

CITY OF MARTIN
Martin, South Dakota

FINANCIAL REPORT

For the Year Ended December 31, 2015

CITY OF MARTIN
Martin, South Dakota

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Gardner, Loutzenhiser, and Ryan, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' 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 Governing Board
City of Martin, 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 Martin, South Dakota, as of and for the year 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 August 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 City'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 by 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described as items 2015-01 and 2015-02 in the accompanying Schedule of Current Year Audit Findings, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Martin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Current Year Audit Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Gardner, Gontzenhiser & Ryan PC

Chadron, Nebraska
August 15, 2016

CITY OF MARTIN
Martin, South Dakota

SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS

For the Year Ended December 31, 2015

Prior Year Audit Findings:

2014-01 - Lack of Segregation of Duties - Restated as item 2015-01 in the current year audit findings.

2014-02 - Preparation of Financial Statements - Restated as item 2015-02 in the current year audit findings.

2014-03 - Budget Compliance - This finding has been resolved.

2014-04 - Payroll Reporting - This finding has been resolved.

2014-05 - Affordable Care Act Compliance - This finding has been resolved.

Current Year Audit Findings:

2015-01 - Lack of Segregation of Duties

Condition: The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure adequate internal control.

Criteria: Authorization or approval of transactions, recording of transactions, and custody of assets should normally be segregated from each other.

Effect of the Condition: This lack of segregation of duties results in an inadequate overall internal control structure design.

Cause of the Condition: The City does not employ sufficient office personnel to properly segregate accounting functions.

Recommendation: The City should be aware of the inherent risks associated with improper segregation of accounting functions. The City should also develop mitigating controls to reduce the risk of errors or fraud associated with improper segregation of accounting functions.

Auditee Response: The City has assessed the benefits and costs associated with the proper segregation of duties and has determined the costs would outweigh any benefits received. The City understands the inherent risks associated with improper segregation of accounting functions.

2015-02 - Preparation of Financial Statements

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes. This situation is not unusual in an organization the size of the City of Martin.

Criteria: *Government Auditing Standards* indicate that the inability to produce financial statements is an internal control deficiency.

Effect of the Condition: The auditor was requested to prepare the financial statements.

CITY OF MARTIN
Martin, South Dakota

SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS (CONTINUED)

For the Year Ended December 31, 2015

2015-02 - Preparation of Financial Statements (Continued)

Cause of the Condition: The City does not find it cost effective to incur the cost to provide for the preparation of the financial statements.

Recommendation: The City should provide appropriate oversight of the preparation of the financial statements.

Auditee Response: Management accepts this risk because of the cost of implementing an internal control system which would provide for the preparation of the financial statements being audited.



Gardner, Loutzenhiser, and Ryan, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Governing Board
City of Martin, 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 Martin, South Dakota as of and for the year 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

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; 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.

Auditors' Responsibility

Our responsibility is to express opinions 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 auditors' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Martin, South Dakota, as of December 31, 2015, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 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 opinions are 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 City's basic financial statements. The supplementary information on pages 30 - 33 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 basic 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 taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2016, on our consideration of the City's internal control over financial reporting and on 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.

Chadron, Constanter & Ryan PC

Chadron, Nebraska
August 15, 2016

CITY OF MARTIN
Martin, South Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS

December 31, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in pooled cash	\$ 83,659	\$ 699,491	\$ 783,150
Cash and cash equivalents	361,381	342,217	703,598
Restricted cash and cash equivalents	245,629	-	245,629
Certificates of deposit	2,293	26,000	28,293
Total assets	\$ 692,962	\$ 1,067,708	\$ 1,760,670
Net position			
Restricted			
Hodson Park	\$ 24,007	\$ -	\$ 24,007
Crime stoppers	2,495	-	2,495
City improvements	219,127	-	219,127
Unrestricted	447,333	1,067,708	1,515,041
Total net position	\$ 692,962	\$ 1,067,708	\$ 1,760,670

See accompanying independent auditors' report
and notes to the financial statements.

CITY OF MARTIN
Martin, South Dakota

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental activities:							
General Government	\$ 115,882	\$ 24,332	\$ 3,883	\$ -	\$ (87,667)	\$ -	\$ (87,667)
Public Safety	303,263	-	-	-	(303,263)	-	(303,263)
Public Works	231,562	21,338	-	22,669	(187,555)	-	(187,555)
Culture and Recreation	117,793	9,141	-	-	(108,652)	-	(108,652)
Conservation and Development	20,850	-	-	-	(20,850)	-	(20,850)
Total governmental activities	\$ 789,350	\$ 54,811	\$ 3,883	\$ 22,669	\$ (707,987)	\$ -	\$ (707,987)
Business-type activities:							
Water	\$ 218,573	\$ 272,465	\$ -	\$ -	\$ -	\$ 53,892	\$ 53,892
Sewer	132,975	128,555	8,000	-	-	3,580	3,580
Liquor	4,692	133,806	-	-	-	129,114	129,114
Sanitation	109,366	90,290	-	-	-	(19,076)	(19,076)
Total business-type activities	\$ 465,606	\$ 625,116	\$ 8,000	\$ -	\$ -	\$ 167,510	\$ 167,510
Total primary government	\$ 1,254,956	\$ 679,927	\$ 11,883	\$ 22,669	\$ (707,987)	\$ 167,510	\$ (540,477)

See accompanying independent auditors' report
and notes to the financial statements.

CITY OF MARTIN
Martin, South Dakota

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS (CONTINUED)

For the Year Ended December 31, 2015

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Total primary government from prior page	\$ 1,254,956	\$ 679,927	\$ 11,883	\$ 22,669	\$ (707,987)	\$ 167,510	\$ (540,477)
General Revenues:							
Taxes:							
Property Taxes				\$ 152,995	\$ -	\$ -	\$ 152,995
Sales Taxes				487,481	-	-	487,481
Intergovernmental revenue not restricted to specific programs				60,932	-	-	60,932
Unrestricted investment earnings				991		343	1,334
Miscellaneous revenues				19,919		37,039	56,958
Transfers - Internal activities				80,000		(80,000)	-
Total general revenues and transfers				\$ 802,318	\$ (42,618)	\$ -	\$ 759,700
Change in net position				\$ 94,331	\$ 124,892	\$ -	\$ 219,223
Net position, beginning of year				598,631		942,816	1,541,447
Net position, end of year				\$ 692,962	\$ 1,067,708	\$ -	\$ 1,760,670

See accompanying independent auditors' report
and notes to the financial statements.

CITY OF MARTIN
Martin, South Dakota

BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS

December 31, 2015

	<u>Major Funds</u>		Total Governmental Funds
	<u>General</u>	<u>BBB Tax</u>	
Assets			
Equity in pooled cash	\$ 83,659	\$ -	\$ 83,659
Cash and cash equivalents	361,381	-	361,381
Restricted cash and cash equivalents	206,657	38,972	245,629
Certificates of deposit	2,293	-	2,293
	<u>653,990</u>	<u>38,972</u>	<u>692,962</u>
Total assets	<u>\$ 653,990</u>	<u>\$ 38,972</u>	<u>\$ 692,962</u>
Fund balances			
Restricted for			
Hodson park	\$ 24,007	\$ -	\$ 24,007
Crime stoppers	2,495	-	2,495
City improvements	180,155	38,972	219,127
Assigned for			
Swimming pool	2,293	-	2,293
Fireworks	486	-	486
Capital street improvements	359,019	-	359,019
Police car	1,000	-	1,000
Unassigned	84,535	-	84,535
	<u>653,990</u>	<u>38,972</u>	<u>692,962</u>
Fund balances	<u>\$ 653,990</u>	<u>\$ 38,972</u>	<u>\$ 692,962</u>

See accompanying independent auditors' report
and notes to the financial statements.

CITY OF MARTIN
Martin, South Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS

For the Year Ended December 31, 2015

	Major Funds		Total Governmental Funds
	General	BBB Tax	
Revenues			
Taxes	\$ 585,381	\$ 55,095	\$ 640,476
Licenses and permits	19,529	-	19,529
Intergovernmental revenues	85,978	-	85,978
Special assessments	1,506	-	1,506
Charges for services	35,282	-	35,282
Miscellaneous revenues	20,870	40	20,910
Total revenues	\$ 748,546	\$ 55,135	\$ 803,681
Expenditures			
Current			
General government	\$ 115,882	\$ -	\$ 115,882
Public safety	284,523	-	284,523
Public works	226,131	-	226,131
Culture and recreation	109,715	-	109,715
Conservation and development	-	20,850	20,850
Capital outlay	25,605	-	25,605
Debt service - principal	6,168	-	6,168
Debt service - interest	476	-	476
Total expenditures	\$ 768,500	\$ 20,850	\$ 789,350
Excess (deficiency) of revenues over (under) expenditures	\$ (19,954)	\$ 34,285	\$ 14,331
Other financing sources (uses)			
Operating transfers from other funds	\$ 106,072	\$ -	\$ 106,072
Operating transfers to other funds	-	(26,072)	(26,072)
Total other financing sources (uses)	\$ 106,072	\$ (26,072)	\$ 80,000
Net change in fund balances	\$ 86,118	\$ 8,213	\$ 94,331
Fund balances, beginning of year	567,872	30,759	598,631
Fund balances, end of year	\$ 653,990	\$ 38,972	\$ 692,962

See accompanying independent auditors' report
and notes to the financial statements.

CITY OF MARTIN
Martin, South Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS

December 31, 2015

	Major Funds				Total Proprietary Funds
	Water	Sewer	Liquor	Sanitation	
Assets					
Equity in pooled cash	\$ 258,617	\$ 208,641	\$ 248,436	\$ (16,203)	\$ 699,491
Cash and cash equivalents	189,165	135,272	-	17,780	342,217
Certificates of deposit	25,000	-	1,000	-	26,000
Total assets	\$ 472,782	\$ 343,913	\$ 249,436	\$ 1,577	\$ 1,067,708
Net position					
Unrestricted	\$ 472,782	\$ 343,913	\$ 249,436	\$ 1,577	\$ 1,067,708
Total net position	\$ 472,782	\$ 343,913	\$ 249,436	\$ 1,577	\$ 1,067,708

See accompanying independent auditors' report
and notes to the financial statements.

CITY OF MARTIN
Martin, South Dakota

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS

For the Year Ended December 31, 2015

	Major Funds				Total Proprietary Funds
	Water	Sewer	Liquor	Sanitation	
Operating revenues					
Charges for services	\$ 272,465	\$ 128,555	\$ 133,806	\$ 90,290	\$ 625,116
Miscellaneous	16,001	6,792	429	13,817	37,039
Total operating revenues	<u>\$ 288,466</u>	<u>\$ 135,347</u>	<u>\$ 134,235</u>	<u>\$ 104,107</u>	<u>\$ 662,155</u>
Operating expenses					
Personal services	\$ 66,863	\$ 48,048	\$ 3,702	\$ 9,165	\$ 127,778
Utilities	28,350	1,207	-	752	30,309
Other current expenses	28,559	8,282	990	8,068	45,899
Materials (cost of goods sold)	38,036	13,427	-	91,381	142,844
Total operating expenses	<u>\$ 161,808</u>	<u>\$ 70,964</u>	<u>\$ 4,692</u>	<u>\$ 109,366</u>	<u>\$ 346,830</u>
Operating income (loss)	<u>\$ 126,658</u>	<u>\$ 64,383</u>	<u>\$ 129,543</u>	<u>\$ (5,259)</u>	<u>\$ 315,325</u>
Nonoperating revenues (expenses)					
Interest income	\$ 213	\$ 130	\$ -	\$ -	\$ 343
Operating Grant	-	8,000	-	-	8,000
Capital outlay	(13,301)	(2,000)	-	-	(15,301)
Debt service principal	(25,996)	(49,034)	-	-	(75,030)
Debt service interest	(17,468)	(10,977)	-	-	(28,445)
Total nonoperating revenues (expenses)	<u>\$ (56,552)</u>	<u>\$ (53,881)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (110,433)</u>
Net income (loss) before capital contributions and operating transfers	<u>\$ 70,106</u>	<u>\$ 10,502</u>	<u>\$ 129,543</u>	<u>\$ (5,259)</u>	<u>\$ 204,892</u>
Operating transfers from other funds	-	-	-	19,000	19,000
Operating transfers to other funds	(18,000)	(2,000)	(79,000)	-	(99,000)
Net income (loss)	<u>\$ 52,106</u>	<u>\$ 8,502</u>	<u>\$ 50,543</u>	<u>\$ 13,741</u>	<u>\$ 124,892</u>
Total net position, beginning of year	<u>420,676</u>	<u>335,411</u>	<u>198,893</u>	<u>(12,164)</u>	<u>942,816</u>
Total net position, end of year	<u><u>\$ 472,782</u></u>	<u><u>\$ 343,913</u></u>	<u><u>\$ 249,436</u></u>	<u><u>\$ 1,577</u></u>	<u><u>\$ 1,067,708</u></u>

See accompanying independent auditors' report
and notes to the financial statements.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1, these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP) pronouncements.

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

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent upon the City. The City has no component units that meet the criteria for inclusion in the financial statements.

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 City 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.

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund Financial Statements

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

Governmental Funds

General Fund - The general fund is the general operating fund of the City. 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 for major capital improvements) that are legally restricted to expenditures for specified purposes. The City has the following special revenue fund:

Bed, Booze and Breakfast (BBB) Tax Fund - The BBB tax fund is used to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions, which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium, or athletic facility buildings, including the promotion of advertising of the City (SDCL 10-52A-2). The BBB tax fund is considered to be a major fund.

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds

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

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

Water Fund - The water fund is financed primarily by user charges and accounts for the construction and operation of the City waterworks system and related facilities. This is a major fund.

Sewer Fund - The sewer fund is financed primarily by user charges and accounts for the construction and operation of the sanitary sewer system and related facilities. This is a major fund.

Liquor Fund - The liquor fund is financed primarily by the operating agreements with various vendors in the City. This is a major fund.

Sanitation Fund - The sanitation fund is financed primarily by user charges and accounts for the operations of sanitation collections. This is a major fund.

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 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.

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued)

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 is 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 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 City in these financial statements is:

- a. Recording long-term certificates of deposit (those with maturities of 90 days 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 City applied United States generally accepted accounting principles, 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 financials would be presented on the accrual basis of accounting.

Deposits and Investments

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

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs. Therefore, they are not shown as assets in either the fund financial or the government-wide financial statements.

Long-Term Liabilities

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances are 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.

Long-term debts arising from cash transactions are not reported as liabilities in either the fund financial or the government-wide financial statements.

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:

- a. 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.
- b. 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.
- c. 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.

Proprietary Funds Revenue and Expense Classifications

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

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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".

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.

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 positions are available.

Fund Balance Classification Policies and Procedures

Fund balances for each of the City's governmental funds are displayed in the following classifications in accordance with Government Accounting Standards Board (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, depicting the relative strength of the spending constraints placed on the purpose for which resources can be used:

- a. *Nonspendable fund balance* - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- b. *Restricted fund balance* - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government) or imposed by constitutional provisions or enabling legislation.
- c. *Committed fund balance* - amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority and does not lapse at year end.
- d. *Assigned fund balance* - amounts the government intends to use for specific purposes that do not meet the criteria to be restricted or committed. Fund balance may be assigned by City council and the finance officer.
- e. *Unassigned fund balance* - amounts that are available for any purpose; these amounts can be reported only in the City's General Fund.

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

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Classification Policies and Procedures (Continued)

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
BBB Tax Fund	BBB Tax Revenue

Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements:

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund services - Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
2. Interfund reimbursements - Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
3. Interfund transfers - Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Government-Wide Financial Statements:

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers - Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the City requires management to make estimates and assumptions that may affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended December 31, 2015

NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns in a cash pool available for use of all funds. Each fund's portion of this pool is displayed on the Statement of Net Position as "equity in pooled cash." 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 City 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.

Deposits for the City at December 31, 2015, consisted of the following:

Equity in pooled cash	\$ 783,150
Cash in bank	949,227
Certificates of deposit	<u>28,293</u>
 Total	 <u>\$ 1,760,670</u>

Cash is allocated to the following funds:

General Fund	\$ 653,990
BBB Tax Fund	38,972
Proprietary Funds	<u>1,067,708</u>
 Total	 <u>\$ 1,760,670</u>

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended December 31, 2015

NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (CONTINUED)

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the city's deposits may not be returned to them. The City does not have a policy for custodial credit risk. For reporting purposes, the amount of total City bank deposits is classified in the following categories of custodial credit risk.

1. Insured or collateralized with securities held by the City or by its agent in the City's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
3. Uninsured and uncollateralized, or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name.

A detail of deposits at December 31, 2015, is as follows:

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Insured deposits	\$ 250,000	\$ 250,000	\$ -	\$ -	
Uninsured deposits:					
Collateralized	1,520,413	-	1,520,413	-	
Uncollateralized	-	-	-	-	
Total deposits	\$ 1,770,413	\$ 250,000	\$ 1,520,413	\$ -	\$ 1,760,670

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

Deposits are reported at cost, plus interest, if the account is of the add-on type. The City's only investments are certificates of deposit.

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

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

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended December 31, 2015

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

<u>Amount</u>	<u>Purpose</u>
\$ 219,127	For city improvements, by grantor
24,007	For maintenance and improvement of Hodson Park, by donor
2,495	For use by police for crime protection rewards

NOTE 4 - PROPERTY TAXES

Property taxes are levied on or before October 1 of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

NOTE 5 - COMMITMENTS

The following is a summary of the long-term debt transactions for the year ended December 31, 2015:

	<u>Balance</u> <u>01/01/15</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/15</u>	<u>Due within</u> <u>one year</u>
Water Improvements	\$ 708,429	\$ -	\$ 25,996	\$ 682,433	\$ 26,652
Sewer Improvements	183,018	-	2,986	180,032	3,077
Sewer Improvements	56,477	-	22,979	33,498	3,458
Sewer Improvements	120,926	-	1,919	119,007	1,977
Sewer Clean Water	21,150	-	21,150	-	-
Police Pickup	3,855	-	3,855	-	-
Police Car	13,836	-	2,313	11,523	2,400
	<u>\$ 1,107,691</u>	<u>\$ -</u>	<u>\$ 81,198</u>	<u>\$ 1,026,493</u>	<u>\$ 37,564</u>

Commitments at December 31, 2015, are comprised of the following:

Water Improvements - The City signed a financing agreement for a water improvements project with the State Drinking Water Revolving Loan Fund in the amount of \$920,000. Quarterly payments of \$10,889, including interest at a rate of 2.5%, began January 15, 2006. In July 2007, a refund of excess funds was made on the loan changing the quarterly payment amount to \$10,866 with the final maturity in October 2035. The payments will be made from water service charges in the water fund.

Sewer Improvements - The City signed financing agreements for a sewer lagoon stabilization project with the State Revolving Loan Fund in the amount of \$416,000. Monthly payments of \$1,531, including interest at a rate of 3.0%, began in November 2012. The final maturity is August, 2050. The payments are made by the sewer fund.

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended December 31, 2015

Sewer Clean Water - The City signed a financing agreement on August 15, 2008, for a sewer lagoon stabilization project with the South Dakota Conservancy District. Advances of \$142,732 were taken in the prior year. Payments of \$1,240, including interest at a rate of 3.25%, are due on the 15th of January, April, July and December of each year. The City paid this loan off early in the current year. The payments were made by the sewer fund.

Police Pickup - The City signed a financing agreement for a police vehicle with Security First Bank in the amount of \$20,170. Semi-annual payments of \$2,751, including interest at a rate of 3.9%, began April 2012. The note was paid in the current year. The payments were made out of the police fund in the general fund.

Police Car - On July 24, 2013, the City signed a financing agreement for a police car with Rural Development in the amount of \$17,000. Monthly payments of \$226, including interest at a rate of 3.125%, began August 24, 2013. The final maturity is July, 2020. The payments are made out of the police fund in the general fund.

The annual requirements to amortize all commitments outstanding as of December 31, 2015, are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 37,564	\$ 26,984	\$ 64,548
2017	38,568	25,980	64,548
2018	39,600	24,948	64,548
2019	40,659	23,873	64,532
2020	40,520	22,808	63,328
2021-2025	205,073	98,003	303,076
2026-2030	216,063	71,039	287,102
2031-2035	245,783	41,319	287,102
2036-2040	48,895	20,885	69,780
2041-2045	56,797	12,983	69,780
2046-2050	56,971	3,896	60,867
Total	<u>\$ 1,026,493</u>	<u>\$ 372,718</u>	<u>\$ 1,399,211</u>

NOTE 6 - RESTRICTED NET POSITION

Restricted Net Position for the year ended December 31, 2015, was as follows:

	<u>Governmental Funds</u>
By Donor	\$ 24,007
By Grantor	<u>221,622</u>
	<u>\$ 245,629</u>

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended December 31, 2015

NOTE 7 - INTERFUND TRANSFERS

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

<u>Transfers From:</u>	<u>Transfers To:</u>			<u>Totals</u>
	<u>General Fund</u>	<u>Markota (Gen) Fund</u>	<u>Sanitation Fund</u>	
Major Funds:				
BBB Tax Fund	\$ 4,372	\$ 21,700	\$ -	\$ 26,072
Water Fund	18,000	-	-	18,000
Sewer Fund	2,000	-	-	2,000
Liquor Fund	28,000	32,000	19,000	79,000
Totals	\$ 52,372	\$ 53,700	\$ 19,000	125,072

The City typically transfers excess proprietary fund revenues to the General Fund to conduct the indispensable functions of the City. In addition, the City transfers from the BBB Tax Fund to the General Fund for community improvement projects and swimming pool building costs.

NOTE 8 - RETIREMENT PLAN

Plan Information - All employees, working more than 20 hours per week, 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 survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions is 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.

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 manners as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

NOTE 8 - RETIREMENT PLAN (CONTINUED)

Benefits Provided (Continued)

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.

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 City's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014 and 2013, were \$23,493, \$21,985 and \$26,513, respectively, equal to the required contributions each year.

NOTE 9 - RISK MANAGEMENT

The City 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:

Employee Health Insurance:

The City joined the South Dakota Municipal League Health Pool. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The City 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 also includes a \$2,000,000 lifetime maximum payment per person. The City 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.

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

NOTE 9 - RISK MANAGEMENT (CONTINUED)

Liability Insurance:

The City 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 governmental 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 City'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 City. The City 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 City pays an annual premium to the pool to provide coverage for liability, auto, workmen's compensation and fire.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverage's will be provided up 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 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City 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 the City's First Full Year	50%
End of the City's Second Full Year	60%
End of the City's Third Full Year	70%
End of the City's Fourth Full Year	80%
End of the City's Fifth Full Year	90%
End of the City's Sixth Full Year and Thereafter	100%

As of December 31, 2015, the City has a vested balance in the cumulative reserve fund of \$39,793, which has not been reflected in the individual fund or government-wide financial statements as they are on the modified cash basis of accounting.

The City carries a \$250 deductible for the comprehensive coverage and a \$500 deductible for the collision coverage.

The City 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.

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

NOTE 9 - RISK MANAGEMENT (CONTINUED)

Workmen's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental 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 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 the Fund to resolve any worker's compensation claims. The City pays an annual premium to provide worker's compensation coverage for its employees, under a retrospectively rated policy, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$600,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits or a combined employer liability of \$2,000,000 per incident. The City 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 last three years.

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the year ended December 31, 2015, no unemployment benefits were paid.

NOTE 10 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 15, 2016, the date on which the financial statements were available to be issued.

See accompanying independent auditors' report.

CITY OF MARTIN
Martin, South Dakota

SUPPLEMENTARY INFORMATION

CITY OF MARTIN
Martin, South Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND

For the Year Ended December 31, 2015

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
General property taxes	\$ 160,095	\$ 160,095	\$ 152,995	\$ (7,100)
General sales and use taxes	418,000	418,000	432,194	14,194
Other taxes	500	500	192	(308)
Licenses and permits	20,850	20,850	19,529	(1,321)
Intergovernmental revenues				
Federal payments in lieu of taxes	4,275	4,275	3,883	(392)
State shared revenues	13,900	13,900	13,849	(51)
County shared revenues	38,000	38,000	47,083	9,083
Grants	153,000	167,564	21,163	(146,401)
Special assessments	-	-	1,506	1,506
Charges for services	35,450	35,450	35,282	(168)
Miscellaneous revenues	20,174	20,174	20,870	696
Total revenues	\$ 864,244	\$ 878,808	\$ 748,546	\$ (130,262)
Expenditures				
General government				
Legislative	\$ 15,600	\$ 15,600	\$ 12,051	\$ 3,549
Attorney	32,400	23,550	11,812	11,738
Elections	900	900	69	831
Financial administration	86,260	86,260	78,751	7,509
Other	20,600	20,600	13,199	7,401
Public Safety				
Police	265,058	279,622	271,163	8,459
Fire	26,400	29,400	25,062	4,338
Protective inspection	300	450	394	56
Public Works				
Streets	96,600	96,600	80,307	16,293
Street development	98,605	98,605	75,223	23,382
Snow removal	33,250	33,250	28,474	4,776
Street lights	44,500	44,500	41,535	2,965
Airport	165,200	165,200	6,023	159,177

See accompanying independent auditors' report
and notes to the supplementary information.

CITY OF MARTIN
Martin, South Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS (CONTINUED)
GENERAL FUND

For the Year Ended December 31, 2015

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Culture and recreation				
Parks	\$ 57,500	\$ 62,500	\$ 55,899	\$ 6,601
Hodson Park	1,000	1,000	-	1,000
Markota	9,900	9,900	1,593	8,307
Pool	34,200	34,200	31,248	2,952
Golf	22,000	23,800	23,581	219
Museum	5,020	5,620	5,472	148
Debt service	8,712	8,712	6,644	2,068
Total expenditures	\$ 1,024,005	\$ 1,040,269	\$ 768,500	\$ 271,769
Excess (deficiency) of revenues over (under) expenditures	\$ (159,761)	\$ (161,461)	\$ (19,954)	\$ 141,507
Other financing sources (uses)				
Operating transfers from other funds	\$ 146,955	\$ 146,955	\$ 106,072	\$ (40,883)
Total other financing sources (uses)	\$ 146,955	\$ 146,955	\$ 106,072	\$ (40,883)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ (12,806)	\$ (14,506)	\$ 86,118	\$ 100,624
Fund balances, beginning of year			567,872	
Fund balances, end of year			\$ 653,990	

See accompanying independent auditors' report
and notes to the supplementary information.

CITY OF MARTIN
Martin, South Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
BBB TAX FUND

For the Year Ended December 31, 2015

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
General sales and use taxes	\$ 45,000	\$ 56,700	\$ 55,095	\$ (1,605)
Miscellaneous revenues				
Investment earnings	<u>20</u>	<u>20</u>	<u>40</u>	<u>20</u>
Total revenues	<u>\$ 45,020</u>	<u>\$ 56,720</u>	<u>\$ 55,135</u>	<u>\$ (1,585)</u>
Expenditures				
Conservation and development				
Economic development	<u>\$ 18,500</u>	<u>\$ 23,500</u>	<u>\$ 20,850</u>	<u>\$ 2,650</u>
Total expenditures	<u>\$ 18,500</u>	<u>\$ 23,500</u>	<u>\$ 20,850</u>	<u>\$ 2,650</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 26,520</u>	<u>\$ 33,220</u>	<u>\$ 34,285</u>	<u>\$ 1,065</u>
Other financing sources (uses)				
Operating transfers to other funds	<u>\$ (24,500)</u>	<u>\$ (29,500)</u>	<u>\$ (26,072)</u>	<u>\$ 3,428</u>
Total other financing sources (uses)	<u>\$ (24,500)</u>	<u>\$ (29,500)</u>	<u>\$ (26,072)</u>	<u>\$ 3,428</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 2,020</u>	<u>\$ 3,720</u>	\$ 8,213	<u>\$ 4,493</u>
Fund balances, beginning of year			<u>30,759</u>	
Fund balances, end of year			<u>\$ 38,972</u>	

See accompanying independent auditors' report
and notes to the supplementary information.

CITY OF MARTIN
Martin, South Dakota

NOTES TO THE SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES

For the Year Ended December 31, 2015

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriations 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 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. The City 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 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 of accounting 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 Fund's Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary Supplementary Information 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.

See accompanying independent auditors' report.