

**TOWN OF LANGFORD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**TOWN OF LANGFORD  
MUNICIPAL OFFICIALS  
DECEMBER 31, 2015**

Todd Sell	President
Vacant	Trustee
Orrie Jesz	Trustee
Melody Swearingen	Finance Officer
Dana Frohling	City Attorney

**TOWN OF LANGFORD  
TABLE OF CONTENTS**

	<u>Page</u>
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	3 – 4
Schedule of Prior Audit Findings	5
Schedule of Current Audit Findings	5 – 6
Independent Auditor’s Report	7 – 8
<i>Basic Financial Statements</i>	
<b><u>Government-wide Financial Statements</u></b>	
Statement of Net Position – Modified Cash Basis	10
Statement of Activities – Modified Cash Basis	11 – 12
<b><u>Fund Financial Statements:</u></b>	
<u>Governmental Funds</u>	
Balance Sheet – Modified Cash Basis	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis	15 – 16
<u>Proprietary Funds</u>	
Statement of Net Position – Modified Cash Basis	17
Statement of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis	18
Statement of Cash Flows – Modified Cash Basis	19
Notes to the Modified Cash Basis Financial Statements	20 – 32
<i>Supplementary Information</i>	
Budgetary Comparison Schedule – Budgetary Basis – General Fund	35 – 36
Notes to the Supplementary Information – Budgetary Comparison Schedule	37
Schedule of the Town’s Proportionate Share of the Net Pension Asset	38
Schedule of the Town’s Contributions	39

# GRANT AND WILLIAMS, INC.

CERTIFIED PUBLIC ACCOUNTANTS

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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  
Town of Langford  
Langford, 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 Town of Langford, South Dakota (Town), as of December 31, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 24, 2016 which was unmodified.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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 Town's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items 2015-001 and 2015-002 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests

disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Town's Response to Findings**

The Town's response to the findings identified in our audit is described in the accompanying Schedule of Current Audit Findings. The Town'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 Town'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.

**Grant and Williams, Inc.**

Grant and Williams, Inc.  
Certified Public Accountants  
June 24, 2016

**TOWN OF LANGFORD, SOUTH DAKOTA**  
**SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**

**Prior Other Audit Findings:**

Finding Number 2014-001 – Segregation of Duties

Finding Status: This finding has not been corrected and is restated as current audit finding number 2015-001

Finding No. 2014-002 - Internal accounting control and record keeping diminished assurance

Finding Status: This finding has not been corrected and is restated as current audit finding number 2015-001

**SCHEDULE OF CURRENT AUDIT FINDINGS**

**Current Other Audit Findings:**

**Material Weakness:**

**Finding No. 2015-001:**

A material weakness in internal controls was noted due to a lack of proper segregation of duties that existed for the revenue transactions.

**Criteria:**

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

**Condition Found:**

The financial officer processed all revenue transactions from beginning to end. The finance officer was able to receive money, issue receipts, record receipts, post receipts in the accounting records, prepare bank deposits, reconcile bank statements and prepare financial statements.

**Effect:**

As a result, an inadequate segregation of duties existed for the revenue function of the Town.

**Recommendation:**

We recommend that the Town officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls, whenever, and wherever possible and practical.

**Corrective Action Plan:**

Melody Swearingen, Finance Officer is the contact person at this entity responsible for the corrective action plan for this comment. This comment is a result of the size of the Town of Langford, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The Town of Langford is aware of this problem and The Town council will continue to monitor the finance office's revenue process through monthly council reports and the implementation of compensating internal controls, whenever, and wherever possible and practical.

**Finding No. 2015-002:**

A material weakness in internal controls was noted due to internal accounting control and record keeping resulting in diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded.

**Criteria:**

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

**Condition Found:**

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

The Town uses multiple software programs for record keeping and did not reconcile the entries between the programs causing the following to occur:

1. The payroll tax form 941 for the four quarters in 2015 did not equal expenditures recorded in QuickBooks.
2. The Excel report that maintains the cash balance for each fund did not reconcile to the changes in the individual funds and bank reconciliation as recorded in QuickBooks.
3. The Banyon Software that the utilities billing is maintained on does not reconcile to the income accounts as recorded in QuickBooks.

The above items were corrected on this audit report.

**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 Town of Langford.

**Recommendation:**

We recommend that the Town of Langford use choose accounting software (one) to maintain the accounting records of each fund.

**Corrective Action Plan:**

Melody Swearingen, Finance Officer is the contact person at this entity responsible for the corrective action plan for this comment. The Town of Langford will be looking into this.

**CLOSING CONFERENCE**

The contents of this report were discussed with Finance Officer Melody Swearingen; and Council Members Orrie Jesz and Todd Sell in separate meetings on June 24, 2016.

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Town of Langford  
Langford, 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 Town of Langford, South Dakota, (Town) as of December 31, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

#### *Management's Responsibility for the Financial Statements*

The Town's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of 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 Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, 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.

#### *Opinions*

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 modified cash basis of accounting financial statements of the governmental activities, the business-type activities and each major fund of the Town of Langford as of December 31, 2015, and the respective changes in financial position and, where

applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.c. to 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 Town's basic financial statements. The Budgetary Comparison Schedule – Budgetary Basis – General Fund, Schedule of the Town's Proportionate Share of the Net Pension Asset and Schedule of the Town's Contributions as 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 June 24, 2016 on our consideration of the Town'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 Town's internal control over financial reporting and compliance.

**Grant and Williams, Inc.**

Grant and Williams, Inc.  
Certified Public Accountants  
June 24, 2016

**TOWN OF LANGFORD  
BASIC FINANCIAL STATEMENTS**

**TOWN OF LANGFORD**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**DECEMBER 31, 2015**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 23,424.28	\$ 110,113.59	\$ 133,537.87
Investments	28,666.83	268,679.66	297,346.49
Restricted Assets:			
Cash and cash equivalents	-	54,065.34	54,065.34
<b>TOTAL ASSETS</b>	<b>\$ 52,091.11</b>	<b>\$ 432,858.59</b>	<b>\$ 484,949.70</b>
<b>NET POSITION:</b>			
Restricted for:			
Debt Service Purposes	\$ -	\$ 46,065.34	\$ 46,065.34
Permanently Restricted Purposes:			
Non-Expendable	-	8,000.00	8,000.00
Unrestricted (Deficit)	52,091.11	378,793.25	430,884.36
<b>TOTAL NET POSITION</b>	<b>\$ 52,091.11</b>	<b>\$ 432,858.59</b>	<b>\$ 484,949.70</b>

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

**TOWN OF LANGFORD**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For the Year Ended December 31, 2015**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>	
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>
<b>Primary Government:</b>			
<b>Governmental Activities:</b>			
General Government	\$ 25,543.16	\$ 1,226.00	\$ -
Public Safety	42,790.39	36.25	-
Public Works	123,200.14	70,224.48	-
Health and Welfare	8,533.97	-	2,877.00
Culture and Recreation	18,754.44	-	-
Miscellaneous Expenditures	-	7,436.58	-
**Capital Outlay - Unallocated	24,989.21		
<b>Total Governmental Activities</b>	<b>243,811.31</b>	<b>78,923.31</b>	<b>2,877.00</b>
<b>Business-type Activities:</b>			
Water	68,768.24	71,384.59	-
Sewer	381,796.66	102,936.80	-
Electricity	318,224.06	375,706.26	-
<b>Total Business-Type Activities</b>	<b>768,788.96</b>	<b>550,027.65</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 1,012,600.27</b>	<b>\$ 628,950.96</b>	<b>\$ 2,877.00</b>

**General Revenues:**

Taxes:

  Property Taxes

  Sales Taxes

State Shared Revenues

Unrestricted Investment Earnings

Miscellaneous Revenue

**Transfers**

Total General Revenues, and Transfers

Change in Net Position

Net Position-Beginning

NET POSITION-ENDING

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

**Net (Expense) Revenue and  
Changes in Net Position**

<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (24,317.16)	\$ -	\$ (24,317.16)
(42,754.14)	-	(42,754.14)
(52,975.66)	-	(52,975.66)
(5,656.97)	-	(5,656.97)
(18,754.44)	-	(18,754.44)
7,436.58	-	7,436.58
(24,989.21)		(24,989.21)
(162,011.00)		(162,011.00)
-	2,616.35	2,616.35
-	13,636.78	13,636.78
-	57,482.20	57,482.20
-	73,735.33	73,735.33
(162,011.00)	73,735.33	(88,275.67)
29,495.30	-	29,495.30
67,767.67	-	67,767.67
5,399.37	-	5,399.37
1,416.84	-	1,416.84
22,421.68	-	22,421.68
44,850.00	(44,850.00)	-
171,350.86	(44,850.00)	126,500.86
9,339.86	28,885.33	38,225.19
42,751.25	403,973.26	446,724.51
<u>\$ 52,091.11</u>	<u>\$ 432,858.59</u>	<u>\$ 484,949.70</u>

**TOWN OF LANGFORD  
GOVERNMENTAL FUNDS**

**TOWN OF LANGFORD  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Library Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 19,821.94	\$ 3,602.34	\$ 23,424.28
Investments	1,841.83	-	1,841.83
Restricted Cash and Cash Equivalents	3,200.00	-	3,200.00
Restricted Investments	23,625.00	-	23,625.00
<b>TOTAL ASSETS</b>	<u>\$ 48,488.77</u>	<u>\$ 3,602.34</u>	<u>\$ 52,091.11</u>
<b>FUND BALANCES:</b>			
Assigned	\$ 26,825.00	\$ 3,602.34	\$ 30,427.34
Unassigned	21,663.77	-	21,663.77
<b>TOTAL FUND BALANCES</b>	<u>\$ 48,488.77</u>	<u>\$ 3,602.34</u>	<u>\$ 52,091.11</u>

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

**TOWN OF LANGFORD**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2015**

	<u>General Fund</u>	<u>Library Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Taxes:			
General Property Taxes	\$ 29,447.30	\$ -	\$ 29,447.30
General Sales and Use Taxes	67,767.67	-	67,767.67
Amusement Taxes	48.00	-	48.00
Total Taxes	97,262.97	-	97,262.97
Intergovernmental Revenue:			
State Grants	2,877.00	-	2,877.00
State Shared Revenue:			
Bank Franchise Tax	78.03	-	78.03
Motor Vehicle Commercial Prorate	1,699.43	-	1,699.43
Liquor Tax Reversion	1,946.34	-	1,946.34
Motor Vehicle Licenses (5%)	7,535.77	-	7,535.77
Local Government Highway and Bridge Fund	20,309.88	-	20,309.88
County Shared Revenue:			
County Road Tax (25%)	300.00	-	300.00
Other Intergovernmental Revenues	3,375.00	-	3,375.00
Total Intergovernmental Revenue	38,121.45	-	38,121.45
Charges for Goods and Services:			
Sanitation	40,379.40	-	40,379.40
Total Charges for Goods and Services	40,379.40	-	40,379.40
Fines and Forfeits:			
Library	-	36.25	36.25
Total Fines and Forfeits	-	36.25	36.25
Miscellaneous Revenue:			
Investment Earnings	1,416.39	0.45	1,416.84
Rentals	825.00	-	825.00
Contributions and Donations from	-	401.00	401.00
Liquor Operating Agreement Income	7,436.58	-	7,436.58
Other	22,421.68	-	22,421.68
Total Miscellaneous Revenue	32,099.65	401.45	32,501.10
Total Revenue	\$ 207,863.47	\$ 437.70	\$ 208,301.17

**TOWN OF LANGFORD**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2015**

	<b>General Fund</b>	<b>Library Fund</b>	<b>Total Governmental Funds</b>
<b>Expenditures:</b>			
General Government:			
Executive	6,958.20	-	6,958.20
Elections	900.81	-	900.81
Legal Fees	217.50	-	217.50
Financial Administration	17,466.65	-	17,466.65
Total General Government	25,543.16	-	25,543.16
Public Safety:			
Police	27,983.65	-	27,983.65
Fire	14,806.74	-	14,806.74
Total Public Safety	42,790.39	-	42,790.39
Public Works:			
Highways and Streets	53,796.09	-	53,796.09
Sanitation	69,404.05	-	69,404.05
Total Public Works	123,200.14	-	123,200.14
Health and Welfare:			
Health	8,533.97	-	8,533.97
Total Health and Welfare	8,533.97	-	8,533.97
Culture and Recreation:			
Recreation	1,937.84	-	1,937.84
Parks	3,444.17	-	3,444.17
Libraries	12,578.95	793.48	13,372.43
Total Culture and Recreation	17,960.96	793.48	18,754.44
Capital Outlay	24,989.21	-	24,989.21
Total Expenditures	243,017.83	793.48	243,811.31
Excess of Revenues Over (Under)			
Expenditures	(35,154.36)	(355.78)	(35,510.14)
<b>Other Financing Sources (Uses):</b>			
Transfers In	45,000.00	-	45,000.00
Transfers Out	(150.00)	-	(150.00)
Total Other Financing Sources (Uses)	44,850.00	-	44,850.00
Net Change in Fund Balance	9,695.64	(355.78)	9,339.86
Fund Balance - Beginning	38,793.13	3,958.12	42,751.25
FUND BALANCE- ENDING	<u>\$ 48,488.77</u>	<u>\$ 3,602.34</u>	<u>\$ 52,091.11</u>

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

**TOWN OF LANGFORD**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2015**

	<b>Enterprise Funds</b>			<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Electric Fund</b>	
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 50,665.41	\$ 49,406.12	\$ 10,042.06	\$ 110,113.59
Investments	-	-	268,679.66	268,679.66
Restricted Cash and Cash Equivalents	8,000.00	46,065.34	-	54,065.34
<b>TOTAL ASSETS</b>	<b>\$ 58,665.41</b>	<b>\$ 95,471.46</b>	<b>\$ 278,721.72</b>	<b>\$ 432,858.59</b>
<b>NET POSITION:</b>				
Restricted for:				
Revenue Bond Debt Service	\$ -	\$ 46,065.34	\$ -	\$ 46,065.34
Other purposes	8,000.00	-	-	8,000.00
Unrestricted	50,665.41	49,406.12	278,721.72	378,793.25
<b>TOTAL NET POSITION</b>	<b>\$ 58,665.41</b>	<b>\$ 95,471.46</b>	<b>\$ 278,721.72</b>	<b>\$ 432,858.59</b>

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

**TOWN OF LANGFORD**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET POSITION - MODIFIED CASH BASIS**  
**For the Year Ended December 31, 2015**

	<b>Enterprise Funds</b>			<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Electric Fund</b>	
<b>Operating Revenue:</b>				
Charges for Goods and Services	\$ 71,384.59	\$ 60,034.07	\$ 375,706.26	\$ 507,124.92
Revenue Dedicated to Servicing Debt	-	39,582.73	-	39,582.73
Miscellaneous	-	3,320.00	-	3,320.00
Total Operating Revenue	71,384.59	102,936.80	375,706.26	550,027.65
<b>Operating Expenses:</b>				
Personal Services	32,916.26	32,916.28	32,916.32	98,748.86
Other Current Expense	11,031.20	14,116.37	92,790.46	117,938.03
Materials	24,733.52	2,490.59	190,130.02	217,354.13
Total Operating Expenses	68,680.98	49,523.24	315,836.80	434,041.02
Operating Income (Loss)	2,703.61	53,413.56	59,869.46	115,986.63
<b>Nonoperating Revenue (Expense):</b>				
Grants	-	292,496.64	-	292,496.64
Capital Assets	(87.26)	(298,961.42)	(2,387.26)	(301,435.94)
Debt Service (Principal)	-	(12,991.07)	-	(12,991.07)
Interest Expense	-	(20,320.93)	-	(20,320.93)
Total Nonoperating Revenue (Expense)	(87.26)	(39,776.78)	(2,387.26)	(42,251.30)
Income (Loss) Before Contributions and Transfers	2,616.35	13,636.78	57,482.20	73,735.33
Transfers In	50.00	50.00	50.00	150.00
Transfers Out	-	-	(45,000.00)	(45,000.00)
Change in Net Position	2,666.35	13,686.78	12,532.20	28,885.33
Net Position - Beginning	55,999.06	81,784.68	266,189.52	403,973.26
<b>NET POSITION - ENDING</b>	<b>\$ 58,665.41</b>	<b>\$ 95,471.46</b>	<b>\$ 278,721.72</b>	<b>\$ 432,858.59</b>

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

**TOWN OF LANGFORD**  
**STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2015**

	<b>Enterprise Funds</b>			<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Electric Fund</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipt from Customers	\$ 71,384.59	\$ 99,616.80	\$ 375,706.26	\$ 546,707.65
Payments to Suppliers	(35,764.72)	(16,606.96)	(282,920.48)	(335,292.16)
Payments to Employees	(32,916.26)	(32,916.28)	(32,916.32)	(98,748.86)
Other Receipts (Payments)	-	3,320.00	-	3,320.00
Net Cash Provided (Used) by Operating Activities	2,703.61	53,413.56	59,869.46	115,986.63
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfer In	50.00	50.00	50.00	150.00
Transfer Out	-	-	(45,000.00)	(45,000.00)
Net Cash Provided (Used) by noncapital financing Activities	50.00	50.00	(44,950.00)	(44,850.00)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Capital Contributions	-	292,496.64	-	292,496.64
Purchase of Capital Assets	(87.26)	(298,961.42)	(2,387.26)	(301,435.94)
Principal Paid on Capital Debt	-	(12,991.07)	-	(12,991.07)
Interest Paid on Capital Debt	-	(20,320.93)	-	(20,320.93)
Net Cash Provided (Used) by capital and related financing Activities	(87.26)	(39,776.78)	(2,387.26)	(42,251.30)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of Investment Securities	-	-	(100,000.00)	(100,000.00)
Net Cash Provided (Used) by Investing Activities	-	-	(100,000.00)	(100,000.00)
Net Increase (Decrease) in Cash and Cash Equivalents	2,666.35	13,686.78	(87,467.80)	(71,114.67)
Cash and Cash Equivalents - Beginning	55,999.06	81,784.68	97,509.86	235,293.60
Cash and Cash Equivalents - Ending	<u>\$ 58,665.41</u>	<u>\$ 95,471.46</u>	<u>\$ 10,042.06</u>	<u>\$ 164,178.93</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating Income (Loss)	<u>\$ 2,703.61</u>	<u>\$ 53,413.56</u>	<u>\$ 59,869.46</u>	<u>\$ 115,986.63</u>

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

**TOWN OF LANGFORD, SOUTH DAKOTA**  
**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 Town of Langford, (Town) 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 Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Town and for each function of the Town'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 Town 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 Town financial reporting entity are described below:

**Governmental Funds:**

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

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

Library Fund – this fund is used to account for the operations of the Public Library. This was elected to be reported as a major fund.

**Proprietary Funds:**

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

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.

Electric Fund – financed primarily by user charges this fund accounts for the construction and operation of the municipal electric system and related facilities. (SDCL 9-39-1 and 9-39-26) 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 Town'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:*

*Government-wide Financial Statements:*

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

*Fund Financial Statements:*

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

*Basis of Accounting:*

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. Acceptable modifications to the modified cash basis of accounting implemented by the Town in these financial statements are:

- 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.

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

d. Deposits and Investments:

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

Investments classified in the financial statements consist primarily of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

e. Interfund Eliminations and Reclassifications:

The Town did not have interfund receivables and payables which required elimination as of December 31, 2015.

f. Long-Term Liabilities:

As discussed in Note 1c above 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 Town has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the Town. The Town does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of

Activities the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

The Town has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Town'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.

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 or expenses.

i. Cash and Cash Equivalents:

The Town pools the cash resources of its funds for cash management purposes. The Water, Electric and Sewer 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 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 do not meet the definition of Restricted Net Position.

*Fund Financial Statements:*

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

k. Application of Net Position:

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

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 Town 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 Town Council, Council President, and/or 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.

There were no Nonspendable Fund Balances at year end.

There were no Committed Fund Balances at year end.

The Assigned Fund Balances at year end consist of \$23,625 for Fire Capital Outlay, \$3,200 for General Fund Capital Outlay, and \$3,602.34 for Library Materials.

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

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

2. Violations of Finance-related Legal and Contractual Provisions:

The Town is prohibited by statute from spending in excess of appropriated amounts at the department level. The Town did not spend in excess of appropriated amounts at the department level during the year ending December 31, 2015.

3. Deficit Fund Balances / Net Position of Individual Nonmajor Funds:

As of December 31, 2015, there were no funds that had deficit fund balances/net position.

4. Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk:

The Town 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 Town’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 Town 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 Town, as discussed above. The Town has no investment policy that would further limit its investment choices.

As of December 31, 2015, the Town had the following investments. Except for the investment in South Dakota Public Fund Investment Trust, for the Electric Fund, all investments are in an internal deposit and investment pool.

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

**Custodial Credit Risk – Deposits** – The risk that, in the event of a depository failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of December 31, 2015 the Town's deposits in financial institutions were not exposed to custodial credit risk since the deposits were entirely covered under the FDIC deposit insurance.

**Custodial Credit Risk – Investments** – The risk that, in the event of the counterparty to a transaction, the Town will not be able to recover the value of investment or collateral securities those are in the possession of an outside party.

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

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

5. **Restricted Cash and Investments:**

Assets restricted to use for a specific purpose through segregation of balances in separate accounts include \$46,065.34 in Sewer Debt Service and \$8,000 for meter deposits.

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

7. Long-Term Debt

A summary of changes in long-term debt is comprised of the following:

Indebtedness	Long-Term Debt 1/1/15	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/15	Due Within One Year
<b>Governmental Long-Term Debt:</b>					
Other Long-Term Liabilities	\$ 38,311.33	\$ -	\$ 18,835.29	\$ 19,476.04	\$ 19,476.04
<b>Enterprise Long-Term Debt:</b>					
Revenue Bonds	818,784.65	-	12,991.07	805,793.58	14,444.10
<b>Total</b>	<b>\$ 857,095.98</b>	<b>\$ -</b>	<b>\$ 31,826.36</b>	<b>\$ 825,269.62</b>	<b>\$ 33,920.14</b>

Governmental Activities

Capital Acquisition Leases:

Credit lease for 2011 Case 521 Ext Wheel Loader, matures on June 8, 2016, interest rate 3.35%, annual payments of \$20,138.61.

Financed through General Fund.

\$ 19,476.04

The purchase price at the commencement of the financing (capital acquisition) lease was:

Principal	\$ 91,180.00
Interest	<u>\$ 9,513.05</u>
Total	<u>\$100,693.05</u>

Compensated absences include \$2,598.72 for the General Fund and the Governmental Activities annual requirements to amortize all debt outstanding as of December 31, 2015, including interest payments are as follows:

CAPITAL LEASE			
Year	Principal	Interest	Total
2016	<u>\$ 19,476.04</u>	<u>\$ 662.57</u>	<u>\$ 20,138.61</u>

Business-type Activities:

USDA RD Loan

USDA Rural development Loan; 2.5% interest rate; \$2,776.00

monthly payments are made from the Sewer Fund for the

\$ 805,793.58

Compensated absences include \$1,299.36 for the Water Fund, \$1,299.36 for the Electric Fund, and \$1,299.36 for the Sewer Fund totaling \$3,898.08 for the three Funds.

The Business-type Activities annual requirements to amortize all debt outstanding as of December 31, 2015, including interest payments are as follows:

Year	USDA RURAL DEVELOPMENT		
	Principal	Interest	Total
2016	13,319.09	19,992.91	33,312.00
2017	13,655.90	19,656.10	33,312.00
2018	14,001.25	19,310.75	33,312.00
2019	14,355.31	18,956.69	33,312.00
2020	14,718.33	18,593.67	33,312.00
2021-2025	79,366.60	87,193.40	166,560.00
2026-2030	89,922.45	76,637.55	166,560.00
2031-2035	101,882.23	64,677.77	166,560.00
2036-2040	115,432.68	51,127.32	166,560.00
2041-2045	130,785.36	35,774.64	166,560.00
2046-2050	148,179.95	18,380.05	166,560.00
2051-2053	70,174.43	1,990.48	72,164.91
	<u>805,793.58</u>	<u>432,291.33</u>	<u>1,238,084.91</u>

The significant covenants for the USDA RD Loan include:

- a. The Sewer Fund to establish a use charge to a level that will pay the monthly principal and interest on the USDA RD Loan with any excess of the amount needed to be transferred to the Debt Service Account. The balance at December 31, 2015 is \$6,563.34
- b. The Sewer Fund to establish a Debt Service Account and set aside each month an amount that will be equal to not less than one-twelfth of the total sum of the principal and interest to become due within the next twelve months. The balance at December 31, 2015 is \$2,776.
- c. The Sewer Fund to establish a Reserve Account and set aside each month an amount equal to 10% of the maximum debt service due in any future calendar year on the bonds. The Town has established the Reserve Account fully with a transfer of funds from the Electric Fund of \$33,312.
- d. The Sewer Fund to establish a Replacement and Depreciation Account and set aside each month a portion of the Project Revenues in excess of the current requirements of the Debt Service Account and the Reserve Account as determined by the Trustees for the accumulation of a reserve for the renewal of worn out, obsolete or damaged properties and equipment of the Utility. The balance at December 31, 2015 is \$190.
- e. The Sewer Fund to establish a Surplus Account of any amount of the Surplus Net Revenues after the above required applications has been credited to. The balance at December 31, 2015 is \$3,224.

8. Conduit Debt:

As of December 31, 2015 there were no conduit bonds outstanding.

9. Restricted Net Position:

Restricted net position for the year ended December 31, 2015 was as follows:

- \$ 8,000.00 for the meter deposits
- \$46,065.34 for Sewer Debt Service

10. Interfund Transfers:

Interfund transfers for the year ended December 31, 2015 were as follows:

		<u>Amount</u>
Transfers to:	Transfer From:	2015
General Fund	Electric	\$ 45,000.00
Electric	General Fund	(50.00)
Sewer	General Fund	(50.00)
Water	General Fund	(50.00)
	Net Transfer	<u>\$ 44,850.00</u>

The Town typically budgets transfers to the General Fund from the Electric Fund to conduct the indispensable functions of the Town. The transfers from the General Fund to the Electric, Sewer, and Water Funds were to split the petty cash funds among the four Funds.

11. Pension Plan:

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 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.

**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 1<sup>st</sup> 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.

**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 Town's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014 and 2013 were \$7,391.80, \$7,818.07 and \$4,515.75, respectively, equal to the required contributions each year.

**Pension 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 December 31, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 747,180.18
Less proportionate share of net position liability	<u>717,773.65</u>
Proportionate share of net position asset	<u>\$ 29,406.53</u>

The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the Municipality’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the Municipality’s proportion was 0.00693340%, which is an increase of 0.0018035% from its proportion measured as of June 30, 2014.

**Actuarial Assumptions:**

The total pension 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.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was

determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.8%
Total	100.0%	

**Discount Rate:**

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

**Sensitivity of asset to changes in the discount rate:**

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

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension asset	\$ 74,015.91	\$ 29,406.53	\$ 113,738.62

**Pension Plan Fiduciary Net Position:**

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

12. **Related Party Transactions:**

There were no related-party transactions required to be disclosed in the current year.

13. **Significant Contingencies – Litigation:**

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

14. **Risk Management:**

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

Employee Health Insurance:

The Town joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Town pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes a \$2,500,000 lifetime maximum payment per person.

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

Liability Insurance:

The Town joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The 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 Town's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the Town. The Town pays an annual premium, to provide liability coverage detailed 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 Town pays an annual premium to the pool to provide coverage for general liability, automobile liability, and officials' liability

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

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

As of December 31, 2015, the Town has vested balance in the cumulative reserve fund of \$6,148.09.

The Town carries a \$250 deductible for the real and personal property and vehicles coverage, \$1,500 for Boiler & Equipment Breakdown coverage and \$250,000 deductible for the earthquake and flood coverage.

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

Worker's Compensation:

The Town joined the South Dakota Municipal League Worker's 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 worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Town's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary

working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Town pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. 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 Town does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

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

15. Subsequent Events:

The Town has evaluated for subsequent events through June 24, 2016, the date which the financial statements were available to be issued. The Town has authorized a Small Community Planning Grant for a study of the Town's Water System to look for possible water leaks.

**TOWN OF LANGFORD**

**SUPPLEMENTARY INFORMATION**

**TOWN OF LANGFORD**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
<b>Revenues:</b>				
Taxes:				
General Property Taxes	35,000.00	35,000.00	29,447.30	(5,552.70)
General Sales and Use Taxes	65,000.00	65,000.00	67,767.67	2,767.67
Total Taxes	<u>100,000.00</u>	<u>100,000.00</u>	<u>97,214.97</u>	<u>(2,785.03)</u>
Intergovernmental Revenue:				
State Grants	-	-	2,877.00	2,877.00
State Shared Revenue:				
Bank Franchise Tax	50.00	50.00	78.03	28.03
Motor Vehicle Commercial Prorate	500.00	500.00	1,699.43	1,199.43
Liquor Tax Reversion	2,000.00	2,000.00	1,946.34	(53.66)
Motor Vehicle Licenses (5%)	6,000.00	6,000.00	7,535.77	1,535.77
Local Government Highway and Bridge Fund	15,000.00	15,000.00	20,309.88	5,309.88
Other	50.00	50.00	48.00	(2.00)
County Shared Revenue:				
County Road Tax (25%)	200.00	200.00	300.00	100.00
County Highway and Bridge Reserve Tax (25%)	200.00	200.00	-	(200.00)
Other Intergovernmental Revenues		-	3,375.00	3,375.00
Total Intergovernmental Revenue	<u>24,000.00</u>	<u>24,000.00</u>	<u>38,169.45</u>	<u>14,169.45</u>
Charges for Goods and Services:				
Sanitation	35,000.00	35,000.00	40,379.40	5,379.40
Total Charges for Goods and Services	<u>35,000.00</u>	<u>35,000.00</u>	<u>40,379.40</u>	<u>5,379.40</u>
Miscellaneous Revenue:				
Investment Earnings	1,000.00	1,000.00	1,416.39	416.39
Rentals	1,000.00	1,000.00	825.00	(175.00)
Liquor Operating				
Agreement Income	5,000.00	5,000.00	7,436.58	2,436.58
Other	15,000.00	15,000.00	22,421.68	7,421.68
Total Miscellaneous Revenue	<u>22,000.00</u>	<u>22,000.00</u>	<u>32,099.65</u>	<u>10,099.65</u>
Total Revenue	<u>181,000.00</u>	<u>181,000.00</u>	<u>207,863.47</u>	<u>26,863.47</u>

**MUNICIPALITY OF LANGFORD**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u> <u>Basis)</u>	<u>Positive</u> <u>(Negative)</u>
<b>Expenditures:</b>				
General Government:				
Legislative	7,500.00	7,500.00	6,958.20	541.80
Contingency	15,000.00	8,500.00	-	8,500.00
Elections	1,000.00	1,000.00	900.81	99.19
Legal Fees	2,000.00	2,000.00	217.50	1,782.50
Financial Administration	30,000.00	30,000.00	17,466.65	12,533.35
Other	1,000.00	1,000.00	-	1,000.00
Total General Government	<u>56,500.00</u>	<u>50,000.00</u>	<u>25,543.16</u>	<u>24,456.84</u>
Public Safety:				
Police	30,000.00	30,000.00	27,983.65	2,016.35
Fire	15,000.00	15,000.00	14,806.74	193.26
Total Public Safety	<u>45,000.00</u>	<u>45,000.00</u>	<u>42,790.39</u>	<u>2,209.61</u>
Public Works:				
Highways and Streets	90,000.00	90,000.00	53,796.09	36,203.91
Sanitation	60,000.00	71,000.00	69,404.05	1,595.95
Total Public Works	<u>150,000.00</u>	<u>161,000.00</u>	<u>123,200.14</u>	<u>37,799.86</u>
Health and Welfare:				
Health	5,000.00	9,000.00	8,533.97	466.03
Total Health and Welfare	<u>5,000.00</u>	<u>9,000.00</u>	<u>8,533.97</u>	<u>466.03</u>
Culture and Recreation:				
Recreation	5,000.00	5,000.00	1,937.84	3,062.16
Parks	5,000.00	5,000.00	3,444.17	1,555.83
Libraries	14,000.00	14,000.00	12,578.95	1,421.05
Total Culture and Recreation	<u>24,000.00</u>	<u>24,000.00</u>	<u>17,960.96</u>	<u>6,039.04</u>
Debt Service	20,140.00	20,139.00	-	20,139.00
Capital Outlay	31,339.21	31,339.21	24,989.21	6,350.00
Total Expenditures	<u>331,979.21</u>	<u>340,478.21</u>	<u>243,017.83</u>	<u>97,460.38</u>
Excess of Revenues Over (Under)				
Expenditures	(150,979.21)	(159,478.21)	(35,154.36)	124,323.85
<b>Other Financing Sources (Uses):</b>				
Transfers In	143,000.00	143,000.00	45,000.00	(98,000.00)
Transfers Out (Enter as Negative)		(150.00)	(150.00)	-
Total Other Financing Sources (Uses)	<u>143,000.00</u>	<u>142,850.00</u>	<u>44,850.00</u>	<u>(98,000.00)</u>
Net Change in Fund Balances	(7,979.21)	(16,628.21)	9,695.64	26,323.85
Fund Balance - Beginning	38,793.13	38,793.13	38,793.13	-
<b>FUND BALANCE - ENDING</b>	<u>\$ 30,813.92</u>	<u>\$ 22,164.92</u>	<u>\$ 48,488.77</u>	<u>\$ 26,323.85</u>

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

**TOWN OF LANGFORD**  
**NOTES TO SUPPLEMENTARY INFORMATION**

Schedules of Budgetary Comparisons for the General Fund

Note 1 Budgets and Budgetary Accounting:

The Town 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, except for capital outlay, 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. The Town did not encumber any amounts at December 31, 2015.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund and each major special revenue fund.

Note 2 Other Comprehensive Basis of Accounting Modified Cash Basis/Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP applied within the context of the modified cash basis present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary SI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

**Schedule of Required Supplementary Information**  
**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET**  
**PENSION ASSET**

**South Dakota Retirement System**

Last 2 Fiscal Years \*

	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension asset	0.0069334%	0.0051299%
Town's proportionate share of net pension asset	\$ 29,407	\$ 36,959
Town's covered-employee payroll	\$ 126,579	\$ 89,700
Town's proportionate share of the net pension asset as a percentage of its covered-employee payroll	23.23%	41.20%
Plan fiduciary net position as a percentage of the total pension asset	104.10%	107.29%

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

**Schedule of Required Supplementary Information**  
**SCHEDULE OF THE TOWN'S CONTRIBUTIONS**

**South Dakota Retirement System**

Last 2 Fiscal Years

	2015	2014
Contractually required contribution	\$ 7,595	\$ 5,382
Contributions in relation to the contractually required contribution	\$ 7,595	\$ 5,382
Contribution deficiency (excess)	\$ -	\$ -
 Municipality's covered-employee payroll	 \$ 126,579	 \$ 89,700
Contributions as a percentage of covered-employee payroll	6.00%	6.00%