

**MUNICIPALITY OF LAKE ANDES
LAKE ANDES, SOUTH DAKOTA**

AUDIT REPORT

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

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF LAKE ANDES

MUNICIPAL OFFICIALS
DECEMBER 31, 2014

ACTING MAYOR:

Cindy Mengenhauser

GOVERNING BOARD:

Clifford Parker – President
James Nelson – Vice-President
Edwin Bruner
Amanda Frandsen
George Hazuka
Steven Nielsen

FINANCE OFFICER:

Debbra Houseman

ATTORNEY:

Hein Law Office

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

Governing Board
Municipality of Lake Andes
Lake Andes, 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 Lake Andes, South Dakota (Municipality), as of December 31, 2014 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated August 7, 2015, which was adverse for aggregate discretely presented component units because they were not presented and unqualified for the remaining opinion units.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Municipality's Response to Findings

The Municipality's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. The Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Schoenfish & Co., Inc.
Certified Public Accountants
August 7, 2015

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR AUDIT FINDINGS:

Finding Number 2013-001:

Material weaknesses were noted in internal accounting control and record keeping resulting in diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. This comment has not been corrected and is restated as current audit finding number 2014-001.

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SCHEDULE OF CURRENT AUDIT FINDINGSInternal Control – Related Findings – Material Weaknesses:Finding Number 2014-001:

Material weaknesses were noted in internal accounting control and record keeping resulting in diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. This is the thirteenth consecutive audit in which similar deficiencies have occurred.

Criteria:

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

Condition:

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

- a. A lack of proper segregation of duties existed for the revenue, expenditure, and payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. AU-C Section 315 addresses the entity's control environment and the risk of material misstatement.
- b. The following records were not maintained by employees of the Municipality:
 1. General journal;
 2. General ledger;
 3. General capital asset records;
 4. Enterprise fund capital asset records;
 5. Depreciation schedules;
 6. Bank reconciliations were not done accurately or in a timely manner; and
 7. Customer utility deposits should be updated on a current basis.
 8. Payroll liabilities should be paid in a timely manner.

SDCL 9-14-18 states that the finance officer "shall keep regular books of account in which shall be entered all indebtedness of the Municipality, and which shall at all times show the financial condition of the Municipality, the amount of bonds, warrants, certificates, or other evidences of indebtedness issued by the governing body, and the amounts of all bonds, warrants, certificates, or other evidences of indebtedness which have been redeemed and the amount of each outstanding."

SDCL 9-14-19 states that the finance officer "shall supervise the accounting system for all departments and offices of the Municipality in accordance with the recommendations of the Department of Legislative Audit."

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties, and improper records were maintained for the Municipality of Lake Andes.

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SCHEDULE OF CURRENT AUDIT FINDINGS
(Continued)

Recommendations:

1. We recommend that the municipal officials be cognizant of the lack of segregation of duties for the revenue, expenditure, and payroll functions and attempt to provide compensating internal controls whenever and wherever possible and practical.
2. We recommend that all necessary accounting records be established and properly maintained in a timely manner.

Management's Response:

The Municipality of Lake Andes Mayor, Cindy Mengershauser, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Lake Andes which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the officials during the course of the audit and with the Mayor and Finance Officer on August 18, 2015.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Lake Andes
Lake Andes, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Lake Andes, South Dakota, (Municipality) as of December 31, 2014 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion

The financial statements do not include financial data for the Municipality's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Municipality's primary government unless the Municipality also issues financial statements for the financial reporting entity that include the financial data for its component units. The Municipality has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented component units would have been presented inclusive of the component units.

Adverse Opinion

In our opinion, because of the omission of the discretely presented component units, as discussed in the Basis for Adverse Opinion, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the Municipality of Lake Andes, South Dakota, as of December 31, 2014, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

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

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's financial statements. The Budgetary Comparison Schedules and the Schedule of Long-Term Debt 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

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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 August 7, 2015 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
Certified Public Accountants
August 7, 2015

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MUNICIPALITY OF LAKE ANDES
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	93,213.26	560,623.90	653,837.16
Investments		29,500.00	29,500.00
Internal Balances	(40,016.83)	40,016.83	0.00
TOTAL ASSETS	53,196.43	630,140.73	683,337.16
NET POSITION:			
Restricted for:			
Debt Services Purposes		29,500.00	29,500.00
Library Purposes	2,310.49		2,310.49
Unrestricted	50,885.94	600,640.73	651,526.67
TOTAL NET POSITION	53,196.43	630,140.73	683,337.16

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	109,868.83	13,094.15			(96,774.68)		(96,774.68)
Public Safety	86,716.26				(86,716.26)		(86,716.26)
Public Works	277,102.33	4,689.14	33,783.88		(238,629.31)		(238,629.31)
Health and Welfare	2,093.28	5,337.61			3,244.33		3,244.33
Culture and Recreation	92,509.58	4,557.41	4,799.18		(83,152.99)		(83,152.99)
Miscellaneous Expenditures		19,488.36			19,488.36		19,488.36
Debt Service Payments	27,693.04				(27,693.04)		(27,693.04)
Total Governmental Activities	595,983.32	47,166.67	38,583.06	0.00	(510,233.59)		(510,233.59)
Business-type Activities:							
Water	201,022.80	220,442.15				19,419.35	19,419.35
Sewer	87,152.97	88,417.92				1,264.95	1,264.95
Sanitation	51,285.13	59,324.56				8,039.43	8,039.43
Total Business-Type Activities	339,460.90	368,184.63	0.00	0.00		28,723.73	28,723.73
Total Primary Government	935,444.22	415,351.30	38,583.06	0.00	(510,233.59)	28,723.73	(481,509.86)
General Revenues:							
Taxes:							
Property Taxes					200,795.71		200,795.71
Sales Taxes					149,679.42		149,679.42
State Shared Revenues					8,939.48		8,939.48
Unrestricted Investment Earnings					243.79	134.50	378.29
Debt Issued					103,000.00		103,000.00
Miscellaneous Revenue					3,596.41		3,596.41
Transfers					12,000.00	(12,000.00)	0.00
Total General Revenues and Transfers					478,254.81	(11,865.50)	466,389.31
Change in Net Position					(31,978.78)	16,858.23	(15,120.55)
Net Position - Beginning					85,175.21	613,282.50	698,457.71
NET POSITION - ENDING					53,196.43	630,140.73	683,337.16

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

MUNICIPALITY OF LAKE ANDES
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2014

	<u>General Fund</u>	<u>Library Fund</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and Cash Equivalents	<u>90,902.77</u>	<u>2,310.49</u>	<u>93,213.26</u>
TOTAL ASSETS	<u><u>90,902.77</u></u>	<u><u>2,310.49</u></u>	<u><u>93,213.26</u></u>
LIABILITIES:			
Due to Water Fund	<u>40,016.83</u>		<u>40,016.83</u>
TOTAL LIABILITIES	<u>40,016.83</u>	<u>0.00</u>	<u>40,016.83</u>
FUND BALANCES:			
Restricted for Library		<u>2,310.49</u>	<u>2,310.49</u>
Unassigned	<u>50,885.94</u>		<u>50,885.94</u>
TOTAL FUND BALANCES	<u>50,885.94</u>	<u>2,310.49</u>	<u>53,196.43</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>90,902.77</u></u>	<u><u>2,310.49</u></u>	<u><u>93,213.26</u></u>

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

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

	General Fund	Library Fund	Total Governmental Funds
Revenues:			
Taxes:			
General Property Taxes	197,123.10		197,123.10
General Sales and Use Taxes	149,679.42		149,679.42
Amusement Taxes	156.00		156.00
Tax Deed Revenue	2,275.26		2,275.26
Penalties & Interest on Delinquent Taxes	1,241.35		1,241.35
Total Taxes	350,475.13	0.00	350,475.13
Licenses and Permits	4,419.15	0.00	4,419.15
Intergovernmental Revenue:			
State Grants	4,799.18		4,799.18
State Shared Revenue:			
Bank Franchise Tax	1,636.90		1,636.90
Liquor Tax Reversion	5,663.20		5,663.20
Motor Vehicle Licenses	9,787.05		9,787.05
Local Government Highway and Bridge Fund	11,502.02		11,502.02
County Shared Revenue:			
County Road Tax	3,565.36		3,565.36
County Wheel Tax	8,929.45		8,929.45
Other	1,639.38		1,639.38
Total Intergovernmental Revenue	47,522.54	0.00	47,522.54
Charges for Goods and Services:			
Culture and Recreation	2,330.42		2,330.42
Other	5,337.61		5,337.61
Total Charges for Goods and Services	7,668.03	0.00	7,668.03
Fines and Forfeits:			
Library		2,226.99	2,226.99
Total Fines and Forfeits	0.00	2,226.99	2,226.99
Miscellaneous Revenue:			
Investment Earnings	243.79		243.79
Rentals	8,675.00		8,675.00
Special Assessments	4,689.14		4,689.14
Liquor Operating Agreement Income	19,488.36		19,488.36
Franchise Fees	3,596.41		3,596.41
Total Miscellaneous Revenue	36,692.70	0.00	36,692.70
Total Revenue	446,777.55	2,226.99	449,004.54

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

MUNICIPALITY OF LAKE ANDES
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>Library Fund</u>	<u>Total Governmental Funds</u>
Expenditures:			
General Government:			
Legislative	40,423.80		40,423.80
Financial Administration	36,547.85		36,547.85
Other	32,897.18		32,897.18
Total General Government	109,868.83	0.00	109,868.83
Public Safety:			
Police	69,980.00		69,980.00
Fire	16,736.26		16,736.26
Total Public Safety	86,716.26	0.00	86,716.26
Public Works:			
Highways and Streets	276,968.91		276,968.91
Airport	133.42		133.42
Total Public Works	277,102.33	0.00	277,102.33
Health and Welfare:			
Health	2,093.28		2,093.28
Total Health and Welfare	2,093.28	0.00	2,093.28
Culture and Recreation:			
Recreation	37,779.88		37,779.88
Parks	26,446.77		26,446.77
Libraries	26,923.32	1,359.61	28,282.93
Total Culture and Recreation	91,149.97	1,359.61	92,509.58
Debt Service	27,693.04	0.00	27,693.04
Total Expenditures	594,623.71	1,359.61	595,983.32
Excess of Revenue Over (Under) Expenditures	(147,846.16)	867.38	(146,978.78)
Other Financing Sources (Uses):			
Transfers In	12,000.00		12,000.00
Long-Term Debt Issued	103,000.00		103,000.00
Total Other Financing Sources (Uses)	115,000.00	0.00	115,000.00
Net Change in Fund Balance	(32,846.16)	867.38	(31,978.78)
Fund Balance - Beginning	83,732.10	1,443.11	85,175.21
FUND BALANCE - ENDING	50,885.94	2,310.49	53,196.43

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

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

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Sanitation Fund	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	319,011.25	190,937.13	50,675.52	560,623.90
Investments	28,500.00	1,000.00		29,500.00
Due from General Fund	40,016.83			40,016.83
Total Current Assets	387,528.08	191,937.13	50,675.52	630,140.73
TOTAL ASSETS	387,528.08	191,937.13	50,675.52	630,140.73
NET POSITION:				
Restricted for:				
Revenue Bond Debt Service	28,500.00	1,000.00		29,500.00
Unrestricted	359,028.08	190,937.13	50,675.52	600,640.73
TOTAL NET POSITION	387,528.08	191,937.13	50,675.52	630,140.73

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

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

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Sanitation Fund	
Operating Revenue:				
Charges for Goods and Services	214,195.80	88,028.92	59,324.56	361,549.28
Miscellaneous	6,246.35	389.00		6,635.35
Total Operating Revenue	<u>220,442.15</u>	<u>88,417.92</u>	<u>59,324.56</u>	<u>368,184.63</u>
Operating Expenses:				
Personal Services	34,910.12	34,012.70	20,913.31	89,836.13
Other Current Expense	144,928.24	51,136.27	30,371.82	226,436.33
Total Operating Expenses	<u>179,838.36</u>	<u>85,148.97</u>	<u>51,285.13</u>	<u>316,272.46</u>
Operating Income (Loss)	<u>40,603.79</u>	<u>3,268.95</u>	<u>8,039.43</u>	<u>51,912.17</u>
Nonoperating Revenue (Expense):				
Investment Earnings	118.57	15.93		134.50
Debt Service (Principal)	(6,859.70)	(813.81)		(7,673.51)
Interest Expense	(14,324.74)	(1,190.19)		(15,514.93)
Total Nonoperating Revenue (Expense)	<u>(21,065.87)</u>	<u>(1,988.07)</u>	<u>0.00</u>	<u>(23,053.94)</u>
Income (Loss) Before Transfers	<u>19,537.92</u>	<u>1,280.88</u>	<u>8,039.43</u>	<u>28,858.23</u>
Transfers Out	<u>(6,000.00)</u>	<u>(6,000.00)</u>		<u>(12,000.00)</u>
Change in Net Position	<u>13,537.92</u>	<u>(4,719.12)</u>	<u>8,039.43</u>	<u>16,858.23</u>
Net Position - Beginning	<u>373,990.16</u>	<u>196,656.25</u>	<u>42,636.09</u>	<u>613,282.50</u>
NET POSITION - ENDING	<u><u>387,528.08</u></u>	<u><u>191,937.13</u></u>	<u><u>50,675.52</u></u>	<u><u>630,140.73</u></u>

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

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

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Sanitation Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	214,195.80	88,028.92	59,324.56	361,549.28
Payments to Suppliers	(144,928.24)	(51,136.27)	(30,371.82)	(226,436.33)
Payments to Employees	(34,910.12)	(34,012.70)	(20,913.31)	(89,836.13)
Other Receipts	6,246.35	389.00		6,635.35
Net Cash Provided (Used) by Operating Activities	<u>40,603.79</u>	<u>3,268.95</u>	<u>8,039.43</u>	<u>51,912.17</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers Out	(6,000.00)	(6,000.00)		(12,000.00)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(6,000.00)</u>	<u>(6,000.00)</u>	<u>0.00</u>	<u>(12,000.00)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Principal Paid on Capital Debt	(6,859.70)	(813.81)		(7,673.51)
Interest Paid on Capital Debt	(14,324.74)	(1,190.19)		(15,514.93)
Interfund Loan	(20,000.00)			(20,000.00)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(41,184.44)</u>	<u>(2,004.00)</u>	<u>0.00</u>	<u>(43,188.44)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Earnings	118.57	15.93		134.50
Net Cash Provided (Used) by Investing Activities	<u>118.57</u>	<u>15.93</u>	<u>0.00</u>	<u>134.50</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(6,462.08)</u>	<u>(4,719.12)</u>	<u>8,039.43</u>	<u>(3,141.77)</u>
Cash and Cash Equivalents - Beginning	353,973.33	196,656.25	42,636.09	593,265.67
Cash and Cash Equivalents - Ending	<u>347,511.25</u>	<u>191,937.13</u>	<u>50,675.52</u>	<u>590,123.90</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income (Loss)	<u>40,603.79</u>	<u>3,268.95</u>	<u>8,039.43</u>	<u>51,912.17</u>

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

The reporting entity of the Municipality of Lake Andes (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.

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

The Housing and Redevelopment Commission of the Municipality of Lake Andes, South Dakota (Commission) is a proprietary fund-type, discretely-presented component unit. This information is not presented in the financial statements. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from: Lake Andes Housing and Redevelopment, Lake Andes, SD 57356.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria, as described in note 1.a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a., above.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

Fund Financial Statements:

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

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 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 a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of special 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.

Library Fines Fund – to account for fines and similar charges, deposited in a library board bank account subject to checks by the librarian for library purposes. (SDCL 14-2-42 and AGR 82-33) This is a major fund.

Proprietary Funds:

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

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)

- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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

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.

Sanitation Fund – financed primarily by user charges, this fund accounts for the collection and disposal of solid waste from the municipality. (SDCL 9-32-11 and 34A-6) This is a major fund.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The Municipality's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

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

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used, applied with the limitations of the modified cash basis of accounting.

Basis of Accounting:

In the Government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

- b. Recording assets and liabilities related to interfund receivables and payables resulting from cash transactions between funds.

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. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statement, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

- e. 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.

- 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:

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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.

h. Proprietary Funds Revenue and Expense Classifications:

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

i. Cash and Cash Equivalents:

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

j. Equity Classifications:

Government-wide Statements:

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

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

Fund Financial Statements:

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

k. Application of Net Position:

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

I. Fund Balance Classification Policies and Procedures:

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

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that 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 Finance Officer.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Library Fund	Library Fines

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS:

The Municipality is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations:

	<u>Year Ended</u> <u>12/31/2014</u>
General Fund:	
Activity:	
General Government - Legislative	\$ 773.80
Fire	7,086.26
Libraries	1,289.32
Debt Service	27,693.04

The Municipal Council plans to take the following actions to address these violations: approve supplements to the original budget.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

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

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.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the Municipality's deposits may not be returned to it. The Municipality does not have a deposit policy for custodial credit risk. As of December 31, 2014, the Municipality's deposits in financial institutions were exposed to custodial as follows:

<u>Depository Name</u>	<u>% Under-collateralized</u>	<u>At-Risk Amount</u>
Andes State Bank	5.73%	\$ 39,611.72
Total Deposits Exposed to Custodial Credit Risk		<u>\$ 39,611.72</u>

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

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

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

4. PROPERTY TAXES

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

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

5. OPERATING LEASES

The Municipality of Lake Andes entered into an operating lease for a copy machine. A monthly minimum payment of \$110.77 is paid by the Municipality to Toshiba Financial Services from the General Fund.

The following are the minimum payments on this operating lease.

2015	\$ 1,329.24
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6. RESTRICTED NET POSITION

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

Library Purposes	\$ 2,310.49
Debt Service Purposes	29,500.00
Total Restricted Net Position	\$ 31,810.49

7. INTERFUND TRANSFERS

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

Transfers From:	Transfers To: General Fund
Major Funds:	
Water Fund	\$ 6,000.00
Sewer Fund	6,000.00
	\$ 12,000.00

The Municipality typically budgets transfers to the General Fund to conduct the indispensable functions of the Municipality.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

8. LONG-TERM COMMITMENTS

The Municipality of Lake Andes entered into a forty-year commitment with Randall Community Water District to provide water to the Municipality. A monthly charge in the amount of \$2,400.00 along with a charge of \$1.90 per 1,000 gallons of water consumed is paid by the Municipality to Randall Community Water District. The monthly charge represents a contribution by the Municipality to aid Randall Community Water District in the construction of the facilities necessary to provide the Municipality with water. The Municipality will not acquire ownership of any of these water facilities through these payments. Payments are made from the Municipality's Water Fund.

The following are the minimum payments on this long-term commitment:

2015	\$ 28,800.00
2016	\$ 28,800.00
2017	\$ 28,800.00
2018	\$ 28,800.00
2019	\$ 28,800.00
2020-2024	\$144,000.00
2025-2029	\$144,000.00
2030-2034	\$144,000.00
2035-2039	\$144,000.00
2040	\$ 28,800.00

9. 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 survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, 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 \$4,953.06, \$5,028.85, and \$5,151.01, respectively, equal to the required contributions each year.

10. SIGNIFICANT CONTINGENCIES - LITIGATION

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

11. RISK MANAGEMENT

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

Employee Health Insurance:

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

Liability Insurance:

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

The agreement with the SDPAA provides that the above coverages will be provided to a \$1,000,000.00 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The Municipality would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

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

As of December 31, 2014, the Municipality has vested balance in the cumulative reserve fund of \$2,504.90.

The Municipality carries a \$500 deductible for the real and personal property and tools coverage and a \$100/250 deductible for the vehicle coverage.

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 year.

Workmen's Compensation:

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

premium to the pool to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual 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 provided coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

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

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes	218,223.27	218,223.27	197,123.10	(21,100.17)
General Sales and Use Taxes	150,000.00	150,000.00	149,679.42	(320.58)
Amusement Taxes	200.00	200.00	156.00	(44.00)
Tax Deed Revenue	0.00	0.00	2,275.26	2,275.26
Penalties and Interest on Delinquent Taxes	2,000.00	2,000.00	1,241.35	(758.65)
Total Taxes	370,423.27	370,423.27	350,475.13	(19,948.14)
Licenses and Permits	3,900.00	3,900.00	4,419.15	519.15
Intergovernmental Revenue:				
State Grants	5,800.00	5,800.00	4,799.18	(1,000.82)
State Shared Revenue:				
Bank Franchise Tax	1,600.00	1,600.00	1,636.90	36.90
Liquor Tax Reversion	4,000.00	4,000.00	5,663.20	1,663.20
Motor Vehicle Licenses	6,500.00	6,500.00	9,787.05	3,287.05
Local Government Highway and Bridge Fund	9,500.00	9,500.00	11,502.02	2,002.02
Other	1,200.00	1,200.00	0.00	(1,200.00)
County Shared Revenue:				
County Road Tax	2,500.00	2,500.00	3,565.36	1,065.36
County Wheel Tax	3,000.00	3,000.00	8,929.45	5,929.45
Other	1,500.00	1,500.00	1,639.38	139.38
Total Intergovernmental Revenue	35,600.00	35,600.00	47,522.54	11,922.54
Charges for Goods and Services:				
General Government	45.00	45.00	0.00	(45.00)
Culture and Recreation	6,800.00	6,800.00	2,330.42	(4,469.58)
Other	1,000.00	1,000.00	5,337.61	4,337.61
Total Charges for Goods and Services	7,845.00	7,845.00	7,668.03	(176.97)
Fines and Forfeits:				
Animal Control Fines	155.00	155.00	0.00	(155.00)
Total Fines and Forfeits	155.00	155.00	0.00	(155.00)
Miscellaneous Revenue:				
Investment Earnings	600.00	600.00	243.79	(356.21)
Rentals	5,400.00	5,400.00	8,675.00	3,275.00
Special Assessments	50.00	50.00	4,689.14	4,639.14
Liquor Operating Agreement Income	20,000.00	20,000.00	19,488.36	(511.64)
Other	6,400.00	6,400.00	3,596.41	(2,803.59)
Total Miscellaneous Revenue	32,450.00	32,450.00	36,692.70	4,242.70
Total Revenue	450,373.27	450,373.27	446,777.55	(3,595.72)

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

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
General Government:				
Legislative	37,650.00	39,650.00	40,423.80	(773.80)
Contingency	7,553.27	7,553.27		
Amount Transferred		0.00		7,553.27
Financial Administration	43,400.00	43,400.00	36,547.85	6,852.15
Other	21,900.00	32,900.00	32,897.18	2.82
Total General Government	110,503.27	123,503.27	109,868.83	13,634.44
Public Safety:				
Police	69,500.00	70,000.00	69,980.00	20.00
Fire	9,650.00	9,650.00	16,736.26	(7,086.26)
Total Public Safety	79,150.00	79,650.00	86,716.26	(7,066.26)
Public Works:				
Highways and Streets	156,480.00	309,980.00	276,968.91	33,011.09
Airport	1,925.00	1,925.00	133.42	1,791.58
Total Public Works	158,405.00	311,905.00	277,102.33	34,802.67
Health and Welfare:				
Health	4,396.00	4,396.00	2,093.28	2,302.72
Total Health and Welfare	4,396.00	4,396.00	2,093.28	2,302.72
Culture and Recreation:				
Recreation	44,710.00	44,710.00	37,779.88	6,930.12
Parks	27,575.00	27,575.00	26,446.77	1,128.23
Libraries	25,634.00	25,634.00	26,923.32	(1,289.32)
Total Culture and Recreation	97,919.00	97,919.00	91,149.97	6,769.03
Debt Service	0.00	0.00	27,693.04	(27,693.04)
Total Expenditures	450,373.27	617,373.27	594,623.71	22,749.56
Excess of Revenue Over (Under) Expenditures	0.00	(167,000.00)	(147,846.16)	19,153.84
Other Financing Sources (Uses):				
Transfers In	0.00	32,000.00	12,000.00	(20,000.00)
General Long-Term Debt Issued	0.00	103,000.00	103,000.00	0.00
Total Other Financing Sources (Uses)	0.00	135,000.00	115,000.00	(20,000.00)
Net Change in Fund Balances	0.00	(32,000.00)	(32,846.16)	(846.16)
Fund Balance - Beginning	83,732.10	83,732.10	83,732.10	0.00
FUND BALANCE - ENDING	83,732.10	51,732.10	50,885.94	(846.16)

NOTES TO THE SUPPLEMENTARY INFORMATIONSchedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.NOTE 1. Budgets and Budgetary Accounting:

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpected appropriations lapse at year end unless encumbered by resolution of the Governing Board.

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

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

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with the modified cash basis of accounting.

NOTE 2. GAAP/Budgetary Accounting Basis Differences:

The Municipality's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenue and expenditures are recognized on a modified cash basis. Utilizing the modified cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF LAKE ANDES

SCHEDULE OF LONG-TERM DEBT

LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
Governmental Activities:					
Note Payable - Maintainer	26,764.77		12,959.23	13,805.54	13,805.54
Note Payable - Payloader	0.00	103,000.00	11,267.66	91,732.34	19,547.18
Total Governmental Activities	<u>26,764.77</u>	<u>103,000.00</u>	<u>24,226.89</u>	<u>105,537.88</u>	<u>33,352.72</u>
Business-Type Activities:					
Bonds Payable:					
Revenue - USDA (Water)	296,969.94		6,859.70	290,110.24	7,189.29
Revenue - USDA (Sewer)	47,979.90		813.81	47,166.09	833.54
Total Business-Type Activities	<u>344,949.84</u>	<u>0.00</u>	<u>7,673.51</u>	<u>337,276.33</u>	<u>8,022.83</u>
Total Primary Government	<u>371,714.61</u>	<u>103,000.00</u>	<u>31,900.40</u>	<u>442,814.21</u>	<u>41,375.55</u>

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

USDA Loan No. 91-05:	\$ 290,110.24
Maturity Date: August 28, 2037	
Interest Rate: 4.875%	
Payable from Water Fund	
USDA Loan No. 92-07:	\$ 47,166.09
Maturity Date: August 28, 2050	
Interest Rate: 2.50%	
Payable from Sewer Fund	
Andes State Bank Maintainer Loan:	\$ 13,805.54
Maturity Date: February 1, 2015	
Interest Rate: 5.75%	
Payable from General Fund	
Andes State Bank Payloader Loan:	\$ 91,732.34
Maturity Date: May 1, 2019	
Interest Rate: 3.5%	
Payable from General Fund	

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF LAKE ANDES

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

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

Year Ending December 31,	USDA No. 91-05		USDA No. 92-07		Maintainer Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	7,189.29	13,995.15	833.54	1,170.46	13,805.54	791.64
2016	7,547.68	13,636.76	854.61	1,149.39		
2017	7,923.97	13,260.47	876.23	1,127.77		
2018	8,319.02	12,865.42	898.38	1,105.62		
2019	8,733.76	12,450.68	921.10	1,082.90		
2020-2024	50,650.73	55,271.47	4,966.92	5,053.08		
2025-2029	64,599.67	41,322.53	5,627.52	4,392.48		
2030-2034	82,390.19	23,532.01	6,375.98	3,644.02		
2035-2039	52,755.93	3,732.90	7,224.01	2,795.99		
2040-2044			8,184.80	1,835.20		
2045-2049			9,273.38	746.62		
2050-2054			1,129.62	42.59		
Totals	<u>290,110.24</u>	<u>190,067.39</u>	<u>47,166.09</u>	<u>24,146.12</u>	<u>13,805.54</u>	<u>791.64</u>

Year Ending December 31,	Payloader Loan		Totals	
	Principal	Interest	Principal	Interest
2015	19,547.18	2,899.06	41,375.55	18,856.31
2016	20,242.44	2,203.80	28,644.73	16,989.95
2017	20,962.38	1,483.86	29,762.58	15,872.10
2018	21,707.95	738.29	30,925.35	14,709.33
2019	9,272.39	81.30	18,927.25	13,614.88
2020-2024			55,617.65	60,324.55
2025-2029			70,227.19	45,715.01
2030-2034			88,766.17	27,176.03
2035-2039			59,979.94	6,528.89
2040-2044			8,184.80	1,835.20
2045-2049			9,273.38	746.62
2050-2054			1,129.62	42.59
Totals	<u>91,732.34</u>	<u>7,406.31</u>	<u>442,814.21</u>	<u>222,411.46</u>

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