) |
| Health and welfare | 8,696 | -- | (8,696) | -- | (8,696) |
| Culture and recreation | 101,720 | -- | (101,720) | -- | (101,720) |
| Conservation and development | 7,663 | -- | (7,663) | -- | (7,663) |
| Debt service | 10,612 | -- | (10,612) | -- | (10,612) |
| <i>Total Governmental Activities</i> | <u>462,480</u> | <u>6,199</u> | <u>(456,281)</u> | <u>--</u> | <u>(456,281)</u> |
| <i>Business-type Activities:</i> | | | | | |
| Water | 104,919 | 118,774 | -- | 13,855 | 13,855 |
| Sewer | 66,569 | 99,743 | -- | 33,174 | 33,174 |
| <i>Total Business-Type Activities</i> | <u>171,488</u> | <u>218,517</u> | <u>--</u> | <u>47,029</u> | <u>47,029</u> |
| <i>Total Primary Government</i> | <u>\$ 633,968</u> | <u>\$ 224,716</u> | <u>\$ (456,281)</u> | <u>\$ 47,029</u> | <u>\$ (409,252)</u> |
| <i>General Revenues:</i> | | | | | |
| <i>Taxes:</i> | | | | | |
| Property tax | | | \$ 151,797 | \$ -- | \$ 151,797 |
| Sales tax | | | 349,650 | -- | 349,650 |
| State shared revenues | | | 52,269 | -- | 52,269 |
| Unrestricted investment earnings | | | 2,105 | 744 | 2,849 |
| Miscellaneous revenue | | | 39,315 | -- | 39,315 |
| <i>Total general Revenues and Transfers</i> | | | <u>595,136</u> | <u>744</u> | <u>595,880</u> |
| <i>Change in Net Position</i> | | | 138,855 | 47,773 | 186,628 |
| <i>Net Position-Beginning of Year</i> | | | <u>649,523</u> | <u>231,364</u> | <u>880,887</u> |
| <i>Net Position-End of Year</i> | | | <u>\$ 788,378</u> | <u>\$ 279,137</u> | <u>\$ 1,067,515</u> |

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

MUNICIPALITY OF KIMBALL, SD
BALANCE SHEET – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

| | <u>General Fund</u> | <u>Liquor, Lodging, and Dining Gross Receipts Tax Fund</u> | <u>Sales Tax Fund</u> | <u>Park Gift Fund</u> | <u>Capital Projects Fund</u> | <u>Total Governmental Funds</u> |
|-------------------------------|-------------------------|--|---------------------------|---------------------------|--------------------------------------|---|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 753,485 | \$ 68,514 | \$ 75,278 | \$ 1,274 | \$ 188,912 | \$ 1,087,463 |
| <i>Total Assets</i> | <u>\$ 753,485</u> | <u>\$ 68,514</u> | <u>\$ 75,278</u> | <u>\$ 1,274</u> | <u>\$ 188,912</u> | <u>\$ 1,087,463</u> |
| FUND BALANCES | | | | | | |
| Restricted | | | | | | |
| Facilities and promoting city | \$ -- | \$ 68,514 | \$ -- | \$ 1,274 | \$ -- | \$ 69,788 |
| Committed | | | | | | |
| Capital outlay | -- | -- | 75,278 | -- | 188,912 | 264,190 |
| Unassigned | 753,485 | -- | -- | -- | -- | 753,485 |
| <i>Total Fund Balances</i> | <u>\$ 753,485</u> | <u>\$ 68,514</u> | <u>\$ 75,278</u> | <u>\$ 1,274</u> | <u>\$ 188,912</u> | <u>\$ 1,087,463</u> |

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

MUNICIPALITY OF KIMBALL, SD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
MODIFIED CASH BASIS -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

| | <u>General Fund</u> | <u>Liquor, Lodging, and Dining Gross Receipts Tax Fund</u> | <u>Sales Tax Fund</u> | <u>Park Gift Fund</u> | <u>Capital Projects Fund</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|--|---------------------------|---------------------------|--------------------------------------|---|
| Revenues: | | | | | | |
| Taxes: | | | | | | |
| General property taxes | \$ 158,578 | \$ -- | \$ -- | \$ -- | \$ -- | \$ 158,578 |
| General sales and use taxes | 302,406 | 17,368 | -- | -- | -- | 319,774 |
| Licenses and permits | 5,699 | -- | -- | -- | -- | 5,699 |
| Intergovernmental: | | | | | | |
| Bank franchise tax | 1,846 | -- | -- | -- | -- | 1,846 |
| Motor vehicle commercial prorated | 2,790 | -- | -- | -- | -- | 2,790 |
| Liquor tax reversion | 5,152 | -- | -- | -- | -- | 5,152 |
| Motor vehicle licenses | 12,594 | -- | -- | -- | -- | 12,594 |
| Local government highway and bridge fund | 36,294 | -- | -- | -- | -- | 36,294 |
| County road tax (25%) | 1,451 | -- | -- | -- | -- | 1,451 |
| County wheel tax | 1,875 | -- | -- | -- | -- | 1,875 |
| Charges for goods and services | 5,591 | -- | -- | -- | -- | 5,591 |
| Miscellaneous revenue: | | | | | | |
| Investment earnings | 1,944 | 176 | 193 | 4 | 485 | 2,803 |
| Rentals | 8,819 | -- | -- | -- | -- | 8,819 |
| Other | 8,497 | -- | -- | -- | -- | 8,497 |
| Total Revenue | <u>553,536</u> | <u>17,544</u> | <u>193</u> | <u>4</u> | <u>485</u> | <u>571,763</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government: | | | | | | |
| Financial administration | 85,539 | -- | -- | -- | -- | 85,539 |
| Public safety: | | | | | | |
| Police | 60,869 | -- | -- | -- | -- | 60,869 |
| Fire | 16,490 | -- | -- | -- | -- | 16,490 |
| Public works: | | | | | | |
| Highways and streets | 153,390 | -- | -- | -- | -- | 153,390 |
| Sanitation | 1,616 | -- | -- | -- | -- | 1,616 |
| Airport | 1,645 | -- | -- | -- | -- | 1,645 |
| Health and welfare: | | | | | | |
| Health | 3,917 | -- | -- | -- | 183,597 | 187,514 |
| Culture and recreation | | | | | | |
| Recreation | 97,289 | -- | -- | -- | -- | 97,289 |
| Conservation and development: | | | | | | |
| Economic development and assistance (industrial development) | - | 46,045 | -- | -- | -- | 46,045 |
| Debt service | 7,895 | -- | -- | -- | -- | 7,895 |
| Total Expenditures | <u>428,649</u> | <u>46,045</u> | <u>--</u> | <u>--</u> | <u>183,597</u> | <u>658,292</u> |
| Excess of Revenues Over Expenditures | 124,887 | (28,501) | 193 | 4 | (183,112) | (86,529) |
| Other Financing Sources (Uses): | | | | | | |
| Transfers in | -- | -- | 6,000 | -- | -- | 6,000 |
| Transfers out | (6,000) | -- | -- | -- | -- | (6,000) |
| Capital contributions | 13,590 | -- | -- | -- | 372,024 | 385,614 |
| Total Other Financing Sources (Uses) | <u>7,590</u> | <u>--</u> | <u>6,000</u> | <u>--</u> | <u>372,024</u> | <u>385,614</u> |
| Net Change in Fund Balance | 132,477 | (28,501) | 6,193 | 4 | 188,912 | 299,085 |
| Fund Balance - Beginning of Year | <u>621,008</u> | <u>97,015</u> | <u>69,085</u> | <u>1,270</u> | <u>--</u> | <u>788,378</u> |
| Fund Balance - End of Year | <u>\$ 753,485</u> | <u>\$ 68,514</u> | <u>\$ 75,278</u> | <u>\$ 1,274</u> | <u>\$ 188,912</u> | <u>\$ 1,087,463</u> |

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

MUNICIPALITY OF KIMBALL, SD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
MODIFIED CASH BASIS -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

| | <u>General Fund</u> | <u>Liquor, Lodging, and Dining Gross Receipts Tax Fund</u> | <u>Sales Tax Fund</u> | <u>Park Gift Fund</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|--|---------------------------|---------------------------|---|
| Revenues: | | | | | |
| Taxes: | | | | | |
| General property taxes | \$ 151,797 | \$ -- | \$ -- | \$ -- | \$ 151,797 |
| General sales and use taxes | 331,207 | 18,443 | -- | -- | 349,650 |
| Licenses and permits | 5,941 | -- | -- | -- | 5,941 |
| Intergovernmental: | | | | | |
| Bank franchise tax | 1,680 | -- | -- | -- | 1,680 |
| Motor vehicle commercial prorated | 2,610 | -- | -- | -- | 2,610 |
| Liquor tax reversion | 4,797 | -- | -- | -- | 4,797 |
| Motor vehicle licenses | 11,271 | -- | -- | -- | 11,271 |
| Local government highway and bridge fund | 31,911 | -- | -- | -- | 31,911 |
| County road tax (25%) | 1,451 | -- | -- | -- | 1,451 |
| County wheel tax | 431 | -- | -- | -- | 431 |
| Charges for goods and services | 6,199 | -- | -- | -- | 6,199 |
| Miscellaneous revenue: | | | | | |
| Investment earnings | 1,658 | 259 | 185 | 3 | 2,105 |
| Rentals | 8,819 | -- | -- | -- | 8,819 |
| Other | 22,673 | -- | -- | -- | 22,673 |
| Total Revenue | <u>582,445</u> | <u>18,702</u> | <u>185</u> | <u>3</u> | <u>601,335</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government: | | | | | |
| Financial administration | 55,480 | -- | -- | -- | 55,480 |
| Public safety: | | | | | |
| Police | 62,792 | -- | -- | -- | 62,792 |
| Fire | 14,220 | -- | -- | -- | 14,220 |
| Public works: | | | | | |
| Highways and streets | 197,815 | -- | -- | -- | 197,815 |
| Sanitation | 1,514 | -- | -- | -- | 1,514 |
| Airport | 1,968 | -- | -- | -- | 1,968 |
| Health and welfare: | | | | | |
| Health | 8,696 | -- | -- | -- | 8,696 |
| Culture and recreation: | | | | | |
| Recreation | 101,720 | -- | -- | -- | 101,720 |
| Conservation and development: | | | | | |
| Economic development and assistance (industrial development) | -- | 7,663 | -- | -- | 7,663 |
| Debt service | 10,612 | -- | -- | -- | 10,612 |
| Total Expenditures | <u>454,817</u> | <u>7,663</u> | <u>--</u> | <u>--</u> | <u>462,480</u> |
| Excess of Revenues Over Expenditures | 127,628 | 11,039 | 185 | 3 | 138,855 |
| Other Financing Sources (Uses): | | | | | |
| Transfers in | 10,000 | -- | 6,000 | -- | 16,000 |
| Transfers out | (6,000) | (10,000) | -- | -- | (16,000) |
| Total Other Financing Sources (Uses) | <u>4,000</u> | <u>(10,000)</u> | <u>6,000</u> | <u>--</u> | <u>--</u> |
| Net Change in Fund Balance | 131,628 | 1,039 | 6,185 | 3 | 138,855 |
| Fund Balance - Beginning of Year | <u>489,380</u> | <u>95,976</u> | <u>62,900</u> | <u>1,267</u> | <u>649,523</u> |
| Fund Balance - End of Year | <u>\$ 621,008</u> | <u>\$ 97,015</u> | <u>\$ 69,085</u> | <u>\$ 1,270</u> | <u>\$ 788,378</u> |

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

MUNICIPALITY OF KIMBALL, SD
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2014

| | <i>Water Fund</i> | <i>Sewer Fund</i> | <i>Totals</i> |
|---------------------------|-----------------------|-----------------------|---------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 146,477 | \$ 131,189 | \$ 277,666 |
| <i>Total Assets</i> | \$ 146,477 | \$ 131,189 | \$ 277,666 |
| NET POSITION | | | |
| Unrestricted | \$ 146,477 | \$ 131,189 | \$ 277,666 |
| <i>Total Net Position</i> | \$ 146,477 | \$ 131,189 | \$ 277,666 |

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

MUNICIPALITY OF KIMBALL, SD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Totals</u> |
|---|-----------------------|-----------------------|-------------------|
| <i>Operating Revenues:</i> | | | |
| Charges for goods and services | \$ 114,378 | \$ 95,250 | \$ 209,628 |
| Total Operating Revenues | 114,378 | 95,250 | 209,628 |
| <i>Operating Expenses:</i> | | | |
| Personal services | 39,283 | 39,283 | 78,566 |
| Other current expense | 23,291 | 46,955 | 70,246 |
| Supplies & materials | 62,054 | 946 | 63,000 |
| Total Operating Expenses | 124,628 | 87,184 | 211,812 |
| Operating Income (Loss) | (10,250) | 8,066 | (2,184) |
| <i>Nonoperating Revenues:</i> | | | |
| Investment income | 376 | 337 | 713 |
| Total Nonoperating Revenue | 376 | 337 | 713 |
| Change in Net Position | (9,874) | 8,403 | (1,471) |
| Net Position - Beginning of Year | 156,351 | 122,786 | 279,137 |
| Net Position - End of Year | \$ 146,477 | \$ 131,189 | \$ 277,666 |

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

MUNICIPALITY OF KIMBALL, SD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Totals</u> |
|---|-----------------------|-----------------------|-----------------------|
| <i>Operating Revenues:</i> | | | |
| Charges for goods and services | \$ 118,774 | \$ 99,743 | \$ 218,517 |
| Total Operating Revenues | 118,774 | 99,743 | 218,517 |
| <i>Operating Expenses:</i> | | | |
| Personal services | 20,583 | 20,583 | 41,166 |
| Other current expense | 19,540 | 44,302 | 63,842 |
| Supplies & materials | 64,796 | 1,684 | 66,480 |
| Total Operating Expenses | 104,919 | 66,569 | 171,488 |
| <i>Operating Income (Loss)</i> | 13,855 | 33,174 | 47,029 |
| <i>Nonoperating Revenues:</i> | | | |
| Investment income | 416 | 328 | 744 |
| Total Nonoperating Revenue | 416 | 328 | 744 |
| <i>Change in Net Position</i> | 14,271 | 33,502 | 47,773 |
| <i>Net Position - Beginning of Year</i> | 142,080 | 89,284 | 231,364 |
| <i>Net Position - End of Year</i> | \$ 156,351 | \$ 122,786 | \$ 279,137 |

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

MUNICIPALITY OF KIMBALL, SD
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

| | <i>Water Fund</i> | <i>Sewer Fund</i> | <i>Totals</i> |
|---|-----------------------|-----------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Receipt from customers | \$ 114,378 | \$ 95,250 | \$ 209,628 |
| Payments to suppliers | (85,345) | (47,901) | (133,246) |
| Payments to employees | (39,283) | (39,283) | (78,566) |
| | (10,250) | 8,066 | (2,184) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | |
| | (10,250) | 8,066 | (2,184) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Interest earnings | 376 | 337 | 713 |
| | 376 | 337 | 713 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | | | |
| | 376 | 337 | 713 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| | (9,874) | 8,403 | (1,471) |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 156,351 | 122,786 | 279,137 |
| CASH AND CASH EQUIVALENTS - End of Year | \$ 146,477 | \$ 131,189 | \$ 277,666 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | |
| Operating Income (Loss) | \$ (10,250) | \$ 8,066 | \$ (2,184) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ (10,250) | \$ 8,066 | \$ (2,184) |

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

MUNICIPALITY OF KIMBALL, SD
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Totals</u> |
|---|-----------------------|-----------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Receipt from customers | \$ 118,774 | \$ 99,743 | \$ 218,517 |
| Payments to suppliers | (84,336) | (45,986) | (130,322) |
| Payments to employees | (20,583) | (20,583) | (41,166) |
| | <u>13,855</u> | <u>33,174</u> | <u>47,029</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| | <u>13,855</u> | <u>33,174</u> | <u>47,029</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Interest earnings | 416 | 328 | 744 |
| | <u>416</u> | <u>328</u> | <u>744</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | | | |
| | <u>416</u> | <u>328</u> | <u>744</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| | 14,271 | 33,502 | 47,773 |
| CASH AND CASH EQUIVALENTS - Beginning of Year | <u>142,080</u> | <u>89,284</u> | <u>231,364</u> |
| CASH AND CASH EQUIVALENTS - End of Year | <u>\$ 156,351</u> | <u>\$ 122,786</u> | <u>\$ 279,137</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Operating Income | \$ 13,855 | \$ 33,174 | \$ 47,029 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 13,855</u> | <u>\$ 33,174</u> | <u>\$ 47,029</u> |

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

MUNICIPALITY OF KIMBALL, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2014

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:*

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

a. *Financial Reporting Entity:*

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

The Municipality participates in a cooperative unit with Tri County Landfill Association, Inc. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the Municipality.

b. *Basis of Presentation:*

Government-wide Financial Statements:

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues,

MUNICIPALITY OF KIMBALL, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2014

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** *(continued)*

b. **Basis of Presentation:** *(continued)*

Fund Financial Statements: *(continued)*

and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or it meets the following criteria:

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

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

Governmental Funds:

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

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

Liquor, Lodging, and Dining Gross Receipts Tax Fund – to account for collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions to places of amusement, athletic, or cultural events 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 the maintenance, staffing, and operation of such facilities and the promotion and advertising of the municipality (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is a major fund.

Sales Tax Fund – to account for expenditures of capital improvements. This is a major fund.

Park Gift Fund – financed initially by gift and subsequently by investment earnings (SDCL 9-38-112). This is not a major fund.

MUNICIPALITY OF KIMBALL, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

b. Basis of Presentation: (continued)

Fund Financial Statements: (continued)

Proprietary Funds:

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

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

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

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

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.

MUNICIPALITY OF KIMBALL, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2014

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

c. *Measurement Focus and Basis of Accounting: (continued)*

Government-wide Financial Statements:

In the government-wide Statements of Net Position and Statements 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 the modified cash basis of accounting.

Basis of Accounting:

In the government-wide Statements of Net Position and Statements 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 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. An acceptable modification to the cash basis of accounting implemented by the Municipality is these financial statements is:

1. 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.

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

d. *Deposits and Investments:*

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

MUNICIPALITY OF KIMBALL, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2014

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

e. *Capital Assets:*

Government-wide Financial Statements:

Under the modified cash basis of accounting, capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. In the Statements of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary to match the cost with the program that benefits from the use of the capital assets.

Fund Financial Statements:

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as expenditures of the governmental fund when paid for in cash. Capital assets acquired for use in proprietary fund operations are accounted for in the same manner as in the government-wide financial statements.

f. *Long-Term Liabilities:*

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

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

g. *Program Revenues:*

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

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

MUNICIPALITY OF KIMBALL, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2014

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

h. *Proprietary Funds Revenue and Expense Classifications:*

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

i. *Cash and Cash Equivalents:*

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

j. *Equity Classifications:*

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

k. *Application of Net Position:*

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

*MUNICIPALITY OF KIMBALL, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2014*

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)*

1. *Fund Balance Classification Policies and Procedures:*

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

- 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 governing body or Finance Officer.
- Unassigned – included positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Municipality would use 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.

*MUNICIPALITY OF KIMBALL, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2014*

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

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

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

Investments – In general, SDCL 4-5-6 permits Municipality funds to be invested 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 the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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

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

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

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

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

MUNICIPALITY OF KIMBALL, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2014

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 payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

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

4. LONG-TERM DEBT:

A summary of changes in long-term debt can be found on page 33.

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

Revenue Bonds:

| | |
|---|------------|
| Sewer and Water Utility Revenue Bond, Series 2007 | \$ 218,286 |
| Use of proceeds: water and sewer systems improvements project | |
| Interest rate: 4.125% fixed | |
| Maturity date: 2047 (anticipated) | |
| Fund servicing debt: water and sewer | |

| | |
|--|---------|
| Sewer Revenue Bond, Series 2009 | 190,870 |
| Use of proceeds: sewer system improvements project | |
| Interest rate: 3.75% fixed | |
| Maturity date: 2049 (anticipated) | |
| Fund servicing debt: sewer | |

| | |
|-----------------------|--------|
| Other Long-Term Debt: | 62,747 |
|-----------------------|--------|

| | |
|---------------------------------------|--|
| National Rural Water Association | |
| Use of proceeds: Kimball West project | |
| Interest rate: 3.00% fixed | |
| Maturity date: 2020 | |
| Fund servicing debt: sewer | |

| | |
|---|--------|
| Merchants Capital Resources Inc. | 73,900 |
| Use of proceeds: equipment for street program | |
| Interest rate: 3.15% fixed | |
| Maturity date: 2018 | |
| Fund servicing debt: general | |

| | |
|--|------------|
| | \$ 545,803 |
|--|------------|

MUNICIPALITY OF KIMBALL, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2014

4. LONG-TERM DEBT: (continued)

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

Annual Requirements to Amortize Long-Term Debt

| Years Ending Dec. 31, | Revenue Bonds | | Other Long-term Debt | | Total | |
|--------------------------|-------------------|-------------------|-------------------------|------------------|-------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| | 2015 | \$ 6,132 | \$ 16,079 | \$ 27,428 | \$ 4,134 | \$ 33,560 |
| 2016 | 6,380 | 15,832 | 28,089 | 3,472 | 34,469 | 19,304 |
| 2017 | 6,637 | 15,575 | 28,777 | 2,784 | 35,414 | 18,359 |
| 2018 | 6,905 | 15,307 | 29,887 | 1,675 | 36,792 | 16,982 |
| 2019 | 7,183 | 15,029 | 11,065 | 523 | 18,248 | 15,552 |
| 2020-2024 | 40,497 | 70,563 | 11,401 | 186 | 51,898 | 70,749 |
| 2025-2029 | 49,342 | 61,718 | -- | -- | 49,342 | 61,718 |
| 2030-2034 | 58,231 | 52,829 | -- | -- | 58,231 | 52,829 |
| 2035-2039 | 70,991 | 40,069 | -- | -- | 70,991 | 40,069 |
| 2040-2044 | 86,551 | 24,509 | -- | -- | 86,551 | 24,509 |
| 2045-2049 | 70,307 | 4,478 | -- | -- | 70,307 | 4,478 |
| TOTAL | \$ 409,156 | \$ 331,988 | \$ 136,647 | \$ 12,774 | \$ 545,803 | \$ 344,762 |

5. RETIREMENT PLAN:

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS 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. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2014, 2013, and 2012 were \$8,868, \$8,529, and \$9,242, respectively, equal to the required contributions each year.

MUNICIPALITY OF KIMBALL, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2014

6. JOINT VENTURES:

The Municipality is served by a regional landfill operated as a separate legal entity. There are eight counties and 20 towns that have a joint powers agreement for the joint operation of the landfill. Although the Municipality has a joint powers agreement with Tri County Landfill Association, Inc. The Municipality provides no funding and receives no revenues from the landfill. The agreement states that the obligations of the landfill shall never constitute an indebtedness of the members within the meaning of any state constitutional provision or statutory limitation and shall never give rise to a pecuniary liability of the members or a charge against their respective general credit or taxing power and the taxing powers of the members may not be used to pay any loan, and no funds or property of the members, other than those described herein, may be used to pay loan payments. The agreement also states that any assets remaining upon dissolution of the landfill shall be distributed to each member based upon the proportion of assets put into the joint operation at its creation by each entity. Separate financial statements for this joint venture are available from Tri County Landfill Association, Inc., 24978 349th Avenue, Pukwana, SD 57370.

The Municipality expended \$648 and \$849 for landfill fees to Tri County Landfill Association, Inc., for 2014 and 2013, respectively.

7. RISK MANAGEMENT:

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

Employee Health Insurance:

The Municipality purchases health insurance for its employees from a commercial insurance carrier. Settled claims from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The Municipality purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials, with the exception of the Fire Department which is insured in a separate policy as a separate named entity, from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workers' Compensation:

The Municipality joined the South Dakota Municipal League Workers' Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of workers' compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any workers' compensation claims. The Municipality pays an annual premium, to provide workers' compensation coverage for its

MUNICIPALITY OF KIMBALL, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2014

7. RISK MANAGEMENT: (continued)

Workers' Compensation: (continued)

employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

Unemployment Benefits:

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

SUPPLEMENTAL INFORMATION

MUNICIPALITY OF KIMBALL, SD
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

| | <i>Budgeted Amounts</i> | | <i>Actual Amounts</i> | <i>Variance with Final Budget Positive (Negative)</i> |
|---|-------------------------|-------------------|-----------------------|---|
| | <i>Original</i> | <i>Final</i> | | |
| <i>Resources (Inflows):</i> | | | | |
| <i>Taxes:</i> | | | | |
| General property tax | \$ 148,534 | \$ 148,534 | \$ 158,578 | \$ 10,044 |
| General sales and use tax | 300,000 | 300,000 | 302,406 | 2,406 |
| <i>Total Taxes</i> | <u>448,534</u> | <u>448,534</u> | <u>460,984</u> | <u>12,450</u> |
| Licenses and permits | 5,000 | 5,000 | 5,699 | 699 |
| Intergovernmental | 48,150 | 48,150 | 62,002 | 13,852 |
| Charges for goods and services | 8,250 | 8,250 | 5,591 | (2,659) |
| Investment income | -- | -- | 1,944 | 1,944 |
| Miscellaneous revenues | 19,450 | 19,450 | 17,316 | (2,134) |
| <i>Amounts Available for Appropriation</i> | <u>\$ 529,384</u> | <u>\$ 529,384</u> | <u>\$ 553,536</u> | <u>\$ 24,152</u> |
| <i>Charges to Appropriations (Outflows):</i> | | | | |
| General Government | 120,049 | 120,049 | 85,539 | 34,510 |
| Public Safety: | | | | |
| Police | 66,170 | 66,170 | 60,869 | 5,301 |
| Fire | 14,100 | 14,100 | 16,490 | (2,390) |
| <i>Total Public Safety</i> | <u>80,270</u> | <u>80,270</u> | <u>77,359</u> | <u>2,911</u> |
| Public Works: | | | | |
| Street Department | 383,460 | 383,460 | 153,390 | 230,070 |
| Sanitation | 2,600 | 2,600 | 1,616 | 984 |
| Airport | 4,900 | 4,900 | 1,645 | 3,255 |
| Animal Control | 200 | 200 | -- | 200 |
| <i>Total Public Works</i> | <u>391,160</u> | <u>391,160</u> | <u>156,651</u> | <u>234,509</u> |
| Health and Welfare | 10,880 | 10,880 | 3,917 | 6,963 |
| Culture and Recreation | 107,120 | 107,120 | 97,289 | 9,831 |
| Debt Service | 10,612 | 10,612 | 7,895 | 2,717 |
| Capital Outlay | 28,500 | 28,500 | -- | 28,500 |
| <i>Total Expenditures</i> | <u>748,591</u> | <u>748,591</u> | <u>428,649</u> | <u>319,941</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(219,207)</u> | <u>(219,207)</u> | <u>124,887</u> | <u>(295,789)</u> |
| <i>Other Financing Sources</i> | | | | |
| Transfers out | -- | -- | (6,000) | 6,000 |
| Capital contribution | -- | -- | 13,590 | (13,590) |
| <i>Net Change in Fund Balance</i> | (219,207) | (219,207) | 132,477 | (303,379) |
| <i>Beginning Budgetary Fund Balance</i> | <u>416,596</u> | <u>416,596</u> | <u>621,008</u> | <u>204,412</u> |
| <i>Ending Budgetary Fund Balance</i> | <u>\$ 197,389</u> | <u>\$ 197,389</u> | <u>\$ 753,485</u> | <u>\$ 556,096</u> |

See accompanying note to budgetary comparison schedules.

MUNICIPALITY OF KIMBALL, SD
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS
LIQUOR, LODGING, AND DINING GROSS RECEIPTS TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <i>Variance with</i> |
|---|-------------------------|------------------|-----------------------|----------------------------|
| | <u>Original</u> | <u>Final</u> | | <i>Final Budget</i> |
| | | | | <u>Positive (Negative)</u> |
| <i>Resources (Inflows):</i> | | | | |
| Taxes | \$ 20,000 | \$ 20,000 | \$ 17,368 | \$ (2,632) |
| Investment income | 500 | 500 | 176 | (324) |
| <i>Amounts Available for Appropriations</i> | <u>20,500</u> | <u>20,500</u> | <u>17,544</u> | <u>(2,956)</u> |
| <i>Charges to Appropriations (Outflows):</i> | | | | |
| Conservation and Development: | | | | |
| Economic development and assistance (industrial development) | 34,200 | 34,200 | 46,045 | (11,845) |
| <i>Total Expenditures</i> | <u>34,200</u> | <u>34,200</u> | <u>46,045</u> | <u>(11,845)</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(13,700)</u> | <u>(13,700)</u> | <u>(28,501)</u> | <u>(14,801)</u> |
| <i>Beginning Budgetary Fund Balance</i> | <u>\$ 62,691</u> | <u>\$ 62,691</u> | <u>\$ 97,015</u> | <u>\$ 34,324</u> |
| <i>Ending Budgetary Fund Balance</i> | <u>\$ 48,991</u> | <u>\$ 48,991</u> | <u>\$ 68,514</u> | <u>\$ 19,523</u> |

See accompanying note to budgetary comparison schedules.

MUNICIPALITY OF KIMBALL, SD
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS
SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <i>Variance with</i> |
|--|-------------------------|------------------|-----------------------|----------------------------|
| | <u>Original</u> | <u>Final</u> | | <i>Final Budget</i> |
| | | | | <u>Positive (Negative)</u> |
| <i>Resources (Inflows):</i> | | | | |
| Investment income | \$ 600 | \$ 600 | \$ 193 | \$ (407) |
| <i>Amounts Available for Appropriations</i> | <u>600</u> | <u>600</u> | <u>193</u> | <u>(407)</u> |
| <i>Charges to Appropriations (Outflows):</i> | | | | |
| Capital outlay | 6,000 | 6,000 | -- | 6,000 |
| <i>Total Charges to Appropriations</i> | <u>6,000</u> | <u>6,000</u> | <u>--</u> | <u>6,000</u> |
| <i>Other Financing Sources</i> | | | | |
| Transfers in | -- | -- | 6,000 | (6,000) |
| <i>Net Change in Fund Balance</i> | 6,600 | 6,600 | 6,193 | 5,593 |
| <i>Beginning Budgetary Fund Balance</i> | <u>\$ 68,762</u> | <u>\$ 68,762</u> | <u>\$ 69,085</u> | <u>\$ 323</u> |
| <i>Ending Budgetary Fund Balance</i> | <u>\$ 75,362</u> | <u>\$ 75,362</u> | <u>\$ 75,278</u> | <u>\$ 5,916</u> |

See accompanying note to budgetary comparison schedules.

MUNICIPALITY OF KIMBALL, SD
NOTES TO BUDGETARY COMPARISON SCHEDULE
SCHEDULE OF BUDGETARY COMPARISONS FOR THE GENERAL FUND
AND FOR EACH MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
DECEMBER 31, 2014

BUDGETS AND BUDGETARY ACCOUNTING:

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the Governing Board.
6. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and special revenue funds.
7. The Municipality did not encumber any amounts at December 31, 2014.
8. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.

MUNICIPALITY OF KIMBALL, SD
SCHEDULE OF CHANGES IN LONG-TERM DEBT

DECEMBER 31, 2014

| <i>Indebtedness</i> | <i>Long-Term Debt 01/01/14</i> | <i>Add New Debt</i> | <i>Less Debt Retired</i> | <i>Long-Term Debt 12/31/14</i> |
|-------------------------------------|--|-----------------------------|----------------------------------|--|
| <i>Governmental Long-Term Debt:</i> | | | | |
| Other long-term debt | \$ 170,838 | \$ -- | \$ 34,191 | \$ 136,647 |
| <i>Enterprise Long-Term Debt:</i> | | | | |
| Revenue bonds | 415,079 | -- | 5,923 | 409,156 |
| <i>Total Long-Term Debt:</i> | <u>\$ 585,917</u> | <u>\$ --</u> | <u>\$ 40,114</u> | <u>\$ 545,803</u> |

DECEMBER 31, 2013

| <i>Indebtedness</i> | <i>Long-Term Debt 01/01/13</i> | <i>Add New Debt</i> | <i>Less Debt Retired</i> | <i>Long-Term Debt 12/31/13</i> |
|-------------------------------------|--|-----------------------------|----------------------------------|--|
| <i>Governmental Long-Term Debt:</i> | | | | |
| Other long-term debt | \$ 209,545 | \$ -- | \$ 38,707 | \$ 170,838 |
| <i>Enterprise Long-Term Debt:</i> | | | | |
| Revenue bonds | 420,773 | -- | 5,694 | 415,079 |
| <i>Total Long-Term Debt:</i> | <u>\$ 630,318</u> | <u>\$ --</u> | <u>\$ 44,401</u> | <u>\$ 585,917</u> |