

CITY OF LAKE PRESTON
AUDIT REPORT
AND
FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2015

TABLE OF CONTENTS

	PAGE
<i>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.....</i>	1-2
<i>SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS.....</i>	3-4
<i>INDEPENDENT AUDITOR’S REPORT</i>	5-6
<i>FINANCIAL STATEMENTS:</i>	
Statement of Net Position – Modified Cash Basis December 31, 2015	7
Statement of Activities – Modified Cash Basis:	
For the Year Ended December 31, 2015.....	8
For the Year Ended December 31, 2014.....	9
Balance Sheet - Modified Cash Basis – Governmental Funds	
December 31, 2015	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – Governmental Funds:	
For the Year Ended December 31, 2015.....	11-12
For the Year Ended December 31, 2014.....	13-14
Statement of Net Position – Modified Cash Basis – Proprietary Funds December 31, 2015	15
Statement of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis – Proprietary Funds:	
For the Year Ended December 31, 2015.....	16
For the Year Ended December 31, 2014.....	17
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds:	
For the Year Ended December 31, 2015.....	18
For the Year Ended December 31, 2014.....	19
<i>NOTES TO BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS</i>	20-33
<i>SUPPLEMENTAL INFORMATION</i>	34
Budgetary Comparison Schedule-Modified Cash Basis – General Fund	
For the Year Ended December 31, 2015.....	35
For the Year Ended December 31, 2014.....	36
Notes To Budgetary Comparison Schedules	37
Schedule of Changes in Long-Term Debt.....	38
Schedule of the City’s Proportionate Share of the Net Pension Liability (Asset)	39
Schedule of the City’s Contributions – South Dakota Retirement System.....	40



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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
City of Lake Preston, 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 City of Lake Preston, South Dakota, as of and for each of the years in the biennial period ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lake Preston'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses; see finding 2015-01/2014-01, and 2015-02/2014-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

City of Lake Preston, SD's Response to Findings

City of Lake Preston, SD's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Lake Preston, SD'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 City'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, appearing to read "CLO of LLC".

Huron, South Dakota
November 7, 2016

CITY OF LAKE PRESTON
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEARS ENDED DECEMBER 31, 2015 & 2014

Schedule of Prior Audit Findings

Finding No. 2013-01 – Lack of segregation of duties (internal control) (repeated since 2007-02)

Condition: The finance officer processed most revenue transaction from beginning to end. The finance officer receives money, issues receipts, records receipts in the accounting records, prepares bank deposits, reconciles bank statements and prepares financial statements. As a result, an inadequate segregation of duties exist in the revenue function at the City of Lake Preston.

Recommendation: The previous auditor recommended the City of Lake Preston’s management be cognizant of this lack of segregation of duties for receipts and attempt to provide compensating internal controls whenever, and wherever possible and practical. For example, someone other than the finance officer should reconcile bank statements.

Client Response: This comment is a result of the size of the City of Lake Preston, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The city is aware of this problem and is attempting to provide compensating controls whenever and wherever possible and practical. However, this lack of segregation of duties in the revenue function is expected to continue to exist.

Schedule of Current Audit Findings

Finding No. 2015-01 And 2014-01 – Lack of segregation of duties in the revenue, expenditure and payroll functions

Material Weakness

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: The City of Lake Preston has limited number of office personnel, and accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of lack of segregation of duties. This is a continuing audit comment.

Cause: The City has insufficient number of staff to adequately separate duties.

Effect: As a result, misappropriation of assets and errors occurred in the financial reporting process and were not detected.

Recommendation: Although it is recognized that number of office staff may not be large enough to permit adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the City officials exercise adequate oversight of the accounting function.

Views of Responsible Officials: Management agrees with the finding.

CITY OF LAKE PRESTON
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEARS ENDED DECEMBER 31, 2015 & 2014

Finding No. 2015-02 And 2014-02 – Violations of SDCL

Material Weakness

Criteria: The City's control structure should be such to ensure compliance with South Dakota Codified Law for municipal finances. The following SDCL sections provide the criteria in areas in which we noted absence of controls to ensure compliance with these applicable SDCL's:

1. SDCL 9-14-17, 9-14-18, 9-23-3, 9-23-7, 9-14-21, 9-22-18, 9-23-8 provides criteria that the finance officer keep regular books of account for all financial transactions, draw and sign all warrants along with the mayor or president of the city council, audit and adjust all claims and demands, and keep a register of all warrants paid during the year,
2. SDCL 9-22-2, 9-22-3 provides criteria that finance officer receive all moneys belonging to the municipality and keep accurate and detailed accounts, and issue duplicate receipts.
3. SDCL 9-22-5 provides that the finance officer keep all municipal funds separate and not used for personal benefit.
4. SDCL 9-23-1, 9-23-2 provides that an appropriate municipal official verified the voucher and the accompanying itemized invoice. The invoice and voucher required by this section shall be filed in the office of the municipal finance officer. Any claim must be fully itemized and entered upon the minutes.

Condition: The city finance officer did not refrain from using municipal funds for personal benefits. We noted several instances when payroll checks had been redeposited. Employee expenses were paid by the city for Aflac premiums, and SD child support payments. The finance officer had possession and used a city debit card for personal expenses. Several instances noted when itemized invoices did not accompany the voucher, the voucher had not been verified by a municipal official, and when there was not a voucher or a detailed invoice in the records. We noted several instances when moneys were not receipted, and accurate and detailed accounts not maintained. We are noting a misappropriation of assets in the financial statements in the amount of \$10,456 in 2015 and \$1,074 in 2014.

Cause: A lack of oversight in the control processes, and limited staff caused the city to not be compliant with the applicable SDCL's noted above.

Effect: As a result, misappropriation of assets and errors occurred in the financial reporting process and were not detected.

Recommendation: We recommend that the City officials exercise adequate oversight of the accounting function, become familiar with the statutory requirements and implement necessary controls and processes to ensure the compliance with those such laws.

Views of Responsible Officials: Management agrees with the finding.



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INDEPENDENT AUDITOR'S REPORT

**To the City Council
City of Lake Preston, South Dakota**

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the City of Lake Preston, South Dakota, as of and for each of the years in the biennial period ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City'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 City'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 City'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 City of Lake Preston as of December 31, 2015, 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 City'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 November 7, 2016 on our consideration of the City'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 City's internal control over financial reporting and compliance.



Huron, South Dakota
November 7, 2016

CITY OF LAKE PRESTON, SD
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2015

	<i>Primary Government</i>		
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>
ASSETS			
Cash and cash equivalents	\$ 739,925	\$ 90,172	\$ 830,097
<i>Total Assets</i>	<u>\$ 739,925</u>	<u>\$ 90,172</u>	<u>\$ 830,097</u>
NET POSITION			
Unrestricted	\$ 739,925	\$ 90,172	\$ 830,097
<i>Total Net Position</i>	<u>\$ 739,925</u>	<u>\$ 90,172</u>	<u>\$ 830,097</u>

*The accompanying Notes to Financial Statements
are an integral part of this statement.*

CITY OF LAKE PRESTON, SD
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Charges for</u> <u>Services</u>	<u>Net (Expense) Revenue and</u> <u>Changes in Net Position</u>		
			<u>Primary Government</u>		
			<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<i>Primary Government:</i>					
<i>Governmental Activities:</i>					
General government	\$ 143,294	\$ 41,225	\$ (102,069)	\$ --	\$ (102,069)
Public safety	37,399	--	(37,399)	--	(37,399)
Public works	200,524	--	(200,524)	--	(200,524)
Culture and recreation	87,004	--	(87,004)	--	(87,004)
Conservation and development	905	--	(905)	--	(905)
<i>Total Governmental Activities</i>	<u>469,126</u>	<u>41,225</u>	<u>(427,901)</u>	<u>--</u>	<u>(427,901)</u>
<i>Business-type Activities:</i>					
Water	116,496	132,924	--	16,428	16,428
Sewer	67,543	78,189	--	10,646	10,646
Ambulance	119,216	69,954	--	(49,262)	(49,262)
<i>Total Business-Type Activities</i>	<u>303,255</u>	<u>281,067</u>	<u>--</u>	<u>(22,188)</u>	<u>(22,188)</u>
<i>Total Primary Government</i>	<u>\$ 772,381</u>	<u>\$ 322,292</u>	<u>(427,901)</u>	<u>(22,188)</u>	<u>(450,089)</u>
<i>General Revenues:</i>					
<i>Taxes:</i>					
Property tax			273,514	--	273,514
Sales tax			181,286	--	181,286
State shared revenues			25,434	--	25,434
Unrestricted investment earnings			354	--	354
Miscellaneous revenue			16,223	--	16,223
Transfers			(102,885)	102,885	--
Loss due to Misappropriation			(7,000)	(3,456)	(10,456)
<i>Total General Revenues and Transfers</i>			<u>386,926</u>	<u>99,429</u>	<u>486,355</u>
<i>Change in Net Position</i>			(40,975)	77,241	36,266
<i>Net Position-Beginning of Year</i>			<u>780,900</u>	<u>12,931</u>	<u>793,831</u>
<i>Net Position-End of Year</i>			<u>\$ 739,925</u>	<u>\$ 90,172</u>	<u>\$ 830,097</u>

*The accompanying Notes to Financial Statements
are an integral part of this statement.*

CITY OF LAKE PRESTON, 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>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</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	\$ 138,745	\$ 125,689	\$ (13,056)	\$ --	\$ (13,056)	
Public safety	53,834	--	(53,834)	--	(53,834)	
Public works	139,409	--	(139,409)	--	(139,409)	
Health and welfare	49,967	--	(49,967)	--	(49,967)	
Culture and recreation	70,918	--	(70,918)	--	(70,918)	
Conservation and development	317	--	(317)	--	(317)	
Miscellaneous Expenditures	75	--	(75)	--	(75)	
<i>Total Governmental Activities</i>	<u>453,265</u>	<u>125,689</u>	<u>(327,576)</u>	<u>--</u>	<u>(327,576)</u>	
<i>Business-type Activities:</i>						
Water	116,960	125,835	--	8,875	8,875	
Sewer	310,585	74,237	--	(236,348)	(236,348)	
<i>Total Business-Type Activities</i>	<u>427,545</u>	<u>200,072</u>	<u>--</u>	<u>(227,473)</u>	<u>(227,473)</u>	
<i>Total Primary Government</i>	<u>\$ 880,810</u>	<u>\$ 325,761</u>	<u>(327,576)</u>	<u>(227,473)</u>	<u>(555,049)</u>	
<i>General Revenues:</i>						
<i>Taxes:</i>						
Property tax			273,246	--	273,246	
Sales tax			206,553	--	206,553	
State shared revenues			20,677	--	20,677	
Unrestricted investment earnings			732	--	732	
Miscellaneous revenue			28,881	--	28,881	
Transfers			(210,615)	210,615	--	
Loss due to Misappropriation			--	(1,074)	(1,074)	
<i>Total general Revenues and Transfers</i>			<u>319,474</u>	<u>209,541</u>	<u>529,015</u>	
<i>Change in Net Position</i>			(8,102)	(17,932)	(26,034)	
<i>Net Position-Beginning of Year</i>			<u>789,002</u>	<u>30,863</u>	<u>819,865</u>	
<i>Net Position-End of Year</i>			<u>\$ 780,900</u>	<u>\$ 12,931</u>	<u>\$ 793,831</u>	

*The accompanying Notes to Financial Statements
are an integral part of this statement.*

CITY OF LAKE PRESTON, SD
BALANCE SHEET – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 739,925	\$ 739,925
<i>Total Assets</i>	<u>\$ 739,925</u>	<u>\$ 739,925</u>
FUND BALANCES		
Unassigned	\$ 739,925	\$ 739,925
<i>Total Fund Balances</i>	<u>\$ 739,925</u>	<u>\$ 739,925</u>

*The accompanying Notes to Financial Statements
are an integral part of this statement.*

CITY OF LAKE PRESTON, SD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
MODIFIED CASH BASIS -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<i>General Fund</i>
Revenues:	
Taxes:	
General property taxes	\$ 272,782
General sales and use taxes	181,286
Penalties and interest on delinquent taxes	732
Licenses and permits	230
Intergovernmental:	
Bank franchise tax	2,461
Cell phone tower franchise	2,400
Liquor tax reversion	5,300
Motor vehicle licenses	12,944
Local government highway and bridge fund	2,329
Charges for goods and services	41,225
Fines and forfeits	472
Miscellaneous revenue:	
Investment earnings	354
Rentals	3,730
Liquor sales	8,077
Other	3,714
Total Revenue	538,036

*The accompanying Notes to Financial Statements
are an integral part of this statement.*

CITY OF LAKE PRESTON, SD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
MODIFIED CASH BASIS -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

	<i>General Fund</i>
<i>Expenditures:</i>	
Current:	
General government:	
Financial administration	\$ 143,294
Public safety:	
Police	19,440
Fire	17,959
Public works:	
Highways and streets	139,842
Sanitation	37,151
Cemeteries	3,500
Culture and recreation	
Recreation	43,924
Parks	26,370
Libraries	16,710
Conservation and development:	
Economic development and assistance (industrial development)	905
Capital outlay	20,031
<i>Total Expenditures</i>	469,126
<i>Excess of Revenues Over Expenditures</i>	68,910
Other Financing Sources (Uses):	
Transfers out	(102,885)
Loss Due to Misappropriation	(7,000)
<i>Total Other Financing Sources (Uses)</i>	(109,885)
<i>Net Change in Fund Balance</i>	(40,975)
<i>Fund Balance - Beginning of Year</i>	780,900
<i>Fund Balance - End of Year</i>	\$ 739,925

*The accompanying Notes to Financial Statements
are an integral part of this statement.*

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

	<i>General Fund</i>	<i>Library Fund</i>	<i>Total Governmental Funds</i>
Revenues:			
Taxes:			
General property taxes	\$ 270,477	\$ --	\$ 270,477
General sales and use taxes	206,553	--	206,553
Penalties and Interest on Delinquent Taxes	2,769	--	2,769
Licenses and permits	183	--	183
Intergovernmental:			
Bank franchise tax	2,110	--	2,110
Cell phone tower franchise	2,400	--	2,400
Liquor tax reversion	5,097	--	5,097
Motor vehicle licenses	7,876	--	7,876
Local government highway and bridge fund	3,194	--	3,194
Charges for goods and services	125,689	--	125,689
Fines & forfeits	94	--	94
Miscellaneous revenue:			
Investment earnings	732	--	732
Rentals	2,810	--	2,810
Liquor sales	5,088	--	5,088
Other	20,706	--	20,706
Total Revenue	655,778	--	655,778

*The accompanying Notes to Financial Statements
are an integral part of this statement.*

CITY OF LAKE PRESTON, SD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
MODIFIED CASH BASIS -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(CONTINUED)

	<i>General Fund</i>	<i>Library Fund</i>	<i>Total Governmental Funds</i>
<i>Expenditures:</i>			
Current:			
General government:			
Financial administration	\$ 138,745	\$ --	\$ 138,745
Public safety:			
Police	22,471	--	22,471
Fire	31,363	--	31,363
Public works:			
Highways and streets	101,397	--	101,397
Sanitation	34,934	--	34,934
Other Public Works	78	--	78
Cemeteries	3,000	--	3,000
Health and welfare:			
Health	693	--	693
Ambulance	49,274	--	49,274
Culture and recreation			
Recreation	34,286	--	34,286
Parks	20,656	--	20,656
Libraries	13,075	2,901	15,976
Conservation and development:			
Economic development and assistance (industrial development)	317	--	317
Miscellaneous	75	--	75
Total Expenditures	450,364	2,901	453,265
<i>Excess of Revenues Over Expenditures</i>	205,414	(2,901)	202,513
<i>Other Financing Sources (Uses):</i>			
Transfers out	(210,615)	--	(210,615)
Total Other Financing Sources (Uses)	(210,615)	--	(210,615)
<i>Net Change in Fund Balance</i>	(5,201)	(2,901)	(8,102)
<i>Fund Balance - Beginning of Year</i>	786,101	2,901	789,002
<i>Fund Balance - End of Year</i>	\$ 780,900	\$ --	\$ 780,900

*The accompanying Notes to Financial Statements
are an integral part of this statement.*

CITY OF LAKE PRESTON, SD
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2015

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Ambulance Fund</u>	<u>Totals</u>
ASSETS				
Cash and cash equivalents	\$ 40,611	\$ (4,062)	\$ 53,623	\$ 90,172
<i>Total Assets</i>	<u>\$ 40,611</u>	<u>\$ (4,062)</u>	<u>\$ 53,623</u>	<u>\$ 90,172</u>
 NET POSITION				
Unrestricted	\$ 40,611	\$ (4,062)	\$ 53,623	\$ 90,172
<i>Total Net Position</i>	<u>\$ 40,611</u>	<u>\$ (4,062)</u>	<u>\$ 53,623</u>	<u>\$ 90,172</u>

*The accompanying Notes to Financial Statements
are an integral part of this statement.*

CITY OF LAKE PRESTON, SD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Ambulance Fund</u>	<u>Totals</u>
<i>Operating Revenues:</i>				
Charges for goods and services	\$ 132,924	\$ 78,189	\$ 69,954	\$ 281,067
Total Operating Revenues	132,924	78,189	69,954	281,067
<i>Operating Expenses:</i>				
Personal services	24,299	20,744	40,874	85,917
Other current expense	3,850	--	78,342	82,192
Supplies & materials	88,347	46,799	--	135,146
Total Operating Expenses	116,496	67,543	119,216	303,255
Operating Income (Loss)	16,428	10,646	(49,262)	(22,188)
<i>Income (Loss) Before Transfers and Loss Due to Misappropriation</i>				
	16,428	10,646	(49,262)	(22,188)
Transfers In	--	--	102,885	102,885
Loss Due to Misappropriation	(1,728)	(1,728)	--	(3,456)
Change in Net Position	14,700	8,918	53,623	77,241
Net Position - Beginning of Year	25,911	(12,980)	--	12,931
Net Position - End of Year	\$ 40,611	\$ (4,062)	\$ 53,623	\$ 90,172

*The accompanying Notes to Financial Statements
are an integral part of this statement.*

CITY OF LAKE PRESTON, 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	\$ 125,835	\$ 74,237	\$ 200,072
Total Operating Revenues	125,835	74,237	200,072
<i>Operating Expenses:</i>			
Personal services	19,510	17,694	37,204
Other current expense	5,445	--	5,445
Supplies & materials	92,005	49,320	141,325
Total Operating Expenses	116,960	67,014	183,974
Operating Income (Loss)	8,875	7,223	16,098
<i>Nonoperating Revenues (Expenses):</i>			
Debt service (Principal)	--	(235,614)	(235,614)
Interest expense	--	(7,957)	(7,957)
Total Nonoperating Revenue	--	(243,571)	(243,571)
Income (Loss) Before Transfers	8,875	(236,348)	(227,473)
Transfers In	--	210,615	210,615
Loss Due to Misappropriation	(537)	(537)	(1,074)
Change in Net Position	8,338	(26,270)	(17,932)
Net Position - Beginning of Year	17,573	13,290	30,863
Net Position - End of Year	\$ 25,911	\$ (12,980)	\$ 12,931

*The accompanying Notes to Financial Statements
are an integral part of this statement.*

CITY OF LAKE PRESTON, SD
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Ambulance Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipt from customers	\$ 132,924	\$ 78,189	\$ 69,954	\$ 281,067
Payments to suppliers	(92,197)	(46,799)	(78,342)	(217,338)
Payments to employees	<u>(24,299)</u>	<u>(20,744)</u>	<u>(40,874)</u>	<u>(85,917)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	<u>16,428</u>	<u>10,646</u>	<u>(49,262)</u>	<u>(22,188)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfer in	--	--	102,885	102,885
Loss due to misappropriation	<u>(1,728)</u>	<u>(1,728)</u>	<u>--</u>	<u>(3,456)</u>
NET CASH PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,728)</u>	<u>(1,728)</u>	<u>102,885</u>	<u>99,429</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,700	8,918	53,623	77,241
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>25,911</u>	<u>(12,980)</u>	<u>--</u>	<u>12,931</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 40,611</u>	<u>\$ (4,062)</u>	<u>\$ 53,623</u>	<u>\$ 90,172</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
<i>Operating Income (Loss)</i>	<u>\$ 16,428</u>	<u>\$ 10,646</u>	<u>\$ (49,262)</u>	<u>\$ (22,188)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 16,428</u>	<u>\$ 10,646</u>	<u>\$ (49,262)</u>	<u>\$ (22,188)</u>

*The accompanying Notes to Financial Statements
are an integral part of this statement.*

CITY OF LAKE PRESTON, SD
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipt from customers	\$ 125,835	\$ 74,237	\$ 200,072
Payments to suppliers	(97,450)	(49,320)	(146,770)
Payments to employees	(19,510)	(17,694)	(37,204)
NET CASH PROVIDED BY OPERATING ACTIVITIES:	<u>8,875</u>	<u>7,223</u>	<u>16,098</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfer in	--	210,615	210,615
Loss due to misappropriation	(537)	(537)	(1,074)
NET CASH PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>(537)</u>	<u>210,078</u>	<u>209,541</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Paid on Capital Debt	--	(235,614)	(235,614)
Interest Paid on Capital Debt	--	(7,957)	(7,957)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>--</u>	<u>(243,571)</u>	<u>(243,571)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,338	(26,270)	(17,932)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>17,573</u>	<u>13,290</u>	<u>30,863</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 25,911</u>	<u>\$ (12,980)</u>	<u>\$ 12,931</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income	<u>\$ 8,875</u>	<u>\$ 7,223</u>	<u>\$ 16,098</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 8,875</u>	<u>\$ 7,223</u>	<u>\$ 16,098</u>

*The accompanying Notes to Financial Statements
are an integral part of this statement*

CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 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 City of Lake Preston, (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.

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 City'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 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:

CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 2014

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

b. *Basis of Presentation: (continued)*

Fund Financial Statements: (continued)

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 City'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 that are legally restricted to expenditures for specified purposes. The City has the following special revenue funds:

Library Improvement Fund –A fund allowed by SDCL 14-2-42 to account for fines, donations and similar receipts, deposited in the library board bank account subject to checks by the librarian for library purposes. The library improvement fund is a major fund. The fund was closed in 2014.

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 activities' 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.)

CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 2014

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

b. *Basis of Presentation: (continued)*

Fund Financial Statements: (continued)

- 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).

Proprietary Funds: (continued)

Enterprise Funds – (continued)

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.

Ambulance fund - financed primarily by user charges, this fund accounts for the operation of the ambulance. This is a major fund.

c. *Measurement Focus and Basis of Accounting:*

Measurement Focus:

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 City’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.

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.

CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 2014

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

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

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:

- 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.

CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 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 City'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.

CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 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 City'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.

CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 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.

CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 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 City’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.

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 City’s policy is to credit all income from investments to the fund making the investment.

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.

CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 2014

4. LONG-TERM DEBT:

A summary of changes in long-term debt can be found on page 36.

Debt payable at December 31, 2015 and 2014 is comprised of the following:

	2015	2014
Revenue Bonds:		
2000 General Obligation Bond:	\$ --	\$ 55,000
Use of proceeds: improvements to city's main street including water and sewer lines		
Original Issue of \$280,000		
Interest rate: 6.00% fixed		
Maturity date: Paid in full 12/31/14		
Fund servicing debt: sewer		
2003 Sewer and Water Revenue Bond	--	180,614
Use of proceeds: water and sewer system improvements project		
Interest rate: 4.25% fixed		
Maturity date: 2049 Paid in full 12/31/14		
Fund servicing debt: sewer		
	\$ --	\$ 235,614

5. RETIREMENT PLAN:

a. Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. 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 SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 2014

5. *RETIREMENT PLAN: (continued)*

b. *Benefits Provided:*

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

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

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

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

c. *Contributions:*

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 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, 2015, 2014, and 2013 were \$5,106, \$5,340, and \$5,256, respectively, equal to the required contributions each year.

CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 2014

5. **RETIREMENT PLAN: (continued)**

d. **Pension Liabilities (Assets):**

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

Proportionate share of net position restricted for pension benefits	\$ 520,313
Less proportionate share of total pension liability	<u>499,835</u>
<i>Proportionate share of net pension liability (asset)</i>	<u><u>\$ (20,478)</u></u>

The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the Municipality’s proportion was .000048%, which is a decrease of .000002% from its proportion measured as of June 30, 2014.

e. **Actuarial Assumptions:**

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

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

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

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

CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 2014

5. **RETIREMENT PLAN:** (continued)

e. **Actuarial Assumptions:** (continued)

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

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

f. **Discount Rate:**

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

g. **Sensitivity of Liability (Asset) to Changes in the Discount Rate:**

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 51,542	\$ (20,478)	\$ (79,204)

CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 2014

5. **RETIREMENT PLAN:** *(continued)*

h. **Pension Plan Fiduciary Net Position:**

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

6. **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, 2015, the Municipality managed its risks as follows:

a. **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.

b. **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.

c. **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 City'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 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.

*CITY OF LAKE PRESTON, SD
NOTES TO THE BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2015 & 2014*

6. RISK MANAGEMENT:

d. 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.

7. INTERFUND TRANSFERS:

In 2014 the general fund transferred \$210,615 to the Sewer fund to pay the debt off early.

In 2015 the general fund transferred \$102,885 of restricted Ambulance funds to start an Ambulance enterprise fund.

8. OPERATING LEASE:

In June, 1993, the City entered into a 40 year operating lease with Kingbrook Rural Water to provide water to the City. A monthly service charge in the amount of \$1,639 is paid by the City to Kingbrook along with a present charge of \$3 minimum of 1,000,000 gallons used. The monthly service charge represents a contribution by the City to aid Kingbrook in the construction of the improvements needed to provide the City with water. The City will not acquire ownership of any of the improvements through the operating lease payments. Payments are made from the water fund. The minimum remaining payments on the operating lease:

2016	\$19,668
2017	\$19,668
2018	\$19,668
2019	\$19,668
2020	\$19,668
2020-2024	\$98,340
2025-2029	\$98,340
2030-2033	\$78,672

SUPPLEMENTAL INFORMATION

CITY OF LAKE PRESTON, SD
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	<i>Budgeted Amounts</i>		<i>Actual Amounts</i>	<i>Variance with</i>
	<i>Original</i>	<i>Final</i>		<i>Final Budget</i>
				<i>Positive (Negative)</i>
<i>Resources (Inflows):</i>				
<i>Taxes:</i>				
General property tax	\$ --	\$ --	\$ 273,514	\$ 273,514
General sales and use tax	468,958	468,958	181,286	(287,672)
<i>Total Taxes</i>	<u>468,958</u>	<u>468,958</u>	<u>454,800</u>	<u>(14,158)</u>
Licenses and permits	300	300	230	(70)
Intergovernmental	27,500	27,500	25,434	(2,066)
Charges for goods and services	99,750	99,750	41,225	(58,525)
Investment income	--	--	354	354
Miscellaneous revenues	13,900	13,900	15,993	2,093
<i>Amounts Available for Appropriation</i>	<u>610,408</u>	<u>610,408</u>	<u>538,036</u>	<u>(72,372)</u>
<i>Charges to Appropriations (Outflows):</i>				
General government	206,520	206,520	143,294	63,226
Public safety:				
Police	21,100	21,100	19,440	1,660
Fire	28,700	28,700	17,959	10,741
<i>Total Public Safety</i>	<u>49,800</u>	<u>49,800</u>	<u>37,399</u>	<u>12,401</u>
Public works:				
Street department	196,940	196,940	159,873	37,067
Sanitation	34,873	34,873	37,151	(2,278)
Other public works	2,000	2,000	--	2,000
Cemeteries	2,500	2,500	3,500	(1,000)
<i>Total Public Works</i>	<u>236,313</u>	<u>236,313</u>	<u>200,524</u>	<u>35,789</u>
Health and welfare	1,000	1,000	--	1,000
Culture and recreation	110,000	110,000	87,004	22,996
Conservation and development	1,500	1,500	905	595
Miscellaneous	275	275	--	275
<i>Total Expenditures</i>	<u>605,408</u>	<u>605,408</u>	<u>469,126</u>	<u>136,282</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>5,000</u>	<u>5,000</u>	<u>68,910</u>	<u>63,910</u>
<i>Other Financing Sources</i>				
Transfers out	--	--	(102,885)	(102,885)
Loss due to misappropriation	--	--	(7,000)	(7,000)
<i>Net Change in Fund Balance</i>	<u>5,000</u>	<u>5,000</u>	<u>(40,975)</u>	<u>(45,975)</u>
<i>Beginning Budgetary Fund Balance</i>	<u>780,900</u>	<u>780,900</u>	<u>780,900</u>	<u>--</u>
<i>Ending Budgetary Fund Balance</i>	<u>\$ 785,900</u>	<u>\$ 785,900</u>	<u>\$ 739,925</u>	<u>\$ (45,975)</u>

See accompanying Note to Budgetary Comparison Schedules.

CITY OF LAKE PRESTON, 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	\$ --	\$ --	\$ 273,246	\$ 273,246
General sales and use tax	439,751	439,751	206,553	(233,198)
<i>Total Taxes</i>	<u>439,751</u>	<u>439,751</u>	<u>479,799</u>	<u>40,048</u>
Licenses and permits	300	300	183	(117)
Intergovernmental	24,800	24,800	20,677	(4,123)
Charges for goods and services	102,070	102,070	125,689	23,619
Investment income	--	--	732	732
Miscellaneous revenues	17,350	17,350	28,698	11,348
<i>Amounts Available for Appropriation</i>	<u>584,271</u>	<u>584,271</u>	<u>655,778</u>	<u>71,507</u>
<i>Charges to Appropriations (Outflows):</i>				
General government	213,020	213,020	138,745	74,275
Public safety:				
Police	21,100	21,100	22,471	(1,371)
Fire	28,200	28,200	31,363	(3,163)
Other protection	--	--	--	--
<i>Total Public Safety</i>	<u>49,300</u>	<u>49,300</u>	<u>53,834</u>	<u>(4,534)</u>
Public works:				
Street department	184,550	184,550	101,397	83,153
Sanitation	36,850	36,850	34,934	1,916
Other public works	1,000	1,000	78	922
Cemeteries	2,500	2,500	3,000	(500)
<i>Total Public Works</i>	<u>224,900</u>	<u>224,900</u>	<u>139,409</u>	<u>85,491</u>
Health and welfare	52,350	52,350	49,967	2,383
Culture and recreation	92,021	92,021	68,017	24,004
Conservation and development	1,930	1,930	317	1,613
Miscellaneous	250	250	75	175
<i>Total Expenditures</i>	<u>633,771</u>	<u>633,771</u>	<u>450,364</u>	<u>183,407</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(49,500)</u>	<u>(49,500)</u>	<u>205,414</u>	<u>254,914</u>
<i>Other Financing Sources</i>				
Transfers in				
Transfers out	(10,000)	(10,000)	(210,615)	(200,615)
<i>Net Change in Fund Balance</i>	<u>(59,500)</u>	<u>(59,500)</u>	<u>(5,201)</u>	<u>54,299</u>
<i>Beginning Budgetary Fund Balance</i>	<u>786,101</u>	<u>786,101</u>	<u>786,101</u>	<u>--</u>
<i>Ending Budgetary Fund Balance</i>	<u>\$ 726,601</u>	<u>\$ 726,601</u>	<u>\$ 780,900</u>	<u>\$ 54,299</u>

See accompanying Note to Budgetary Comparison Schedules.

CITY OF LAKE PRESTON, 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, 2015 & 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, 2015 or 2014.
8. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.

CITY OF LAKE PRESTON, SD
SCHEDULE OF CHANGES IN LONG-TERM DEBT

<u>Indebtedness</u>	<u>Long-Term Debt 01/01/14</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 12/31/14</u>
<i>Enterprise Long-Term Debt:</i>				
2000 General Obligation Bond	\$ 55,000	\$ --	\$ 55,000	\$ --
2003 Sewer and Water Revenue Bond	<u>180,614</u>	<u>--</u>	<u>180,614</u>	<u>--</u>
<i>Total Long-Term Debt:</i>	<u>\$ 235,614</u>	<u>\$ --</u>	<u>\$ 235,614</u>	<u>\$ --</u>

CITY OF LAKE PRESTON, SD
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

	<i>2014</i>	<i>2015</i>
City's proportion of the net pension liability (asset)	0.0050865%	0.0048282%
City's proportionate share of net pension liability (asset)	\$ (36,646)	\$ (20,478)
City's covered-employee payroll	\$ 88,150	\$ 88,950
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.57%	-23.02%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.0%	104.1%

CITY OF LAKE PRESTON, SD
SCHEDULE OF THE CITY'S CONTRIBUTIONS – SOUTH DAKOTA RETIREMENT SYSTEM

	<i>2014</i>	<i>2015</i>
Contractually required contribution	\$ 5,289	\$ 5,337
Contributions in relation to the contractually required contribution	<u>(5,289)</u>	<u>(5,337)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 88,150	\$ 88,950
Contributions as a percentage of covered-employee payroll	6.00%	6.00%