

TOWN OF NISLAND
NISLAND, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE TWO YEARS ENDING DECEMBER 31, 2008
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

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FOR THE YEAR ENDING DECEMBER 31, 2008

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NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, PC

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Governing Board
Town of Nisland
Nisland, South Dakota

INDEPENDENT AUDITOR'S REPORT

01. [Introduction] I have audited the accompanying modified cash basis financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nisland (Town), Butte County, South Dakota, as of December 31, 2008 and for each of the years in the biennial period then ended, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Nisland's management. My responsibility is to express opinions on these financial statements based on my audit.

02. [Scope] I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

03. [Modified Cash Basis] As described in note 1c to these financial statements, the Town of Nisland prepares its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently certain receipts are recognized when received rather than when earned and certain disbursements are recognized when paid rather than when the obligation is incurred. It is not the intention of the Town of Nisland to present its financial statements in accordance with generally accepted accounting principles.

04. [Opinions] In my opinion, the financial statements referred to above, present fairly, in all material respects, the respective modified cash basis financial position of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nisland as of December 31, 2008, and the respective changes in the cash basis financial position for each of the years in the biennial period then ended in conformity with the modified cash basis of accounting as described in note 1c.

05. [Companion Report] In accordance with *Government Auditing Standards*, I have also issued my report (page 32) dated October 15, 2009 on my tests of the Town of Nisland's compliance with certain provisions of laws, regulations, and contracts and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

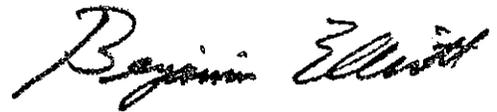
06. [Required Supplementary Information] The management's discussion and analysis (MD&A) (page 3 to 9) and the budgetary comparison schedules (page 27 to 30) are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. I have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

07. [Supplementary Information] My audit was conducted for the purpose of forming opinions on the modified cash basis financial statements that collectively comprise the Town's basic financial statements.

The accompanying schedule of changes in long-term debt (page 31) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of changes in debt has been subject to auditing procedures applied in the audit of the modified cash basis financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota



October 15, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the Town of Nisland's (Town) financial report presents our discussion and analysis of the Town's financial performance during the two years ending December 31, 2008 within the limitations of the Town's modified cash basis of accounting. Please read it in conjunction with the Town's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

For the year ending December 31, 2008:

- * The Town had total receipts from all sources of \$169,060 and total disbursements of \$175,682 for a decrease in net cash assets of \$6,622.

Total receipts and disbursements were:

| | Receipts | | Disbursements |
|----------------------------------|-----------|--------------------|---------------|
| Charges for services | \$ 70,813 | General government | \$ 30,895 |
| Operating grants | 2,164 | Public safety | 3,920 |
| Capital grants and contributions | 2,655 | Public works | 23,444 |
| Property taxes | 19,265 | Health and welfare | 3,837 |
| Sales taxes | 13,287 | Water | 31,044 |
| State shared receipts | 8,709 | Sewer | 79,665 |
| County shared receipts | 1,439 | Rodeo | 2,877 |
| Interest received | 710 | | |
| Rents | 8,202 | | |
| Donations | 3,900 | | |
| Loan proceeds | 35,738 | | |
| Other sources | 2,178 | | |
| | ----- | | ----- |
| | \$169,060 | | \$175,682 |

At December 31, 2008 each fund had net cash assets of:

| | Governmental | Business-Type |
|----------|--------------|---------------|
| General | \$ 19,481 | |
| Mosquito | 1,382 | |
| Water | | \$ 50,043 |
| Sewer | | 12,978 |
| Rodeo | | 10,744 |
| | ----- | ----- |
| | \$ 20,863 | \$ 73,765 |

During the year ending December 31, 2008, the Town:

- * Received \$19,265 in property taxes.
- * Received \$13,287 in sales taxes.
- * Received \$11,100 for garbage collection and paid \$11,099 for those services.
- * Completed street maintenance and improvement projects for a cost of \$12,167.
- * Made \$11,666 principal and \$0 interest payments on its 2002 Drinking Water SRF Revenue Bond. See page 31 for more information.
- * Completed a lagoon project for a final cost of \$53,252.
- * Received loan proceeds of \$35,738 for the lagoon project. Made \$5,884 principal and \$8,027 interest payments on its 2005 Clean Water SRF Revenue Bond. See page 31 for more information.
- * Received \$2,655 from the City of Deadwood for fairground improvements.
- * Responded to 10 fire calls.

For the year ending December 31, 2007:

* The Town had total receipts from all sources of \$290,506 and total disbursements of \$315,344 for a decrease in net cash assets of \$24,838.

Total receipts and disbursements were:

| | Receipts | | Disbursements |
|----------------------------------|-----------|------------------------|---------------|
| Charges for services | \$ 69,678 | General government | \$ 50,641 |
| Operating grants | 2,763 | Public safety | 3,000 |
| Capital grants and contributions | 65,749 | Public works | 33,530 |
| Property taxes | 15,551 | Health and welfare | 6,189 |
| Sales taxes | 12,789 | Culture and recreation | 571 |
| State shared receipts | 8,365 | Water | 32,403 |
| County shared receipts | 1,398 | Sewer | 175,000 |
| Interest received | 1,411 | Rodeo | 14,010 |
| Rents | 7,800 | | |
| Donations | 3,731 | | |
| Loan proceeds | 98,277 | | |
| Other sources | 2,994 | | |
| | ----- | | ----- |
| | \$290,506 | | \$315,344 |

At December 31, 2007 each fund had net cash assets of:

| | Governmental | Business-Type |
|----------|--------------|---------------|
| General | \$ 9,385 | |
| Mosquito | 105 | |
| Water | | \$ 55,171 |
| Sewer | | 29,523 |
| Rodeo | | 7,066 |
| | ----- | ----- |
| | \$ 9,490 | \$ 91,760 |

During the year ending December 31, 2007, the Town:

- * Received \$15,551 in property taxes.
- * Received \$12,789 in sales taxes.
- * Received \$ 9,924 for garbage collection and paid \$11,607 for those services.
- * Completed street maintenance and improvement projects for a cost of \$21,924.
- * Purchased a tractor for \$3,000 and a truck for \$4,500.
- * Made \$11,666 principal and \$0 interest payments on its 2002 Drinking Water SRF Revenue Bond. See page 31 for more information.
- * Worked on a lagoon project for a 2007 cost of \$155,931.
- * Received remaining Community Development Block Grant proceeds of \$57,654 and loan proceeds of \$98,277 for the lagoon project. Made \$4,114 principal and \$2,327 interest payments on its 2005 Clean Water SRF Revenue Bond. See page 31 for more information.
- * Received \$8,095 from the City of Deadwood for fairground improvements.
- * Responded to 10 fire calls.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This financial report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement-34.

The financial report consists of three parts: (1) management's discussion and analysis (page 3 to 9), (2) the basic financial statements (page 10 to 26) and (3) required supplementary information (page 27 to 30). The basic financial statements include two types of statements that present the Town from two different financial points of view.

| | Government-wide | Fund Statements | | |
|--|-------------------------------------|---|---|--|
| | Statements | Governmental Funds | Proprietary Funds | Fiduciary Funds (agency) |
| Required Financial Statements | Statement of Net Cash Assets | Cash Balance Sheet | Statement of Net Cash Assets | Statement of Fiduciary Net Cash Assets |
| Required Financial Statements | Statement of Cash Activities | Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances | Statement of Cash Receipts, Disbursements and Changes in Fund Net Cash Assets | None |
| Basis of Accounting | Modified Cash | Modified Cash | Modified Cash | Modified Cash |
| Measurement Focus | Modified Cash | Modified Cash | Modified Cash | Modified Cash |
| Types of assets & Liabilities | Only cash No liabilities | Only cash No liabilities | Only cash No liabilities | Only cash No liabilities |
| Types of Revenue and Expenditures or Expense | Cash receipts Cash disbursements | Cash receipts Cash disbursements | Cash receipts Cash disbursements | None |

BASIS OF ACCOUNTING

The Town has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, or the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the Town's modified cash basis of accounting, revenues and expenses and related assets are recorded when they result from cash transactions, except for the recording of investments.

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the Town as a whole using cash accounting methods similar to those used by private-sector companies. The statement of net cash assets includes all of the Town's cash. The statement of cash activities includes all of the year's receipts and disbursements.

The two government-wide statements report the Town's net cash assets and how that has changed. Net cash assets is the Town's petty cash, checking accounts, and money market cash reserve. The change in these accounts is one way to measure the Town's financial health. Increases or decreases in net cash assets measures improvements or declines in the Town's financial health. To assess the Town's overall financial health you also need to consider other factors such as changes in the property tax base, and/or sales tax receipts generated from local businesses.

The government-wide financial statements have two broad categories of information: governmental activity and business-type activity.

The governmental activities include basic services such as police and fire protection, garbage collection and maintenance of streets. Property taxes, sales taxes, interest earnings, and utility payments finance most of these activities.

The business-type activities account for the Town's water, sewer and rodeo activities. These services are funded by user fees and donations. Bonds and federal and state grants help pay for capital improvements to the water and sewer systems.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Town's most significant funds - not the Town as a whole. Funds are accounting tools used to keep track of the Town's receipts and disbursements. State law requires the use of some funds and the Town board establishes other funds to manage money for a specific purpose.

The fund financial statements show information in two broad categories: governmental and enterprise (business-type).

Governmental funds: Most of the Town's basic services are included in the governmental funds, which focus on (1) how cash flows in and out of that fund, and (2) cash balances left at year-end which are available for spending in the next year. Governmental fund financial statements provide detail that helps you determine whether there is more or fewer cash resources available for spending in the near future to finance Town programs.

Enterprise fund: Services for which the Town charges the customer a fee are generally reported in enterprise funds. These funds account for cash and cash receipts and cash disbursements in the same way as the governmental funds. The water, sewer, and rodeo funds are the only enterprise funds maintained by the Town.

MATERIAL CHANGES IN STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

For the Year Ending December 31, 2008

(Material changes for governmental activities = changes greater than \$10,000)

(Material changes for business-type activities = changes greater than \$10,000)

| | Increase (Decrease) | Reason |
|---------------------------|------------------------|---|
| Governmental Activities: | | |
| Cash | 11,373 | Net increase from operations. |
| General government | (19,746) | Remodeled a new Town Hall in 2007. |
| Public works | (10,076) | More street work in 2007 and purchased a tractor for \$3,000 and a truck for \$4,500 in 2007. |
| Business-type Activities: | | |
| Cash | (17,995) | Net decrease from operations. |
| Capital grants | (63,094) | No CDBG grant in 2008. |
| SRF loan proceeds | (62,539) | Final SRF loan proceeds received in 2008. |
| Sewer operations | (95,335) | Lagoon project largely completed in 2007. |
| Rodeo operations | (11,133) | No rodeo in 2008. |

For the Year Ending December 31, 2007

(Material changes for governmental activities = changes greater than \$10,000)

(Material changes for business-type activities = changes greater than \$10,000)

| | Increase (Decrease) | Reason |
|--------------------------|------------------------|------------------------------------|
| Governmental Activities: | | |
| Cash | (25,220) | Net decrease from operations. |
| General government | 12,366 | Remodeled a new Town Hall in 2007. |

| | Increase (Decrease) | Reason |
|---------------------------|------------------------|---|
| Business-type Activities: | | |
| Charges for services | (16,126) | No rodeo in 2007. |
| Capital grants | (228,728) | Final CDBG grant payment in 2007. |
| SRF loan proceeds | 67,878 | More SRF loan proceeds received in 2007. |
| Sewer operations | (158,504) | Lagoon project largely completed in 2007. |
| Rodeo operations | (11,961) | No rodeo in 2007. |

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

In 2008 there were no supplemental appropriations. There were no material budget overdrafts. See page 27 for more information.

In 2007 there were no supplemental appropriations. General government exceeded its budget by \$21,083 primarily related to the remodeling of a new Town Hall. Streets exceeded its budget by \$9,532 and sanitation exceeded its budget by \$2,106. These overdrafts were corrected in 2008. See page 28 for more information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Significant capital asset activity is reported above.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

Significant long-term debt activity is reported above. See page 31 for more information.

CURRENTLY KNOWN FACTS

In February 2009 the Town purchased a pick-up for \$2,400.

On July 1, 2009 the Town took over the bar operations.

The Rodeo Fund was closed out in 2009.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional information, contact the Town of Nisland's finance office at P.O. Box 144, Nisland, SD 57762 or telephone us at 605.257.2509.

TOWN OF NISLAND

TABLE 1 - NET CASH ASSETS
 MODIFIED CASH BASIS - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 AS OF DECEMBER 31, 2008, December 31, 2007, and December 31, 2006

| | Governmental Activities | | | Business-Type Activities | | | Total Government | | |
|-------------------------|-------------------------|--------------|---------------|--------------------------|---------------|---------------|------------------|----------------|----------------|
| | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 |
| Cash assets: | | | | | | | | | |
| Cash | 15,633 | 2,346 | 23,101 | 73,182 | 91,186 | 90,831 | 88,815 | 93,532 | 113,932 |
| Investment - SD FIT | 5,230 | 7,144 | 11,609 | 583 | 574 | 547 | 5,813 | 7,718 | 12,156 |
| Total | 20,863 | 9,490 | 34,710 | 73,765 | 91,760 | 91,378 | 94,628 | 101,250 | 126,088 |
| Liabilities: | | | | | | | | | |
| Not applicable | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net cash assets: | | | | | | | | | |
| Restricted | 1,382 | 105 | 1,134 | 49,336 | 64,307 | 55,801 | 50,718 | 64,412 | 56,935 |
| Unrestricted | 19,481 | 9,385 | 33,576 | 24,429 | 27,453 | 35,577 | 43,910 | 36,838 | 69,153 |
| Total | 20,863 | 9,490 | 34,710 | 73,765 | 91,760 | 91,378 | 94,628 | 101,250 | 126,088 |

TABLE 2 - CHANGES IN CASH NET ASSETS
 MODIFIED CASH BASIS - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 FOR THE THREE YEARS ENDING DECEMBER 31, 2008

| | Governmental Activities | | | Business-Type Activities | | | Total Government | | |
|--|-------------------------|-----------------|---------------|--------------------------|----------------|----------------|------------------|-----------------|----------------|
| | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 |
| Receipts: | | | | | | | | | |
| Program receipts: | | | | | | | | | |
| Charges for services | 13,455 | 12,276 | 12,235 | 57,358 | 57,402 | 73,528 | 70,813 | 69,678 | 85,763 |
| Operating grants | 2,164 | 2,763 | 2,361 | | | | 2,164 | 2,763 | 2,361 |
| Capital grants | | | | 2,655 | 65,749 | 294,477 | 2,655 | 65,749 | 294,477 |
| SRF loan proceeds | | | | 35,738 | 98,277 | 30,399 | 35,738 | 98,277 | 30,399 |
| General receipts: | | | | | | | | | |
| Property taxes | 19,265 | 15,551 | 16,622 | | | | 19,265 | 15,551 | 16,622 |
| Sales taxes | 13,287 | 12,789 | 21,275 | | | | 13,287 | 12,789 | 21,275 |
| Other taxes | 24 | 12 | 12 | | | | 24 | 12 | 12 |
| State sources | 8,709 | 8,365 | 8,418 | | | | 8,709 | 8,365 | 8,418 |
| County sources | 1,439 | 1,398 | 2,583 | | | | 1,439 | 1,398 | 2,583 |
| Interest received | 270 | 836 | 970 | 440 | 575 | 417 | 710 | 1,411 | 1,387 |
| Rents | 8,202 | 7,800 | 7,548 | | | | 8,202 | 7,800 | 7,548 |
| Donations | | | | 3,900 | 3,731 | 2,765 | 3,900 | 3,731 | 2,765 |
| Miscellaneous | 2,154 | 2,982 | 2,905 | | | | 2,154 | 2,982 | 2,905 |
| Sale of asset | | | 3,328 | | | | | | 3,328 |
| Total receipts | 68,969 | 64,772 | 78,257 | 100,091 | 225,734 | 401,586 | 169,060 | 290,506 | 479,843 |
| Disbursements: | | | | | | | | | |
| General government | 30,895 | 50,641 | 38,275 | | | | 30,895 | 50,641 | 38,275 |
| Public safety | 3,920 | 3,000 | 3,048 | | | | 3,920 | 3,000 | 3,048 |
| Public works | 23,444 | 33,530 | 25,276 | | | | 23,444 | 33,530 | 25,276 |
| Health and welfare | 3,837 | 6,189 | 6,326 | | | | 3,837 | 6,189 | 6,326 |
| Culture and recreation | | 571 | 1,601 | | | | 0 | 571 | 1,601 |
| Water | | | | 31,044 | 32,403 | 28,891 | 31,044 | 32,403 | 28,891 |
| Sewer | | | | 79,665 | 175,000 | 333,504 | 79,665 | 175,000 | 333,504 |
| Rodeo | | | | 2,877 | 14,010 | 25,971 | 2,877 | 14,010 | 25,971 |
| Total disbursements | 62,096 | 93,931 | 74,526 | 113,586 | 221,413 | 388,366 | 175,682 | 315,344 | 462,892 |
| Transfers in (out) | 4,500 | 3,939 | 0 | (4,500) | (3,939) | 0 | 0 | 0 | 0 |
| Net cash assets increase (decrease) | 11,373 | (25,220) | 3,731 | (17,995) | 382 | 13,220 | (6,622) | (24,838) | 16,951 |
| Net cash assets: | | | | | | | | | |
| December 31, 2005 | | | 30,979 | | | 78,158 | | | 109,137 |
| December 31, 2006 | | 34,710 | 34,710 | | 91,378 | 91,378 | | 126,088 | 126,088 |
| December 31, 2007 | 9,490 | 9,490 | | 91,760 | 91,760 | | 101,250 | 101,250 | |
| December 31, 2008 | 20,863 | | | 73,765 | | | 94,628 | | |

TOWN OF NISLAND

STATEMENT OF NET CASH ASSETS
 MODIFIED CASH BASIS
 AS OF DECEMBER 31, 2008

| | Primary Government | | |
|------------------------------------|----------------------------|---------------------------------|---------------|
| | Governmental Activities | Business- Type Activities | Total |
| CASH ASSETS | | | |
| Petty cash | 35 | | 35 |
| Cash | 14,216 | 23,846 | 38,062 |
| Cash - restricted | 1,382 | 49,336 | 50,718 |
| Money market cash reserve (SD.FIT) | 5,230 | 583 | 5,813 |
| Total cash assets | <u>20,863</u> | <u>73,765</u> | <u>94,628</u> |
| | | | |
| NET CASH ASSETS | | | |
| Restricted for: | | | |
| Drinking water SRF bond | | 38,416 | 38,416 |
| Clean water SRF bond | | 10,920 | 10,920 |
| Mosquito control | 1,382 | | 1,382 |
| Unrestricted | 19,481 | 24,429 | 43,910 |
| Total net cash assets | <u>20,863</u> | <u>73,765</u> | <u>94,628</u> |

See accompanying notes.

TOWN OF NISLAND

CASH BALANCE SHEET -- MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 AS OF DECEMBER 31, 2008

| | General Fund | Mosquito Control Fund | Total Governmental Funds |
|------------------------------------|-----------------|-----------------------------|--------------------------------|
| | ----- | ----- | ----- |
| CASH ASSETS | | | |
| Petty cash | 35 | | 35 |
| Cash | 14,216 | | 14,216 |
| Cash - restricted | | 1,382 | 1,382 |
| Money market cash reserve (SD.FIT) | 5,230 | | 5,230 |
| | ----- | ----- | ----- |
| Total cash assets | 19,481 | 1,382 | 20,863 |
| | ===== | ===== | ===== |
| FUND CASH BALANCE | | | |
| Designated for shop | 120 | | 120 |
| Unreserved, undesignated | 19,361 | 1,382 | 20,743 |
| | ----- | ----- | ----- |
| Total fund cash balance | 19,481 | 1,382 | 20,863 * |
| | ===== | ===== | ===== |

* Equals Statement of Net Cash Assets

See accompanying notes.

TOWN OF NISLAND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
 IN FUND CASH BALANCES -- MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2008
 FOR THE YEAR ENDING DECEMBER 31, 2007

| | 2008 | | | 2007 | | |
|--|---------------|-----------------------|--------------------------|-----------------|-----------------------|--------------------------|
| | General Fund | Mosquito Control Fund | Total Governmental Funds | General Fund | Mosquito Control Fund | Total Governmental Funds |
| Receipts: | | | | | | |
| Receipts from local sources: | | | | | | |
| Taxes: | | | | | | |
| Ad valorem taxes | 18,870 | | 18,870 | 15,331 | | 15,331 |
| General sales and use taxes | 13,287 | | 13,287 | 12,789 | | 12,789 |
| Amusement taxes | 24 | | 24 | 12 | | 12 |
| Penalties and interest | 395 | | 395 | 220 | | 220 |
| Licenses and permits: | 405 | | 405 | 225 | | 225 |
| Intergovernmental receipts: | | | | | | |
| State shared receipts: | | | | | | |
| Grant | | 2,164 | 2,164 | | 2,763 | 2,763 |
| Bank franchise tax | 155 | | 155 | 169 | | 169 |
| Commercial prorate | 705 | | 705 | 693 | | 693 |
| Liquor tax revision | 1,257 | | 1,257 | 1,110 | | 1,110 |
| Motor vehicle licenses (5%) | 2,895 | | 2,895 | 2,795 | | 2,795 |
| Highway and bridge | 3,697 | | 3,697 | 3,598 | | 3,598 |
| County shared receipts: | | | | | | |
| Highway and bridge | 273 | | 273 | 267 | | 267 |
| Wheel tax | 1,166 | | 1,166 | 1,131 | | 1,131 |
| Charges for goods and services: | | | | | | |
| Sanitation | 11,100 | | 11,100 | 9,924 | | 9,924 |
| Mosquito control: | | | | | | |
| Town of Vale | | | 0 | | 1,000 | 1,000 |
| Town of Fruitdale | | 1,950 | 1,950 | | 237 | 237 |
| Others | | | 0 | | 160 | 160 |
| Miscellaneous receipts: | | | | | | |
| Interest received | 270 | | 270 | 836 | | 836 |
| Rental - bar | 6,000 | | 6,000 | 6,000 | | 6,000 |
| Rentals - other | 2,202 | | 2,202 | 1,800 | | 1,800 |
| Fairgrounds | | | 0 | 730 | | 730 |
| Other | 2,154 | | 2,154 | 2,982 | | 2,982 |
| Total receipts | 64,855 | 4,114 | 68,969 | 60,612 | 4,160 | 64,772 |
| Disbursements: | | | | | | |
| General government: | | | | | | |
| All areas | 30,895 | | 30,895 | 50,641 | | 50,641 |
| Public safety: | | | | | | |
| Police | 3,150 | | 3,150 | 3,000 | | 3,000 |
| Fire | 770 | | 770 | | | 0 |
| Public works: | | | | | | |
| Highways and streets | 12,345 | | 12,345 | 16,924 | | 16,924 |
| Sanitation | 11,099 | | 11,099 | 11,606 | | 11,606 |
| Health and welfare: | | | | | | |
| Mosquito control (West Nile) | | 3,837 | 3,837 | | 6,189 | 6,189 |
| Culture and recreation: | | | | | | |
| Fairgrounds | | | 0 | 571 | | 571 |
| Capital outlay | | | 0 | 5,000 | | 5,000 |
| Total disbursements | 58,259 | 3,837 | 62,096 | 87,742 | 6,189 | 93,931 |
| Excess of receipts over (under) disbursements | 6,596 | 277 | 6,873 | (27,130) | (2,029) | (29,159) |
| Other financing sources (uses): | | | | | | |
| Sale of capital asset | | | 0 | | | |
| Transfer in | 4,500 | 1,000 | 5,500 | 3,939 | 1,000 | 4,939 |
| Transfer (out) | (1,000) | | (1,000) | (1,000) | | (1,000) |
| Net change in fund cash balance | 10,096 | 1,277 | 11,373 | (24,191) | (1,029) | (25,220) * |
| Fund cash balance: | | | | | | |
| December 31, 2006 | | | | 33,576 | 1,134 | 34,710 |
| December 31, 2007 | 9,385 | 105 | 9,490 | 9,385 | 105 | 9,490 |
| December 31, 2008 | 19,481 | 1,382 | 20,863 | | | |

* Equals Statement of Cash Activities

See accompanying notes.

TOWN OF NISLAND

STATEMENT OF NET CASH ASSETS
 MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 AS OF DECEMBER 31, 2008

| | Water Fund | Sewer Fund | Rodeo Fund | Total Enterprise Funds |
|------------------------------------|---------------|---------------|---------------|------------------------------|
| | ----- | ----- | ----- | ----- |
| Cash assets: | | | | |
| Cash | 11,305 | 1,797 | 10,744 | 23,846 |
| Cash - restricted | 38,416 | 10,920 | | 49,336 |
| Money market cash reserve (SD.FIT) | 322 | 261 | | 583 |
| | ----- | ----- | ----- | ----- |
| Total cash assets | <u>50,043</u> | <u>12,978</u> | <u>10,744</u> | <u>73,765</u> |
| | | | | |
| Net cash assets: | | | | |
| Restricted for: | | | | |
| SRF drinking water bond | 38,416 | | | 38,416 |
| SRF clean water loan | | 10,920 | | 10,920 |
| Unrestricted | 11,627 | 2,058 | 10,744 | 24,429 |
| | ----- | ----- | ----- | ----- |
| Total net cash assets | <u>50,043</u> | <u>12,978</u> | <u>10,744</u> | <u>73,765</u> |

See accompanying notes.

TOWN OF NISLAND

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN FUND NET CASH ASSETS -- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2008
 FOR THE YEAR ENDING DECEMBER 31, 2007

| | 2008 | | | | 2007 | | | |
|--|---------------|---------------|---------------|------------------------------|---------------|---------------|---------------|------------------------------|
| | Water Fund | Sewer Fund | Rodeo Fund | Total Enterprise Funds | Water Fund | Sewer Fund | Rodeo Fund | Total Enterprise Funds |
| Operating receipts: | | | | | | | | |
| Charges for goods and services: | | | | | | | | |
| Pledged for debt service | 33,224 | 24,134 | | 57,358 | 33,448 | 23,478 | | 56,926 |
| Unpledged | | | | 0 | | | 476 | 476 |
| Total operating receipts | 33,224 | 24,134 | 0 | 57,358 | 33,448 | 23,478 | 476 | 57,402 |
| Operating disbursements: | | | | | | | | |
| Personal services | 9,290 | 7,052 | | 16,342 | 9,732 | 8,815 | 245 | 18,792 |
| Other current services | 10,087 | 5,450 | 222 | 15,759 | 11,004 | 3,813 | 150 | 14,967 |
| Lagoon project costs | | 53,252 | | 53,252 | | 155,931 | | 155,931 |
| Fairground improvements | | | 2,655 | 2,655 | | | 13,615 | 13,615 |
| Total operating disbursements | 19,377 | 65,754 | 2,877 | 88,008 | 20,736 | 168,559 | 14,010 | 203,305 |
| Total operating income (loss) | 13,847 | (41,620) | (2,877) | (30,650) | 12,712 | (145,081) | (13,534) | (145,903) |
| Nonoperating receipts (disbursements): | | | | | | | | |
| Interest earnings | 192 | 248 | | 440 | 334 | 241 | | 575 |
| Private donations | | | 3,900 | 3,900 | | | 3,731 | 3,731 |
| Debt service - principal | (11,667) | (5,884) | | (17,551) | (11,667) | (4,114) | | (15,781) |
| - interest | | (8,027) | | (8,027) | | (2,327) | | (2,327) |
| Total nonoperating receipts (disbursements) | (11,475) | (13,663) | 3,900 | (21,238) | (11,333) | (6,200) | 3,731 | (13,802) |
| Income (loss) before capital grants, loan proceeds, and transfers | 2,372 | (55,283) | 1,023 | (51,888) | 1,379 | (151,281) | (9,803) | (159,705) |
| Federal grant - CDBG | | | | 0 | | 57,654 | | 57,654 |
| City of Deadwood fairground donation | | | 2,655 | 2,655 | | | 8,095 | 8,095 |
| SRF loan proceeds | | 35,738 | | 35,738 | | 98,277 | | 98,277 |
| Transfers in (out) | (7,500) | 3,000 | | (4,500) | (3,939) | | | (3,939) |
| Change in net cash assets | (5,128) | (16,545) | 3,678 | (17,995) | (2,560) | 4,650 | (1,708) | 382 |
| Net cash assets: | | | | | | | | |
| December 31, 2006 | | | | | 57,731 | 24,873 | 8,774 | 91,378 |
| December 31, 2007 | 55,171 | 29,523 | 7,066 | 91,760 | 55,171 | 29,523 | 7,066 | 91,760 |
| December 31, 2008 | 50,043 | 12,978 | 10,744 | 73,765 | | | | |

See accompanying notes.

TOWN OF NISLAND

STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUND
AS OF DECEMBER 31, 2008

| | Balance 12-31-2008 |
|-------------------|-----------------------|
| | ----- |
| Assets: | |
| Cash | 1,334 |
| | ----- |
| Total assets | 1,334 |
| | ===== |
| | |
| Liabilities: | |
| Held for others | 1,334 |
| | ----- |
| Total liabilities | 1,334 |
| | ===== |

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in note 1c, these financial statements are presented on a cash basis of accounting. This 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. In the government-wide financial statements and the fund financial statements for the enterprise funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

a. Reporting Entity:

The funds and account groups included in this report are controlled by or dependent upon the Town of Nisland's (Town) Governing Board.

The Town's officials at December 31, 2008 are:

| | |
|------------|------------------|
| Chairman: | Finance Officer: |
| Scott Turo | LeAnne Clark |

| | |
|----------------|--------------|
| Trustees: | Attorney: |
| Chris Andersen | Ronda Miller |
| Jake Dell | |
| Dixie Flanagan | |
| Fran Richards | |

The Town's financial reporting entity is composed of the following:

Financial Reporting Entity:
Primary Government: - The Town of Nisland
Component Units: - None

To determine the financial reporting entity, the Town complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The reporting entity of the Town of Nisland consists of (1) 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; (2) those organizations for which the primary government is financially accountable; and (3) 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 Town 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 Town (the primary government). The Town may also be financially accountable for another organization if that organization is fiscally dependent on the Town unless that organization can, without the approval of the Town: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

Based upon the application of these criteria, the Town of Nisland does not have any component units.

b. Basis of Presentation:

Government-wide Financial Statements:

The government-wide financial statements include the Statement of Net Cash Assets and the Statement of Cash Activities. These statements display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds (if any). 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 good and services.

The Statement of Net Cash Assets reports all cash assets. Net cash assets are displayed in two components: restricted (distinguishing between major categories of restrictions) and unrestricted.

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

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its cash, net cash assets, receipts and disbursements. Funds are organized into three major categories: governmental, enterprise, and fiduciary (if any). An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the Town or if it meets the following criteria:

- a. Total cash, receipts or disbursements of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (cash, receipts or disbursements) for all funds of that category (that is, total governmental or total enterprise), and
- b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
- c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

The Town has elected to classify all of its funds as major funds.

Funds of the Town are described below within their respective fund type:

Governmental Funds

General Fund - a fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the Town except those required to be accounted for in another fund. The general fund is always a major fund.

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

Mosquito Control Fund - A fund used to account for a state grant and local receipts to purchase equipment and supplies to combat the mosquito born West Nile virus.

Enterprise Funds
(Business-Type)

Enterprise Funds - Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The Town has the following enterprise funds:

Water Fund - A fund established by SDCL 9-47-1 to provide water to customers within the Town of Nisland.

Sewer Fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the town of Nisland.

Rodeo fund - A fund established by the Town of Nisland to account for fees received from a summer rodeo event. This fund is also known as the Nisland Entertainment Committee (NEC) fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

Agency funds - agency funds are used to account for resources held by the Town in a purely custodial capacity (assets equal liabilities). Agency funds are used to accumulate resources entrusted to the Town, which are then disbursed upon order from the applicable agency. Since agency funds are custodial in nature they do not involve the measurement of results of operations. The Town maintains a Centennial Fund as its only fiduciary fund.

c. Basis of Accounting:

Basis of accounting refers to when revenues (receipts) and expenditures or expenses (disbursements) are recognized in the accounts and reported in the financial statements.

These financial statements, both government-wide and fund financial statements, are presented on a modified cash basis of accounting rather than a accrual/modified accrual basis of accounting. The cash basis has been modified by including certificates of deposit (if any) whose maturity when purchased is more than 90 days. This basis recognizes only cash, money market accounts, certificates of deposit, net cash assets, receipts and disbursements that result from cash transactions. Consequently, revenues (receipts) are recognized when received and expenditures or expenses (disbursements) are recognized when paid. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for enterprise fund types would use the full accrual basis of accounting. All government-wide financials would be presented on the full accrual basis of accounting.

The government-wide business-type activities and enterprise funds do not apply any FASB Statements or Interpretations issued after November 30, 1989.

d. Cash and Cash Equivalents:

The Town considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents.

e. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed. All other interfund transactions are reported as transfers.

f. Program Receipts and General Receipts:

Program Receipts:

In the government-wide Statement of Cash Activities, reported program receipts derive directly from the program itself or from parties other than the Town's taxpayers or citizenry, as a whole. Program receipts 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 contribution - 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 contribution - These arise from mandatory and voluntary non-exchange transactions with other government, organization, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

General Receipts:

General receipts include all receipts not specifically earmarked for a specific program. General receipts include all taxes, interest received, unrestricted receipts from federal, state, or county governments, and miscellaneous receipts not related to a program. These receipts are not restricted and can be used for the regular operation of the Town.

g. Enterprise Fund Receipt Classifications:

In both the government-wide statements and fund financial statements, enterprise fund operating receipts, such as charges for water and sewer services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, if any, such as grants, operating subsidies, interest received, and transfers in, result from nonexchange transactions.

h. Equity Classifications:

Government-wide financial Statements:

Equity is classified as net cash assets and is displayed in two components:

1. Restricted Net Cash Assets - Consists of net cash assets with constraints placed on their use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Cash Assets - All other net cash assets that do not meet the definition of "restricted net cash assets".

Fund Financial Statements:

Governmental fund equity is classified as cash balance sheet and may distinguish between "reserved" and "unreserved" components. Enterprise fund equity is classified the same as in the government-wide financial statements.

i. Application of Net Cash Assets:

It is the Town's policy to first use restricted net cash assets, prior to the use of unrestricted net cash assets, when an expense is incurred which can be charged to either restricted or unrestricted net cash assets.

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The Town is prohibited by statute from spending in excess of appropriated amounts by department within a fund. The following are significant overdrafts of departmental disbursement compared to appropriations:

| | 2008 | 2007 |
|-----------------------------------|-----------|------------|
| General Fund - general government | | 21,083 (1) |
| - streets | | 9,532 (1) |
| - sanitation | 1,599 (1) | 2,106 (1) |
| - fair grounds | | 571 (2) |
| Mosquito Fund - operations | 1,837 (1) | 2,189 (1) |

(1) The Town did not budget a sufficient amount for these expenditures.

(2) The Town did not have a budget for these expenditures.

The Town expects to make use of contingency transfers and supplemental appropriations to eliminate budget overdrafts in the future.

3. DEPOSITS, INVESTMENTS AND RELATED RISKS

Except for restricted cash held by 3rd parties and bank certificates of deposit purchased for an individual fund, the Town follows the practice of aggregating deposits of its 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 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. 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 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.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

Actual bank balances at December 31, 2008 were as follows: Insured \$89,790, Collateralized ** \$5,852, for a total of \$95,642.

** Uninsured, collateral jointly held by state's/municipality's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits at December 31, 2008 was \$95,962 held as follows.

| | |
|---|-----------|
| Pioneer Bank & Trust: | |
| Checking | \$ 79,370 |
| First National Bank: | |
| Checking | 10,744 |
| South Dakota Public Funds Investment Trust: | |
| Money market cash reserve | 5,813 |
| Petty cash | 35 |
| | ----- |
| | \$ 95,962 |

Investments - In general, SDCL 4-5-6 permits Town money 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); or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall 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. Investments (if any) are stated at cost or amortized cost plus accrued interest.

Certificates of deposit (if any), with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

Investment 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.

At December 31, 2008, the Town had the following investments:

| | Credit Rating | Maturities | Fair Value | Interest Rate Risk |
|---------------------------------|---------------|------------|------------|--------------------|
| South Dakota FIT: (100%) | | | | |
| Govt. Cash Reserve Money Market | Unrated | NA | 5,813 | memo 1,2,3 |

memo

- 1 Fixed principal. Interest rate varies. Not subject to interest rate risk.
- 2 South Dakota FIT 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 SD.FIT money market account (Government Cash Reserve) 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.
- 3 Because of liquidity, this investment is considered a "cash equivalent".

Custodial Risk (Deposits) - The risk that, in the event of a depository failure, the Town's deposits may not be returned to it. At December 31, 2008, the Town's deposits in financial institutions were not exposed to deposit custodial risk.

Custodial Risk (Investments) - The risk that, in the event of a default by the counterparty to a transaction, the Town will not be able to recover the value of an investment or collateral securities held by the counterparty. The Town had no investments during the year ending December 31, 2008 and was not exposed to custodial risk for investments.

Concentration of Credit Risk - the Town places no limit on the amount that may be deposited or invested in any one institution.

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 or the fund making the investment. The Town's policy is to credit all income from deposits and investments to the fund making the investment.

4. RESTRICTED CASH ASSETS and RESTRICTED NET CASH ASSETS

At December 31, 2008 the Town had restricted cash to equal the restricted net cash assets listed below.

Restricted net cash assets at December 31, 2008 are:

| Purpose: | Restricted By: | Governmental | Business-Type |
|------------------|-----------------------------|--------------|---------------|
| Mosquito control | Contract | 1,382 | |
| Debt, water | Covenants | | 38,416 |
| Debt, sewer | Covenants | | 10,920 |
| | | ----- | ----- |
| | Total Restricted Net Assets | 1,382 | 49,336 |

5. TRANSFERS

In 2008 the water fund transferred \$4,500 to the general fund and \$3,000 to the sewer fund for operations. Also in 2008 the general fund transferred \$1,000 to the mosquito control fund for operations.

In 2007 the water fund transferred \$3,939 to the general fund for operations. Also in 2007 the general fund transferred \$1,000 to the mosquito control fund for operations.

6. LONG-TERM DEBT

A summary of changes in long-term debt is presented as supplementary information on page 31. The Town does not have any short-term debt or conduit debt.

7. OPERATING LEASE

On April 24, 2007 the Town entered into a 4 year operating lease for a copy machine with payments of \$216.54 per quarter. Payments in 2007 were \$433.08. Payments in 2008 were \$866.16. Payments in 2009 will be \$866.16. Payments in 2010 will be \$866.16. Payments in 2011 will be \$433.08.

8. MOSQUITO CONTROL FUND

In May, 2004 the Town entered into a "Cooperative Association Intergovernmental Agreement For Mosquito Management Program" with the Town of Fruitdale and the Township of Vale. Each government appointed one member of its governing board as a director of the Cooperative Association. A separate checking account was established to account for the Cooperative Association's activities. The Cooperative Association purchased a fogger and supplies to spray for mosquitoes. The Town of Nisland managed the checking account and an employee from the Town of Nisland operated the fogger and did the spraying. The Cooperative Association is accounted for in these financial statements as a special revenue fund of the Town of Nisland.

9. LIQUOR OPERATING AGREEMENT

On March 5, 2003 the Town entered into an agreement with the manager of the Nisland Bar to rent the building and operate an on-sale and off-sale establishment for a flat fee of \$500 per month during 2007 and 2008 with no mark-ups.

10. LAW ENFORCEMENT

On March 5, 2003 the Town entered into an agreement with the Butte County Sheriff to provide law enforcement coverage to the Town for a fee of \$250 per month which was raised to \$262.50 per month in 2008.

11. PROPERTY TAX

Taxes are levied on or before October 1, attach as an enforceable lien on property, become due and payable on the following January 1, and are payable in two installment on or before the following April 30 and October 31. The county bills and collects the Town's taxes and remits them to the Town. Because the Town is on the cash basis of accounting, all property taxes received in cash are considered a receipt for the period in which it was collected.

12. INSURANCE

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 two years ending December 31, 2008 the Town managed its risks as follows:

Property Insurance:

The Town purchases property insurance from a commercial insurance carrier.

Also, the Town carries a \$130,000 insurance bond on the finance officer from a commercial insurance carrier.

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 Town pays an annual premium to the pool to provide coverage for general liability, officials liability, and automobile insurance.

The agreement with the SDPAA provides that the above coverage's will be provided to a \$2,000,000 upper limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The Town has various deductibles for its coverages.

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 cost 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 above, under a claims-made policy and the premiums are accrued on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage.

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 on the following formula:

End of the Town's First Full Year (50%), Second Full Year (60%), Third Full Year (70%), Fourth Full Year (80%), Fifth Full Year (90%), Sixth Full Year (100%).

As of December 31, 2008, the Town has a vested balance in the cumulative reserve fund of \$5,353.

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 Workers' Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Town pays an

annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$250,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,750,000 per individual per incident.

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 retrospective rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The Town may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs.

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.

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.

13. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The Town has a rubble site. It does not have a landfill with any associated closure costs or liabilities.

In February 2009 the Town purchased a pick-up for \$2,400.

On July 1, 2009 the Town took over the bar operations.

The Rodeo Fund was closed out in 2009.

TOWN OF NISLAND

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2008

| GENERAL FUND | Budgeted Amounts | | | Actual (Cash Basis) | Variance Positive (Negative) |
|--|------------------|--------------------------|--------------|------------------------|------------------------------------|
| | Original | Contingency Transfers | Supplemental | | |
| Receipts: | | | | | |
| Receipts from local sources: | | | | | |
| Taxes: | | | | | |
| Ad valorem taxes | 21,215 | | | 21,215 | 18,870 (2,345) |
| Sales and use tax | 15,678 | | | 15,678 | 13,287 (2,391) |
| Amusement tax | | | | 0 | 24 24 |
| Penalties and interest | | | | 0 | 395 395 |
| Licenses and permits: | 260 | | | 260 | 405 145 |
| Intergovernmental receipts: | | | | | |
| State shared receipts: | | | | | |
| Bank franchise tax | 340 | | | 340 | 155 (185) |
| Commercial prorate | 100 | | | 100 | 705 605 |
| Liquor tax revision | 1,000 | | | 1,000 | 1,257 257 |
| Motor vehicle licenses (5%) | 602 | | | 602 | 2,895 2,293 |
| Highway and bridge | 3,000 | | | 3,000 | 3,697 697 |
| County shared receipts: | | | | | |
| Highway and bridge | 1,101 | | | 1,101 | 273 (828) |
| Wheel tax | 230 | | | 230 | 1,166 936 |
| Charges for goods and services: | | | | | |
| Sanitation | 9,438 | | | 9,438 | 11,100 1,662 |
| Miscellaneous receipts: | | | | | |
| Interest received | 1,400 | | | 1,400 | 270 (1,130) |
| Rental - bar | 6,000 | | | 6,000 | 6,000 0 |
| Rentals - other | 1,800 | | | 1,800 | 2,202 402 |
| Other | | | | 0 | 2,154 2,154 |
| Total receipts | 62,164 | 0 | 0 | 62,164 | 64,855 2,691 |
| Disbursements: | | | | | |
| General government: | | | | | |
| All areas | 32,260 | | | 32,260 | 30,895 1,365 |
| Public safety: | | | | | |
| Police | 3,150 | | | 3,150 | 3,150 0 |
| Fire | 800 | | | 800 | 770 30 |
| Public works: | | | | | |
| Highways and streets | 14,436 | | | 14,436 | 12,345 2,091 |
| Sanitation | 9,500 | | | 9,500 | 11,099 (1,599) |
| Total disbursements | 60,146 | 0 | 0 | 60,146 | 58,259 1,887 |
| Excess of receipts over (under) disbursements | 2,018 | 0 | 0 | 2,018 | 6,596 4,578 |
| Other financing sources (uses): | | | | | |
| Transfer in | 0 | | | 0 | 4,500 4,500 |
| Transfer (out) | 2,000 | | | 2,000 | (1,000) (3,000) |
| Net change in fund cash balance | 4,018 | 0 | 0 | 4,018 | 10,096 6,078 |
| Fund cash balance: | | | | | |
| January 1, 2008 | 9,385 | | | 9,385 | 9,385 0 |
| December 31, 2008 | 13,403 | 0 | 0 | 13,403 | 19,481 6,078 |

TOWN OF NISLAND

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2007

| GENERAL FUND | Budgeted Amounts | | | Actual (Cash Basis) | Variance Positive (Negative) |
|--|------------------|--------------------------|--------------|------------------------|------------------------------------|
| | Original | Contingency Transfers | Supplemental | | |
| Receipts: | | | | | |
| Receipts from local sources: | | | | | |
| Taxes: | | | | | |
| Ad valorem taxes | 23,242 | | | 23,242 | 15,331 (7,911) |
| Sales and use tax | 16,131 | | | 16,131 | 12,789 (3,342) |
| Amusement tax | | | | 0 | 12 |
| Penalties and interest | | | | 0 | 220 |
| Licenses and permits: | 595 | | | 595 | 225 (370) |
| Intergovernmental receipts: | | | | | |
| State shared receipts: | | | | | |
| Bank franchise tax | 200 | | | 200 | 169 (31) |
| Commercial prorate | 300 | | | 300 | 693 |
| Liquor tax revision | 1,000 | | | 1,000 | 1,110 |
| Motor vehicle licenses (5%) | 300 | | | 300 | 2,795 2,495 |
| Highway and bridge | 3,000 | | | 3,000 | 3,598 598 |
| County shared receipts: | | | | | |
| Highway and bridge | 2,600 | | | 2,600 | 267 (2,333) |
| Wheel tax | 700 | | | 700 | 1,131 431 |
| Charges for goods and services: | | | | | |
| Sanitation | 9,600 | | | 9,600 | 9,924 324 |
| Miscellaneous receipts: | | | | | |
| Interest received | 1,400 | | | 1,400 | 836 (564) |
| Rental - bar | 6,000 | | | 6,000 | 6,000 0 |
| Rentals - other | 1,800 | | | 1,800 | 1,800 0 |
| Other | | | | 0 | 3,712 3,712 |
| Total receipts | 66,868 | 0 | 0 | 66,868 | 60,612 (6,256) |
| Disbursements: | | | | | |
| General government: | | | | | |
| All areas | 29,558 | | | 29,558 | 50,641 (21,083) |
| Public safety: | | | | | |
| Police | 3,000 | | | 3,000 | 3,000 0 |
| Fire | 800 | | | 800 | 800 |
| Public works: | | | | | |
| Highways and streets | 12,392 | | | 12,392 | 21,924 (9,532) |
| Sanitation | 9,500 | | | 9,500 | 11,606 (2,106) |
| Parks and recreation: | | | | | |
| Fairgrounds | | | | 0 | 571 (571) |
| Total disbursements | 55,250 | 0 | 0 | 55,250 | 87,742 (32,492) |
| Excess of receipts over (under) disbursements | 11,618 | 0 | 0 | 11,618 | (27,130) (38,748) |
| Other financing sources (uses): | | | | | |
| Transfer in | 0 | | | 0 | 3,939 3,939 |
| Transfer (out) | 0 | | | 0 | (1,000) (1,000) |
| Net change in fund cash balance | 11,618 | 0 | 0 | 11,618 | (24,191) (35,809) |
| Fund cash balance: | | | | | |
| January 1, 2007 | 33,576 | | | 33,576 | 33,576 0 |
| December 31, 2007 | 45,194 | 0 | 0 | 45,194 | 9,385 (35,809) |

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2008

| MOSQUITO FUND | Budgeted Amounts | | | Actual (Cash Basis) | Variance Positive (Negative) |
|--|------------------|--------------------------|---------------|------------------------|------------------------------------|
| | Original | Contingency Transfers | Supplemental: | | |
| Receipts: | | | | | |
| State shared receipts: | | | | | |
| Grant - West Nile | | | | 2,164 | 2,164 |
| Charges for goods and services: | | | | | |
| Mosquito control: | | | | | |
| Town of Fruitdale | | | | 1,950 | 1,950 |
| Total receipts | 0 | 0 | 0 | 4,114 | 4,114 |
| Disbursements: | | | | | |
| Health and welfare: | | | | | |
| Mosquito control | 2,000 | | | 3,837 | (1,837) |
| Total disbursements | 2,000 | 0 | 0 | 3,837 | (1,837) |
| Excess of receipts over (under) disbursements | (2,000) | 0 | 0 | 277 | 2,277 |
| Other financing sources (uses): | | | | | |
| Transfer in | 0 | | | 1,000 | 1,000 |
| Net change in fund cash balance | (2,000) | 0 | 0 | 1,277 | 3,277 |
| Fund cash balance: | | | | | |
| January 1, 2008 | 105 | | | 105 | 0 |
| December 31, 2008 | (1,895) | 0 | 0 | 1,382 | 3,277 |

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2007

| MOSQUITO FUND | Budgeted Amounts | | | Actual (Cash Basis) | Variance Positive (Negative) |
|--|------------------|--------------------------|---------------|------------------------|------------------------------------|
| | Original | Contingency Transfers | Supplemental: | | |
| Receipts: | | | | | |
| State shared receipts: | | | | | |
| Grant - West Nile | | | | 2,763 | 2,763 |
| Charges for goods and services: | | | | | |
| Mosquito control: | | | | | |
| Town of Vale | | | | 1,000 | 1,000 |
| Town of Fruitdale | | | | 237 | 237 |
| Others | | | | 160 | 160 |
| Total receipts | 0 | 0 | 0 | 4,160 | 4,160 |
| Disbursements: | | | | | |
| Health and welfare: | | | | | |
| Mosquito control | 4,000 | | | 6,189 | (2,189) |
| Total disbursements | 4,000 | 0 | 0 | 6,189 | (2,189) |
| Excess of receipts over (under) disbursements | (4,000) | 0 | 0 | (2,029) | 1,971 |
| Other financing sources (uses): | | | | | |
| Transfer in | 0 | | | 1,000 | 1,000 |
| Net change in fund cash balance | (4,000) | 0 | 0 | (1,029) | 2,971 |
| Fund cash balance: | | | | | |
| January 1, 2007 | 1,134 | | | 1,134 | 0 |
| December 31, 2007 | (2,866) | 0 | 0 | 105 | 2,971 |

TOWN OF NISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF BUDGETARY COMPARISON FOR THE
GENERAL FUND AND THE MOSQUITO CONTROL FUND
FOR THE TWO YEARS ENDING DECEMBER 31, 2008

1. BUDGETS AND BUDGETARY ACCOUNTING

The Town of Nisland (Town) follows these procedures in establishing the budgetary data reflected in the required supplementary information:

- a. 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.
- b. 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 d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2007 and 2008 there were no supplemental budgets to the general fund. See page 27 and 28.
- e. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general fund or mosquito control fund.

The Town did not encumber any amounts at December 31, 2007 or 2008.

- f. Formal budgetary integration is employed as a management control device for the general fund and mosquito control funds.
- g. Budgets for the general fund and mosquito control funds are not adopted on a basis consistent with generally accepted accounting principles (GAAP) because all accounting, and the adoption of the all budgets, is on a cash basis.

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE:

The financial statements prepared in conformity with U.S.GAAP (within the context of the modified cash basis of accounting) present capital outlay disbursement information as a separate category of disbursements. Under the budgetary basis of accounting, capital outlay disbursements are reported within the function to which they relate. For example, the purchase of a road grader would be reported as a capital outlay disbursement in the governmental funds statement of receipts, disbursements and changes in fund cash balance. However, in the budgetary RSI schedule, the purchase of a road grader would be reported as a disbursement in the public works function of general fund, along with all other current public works disbursements.

TOWN OF NISLAND

SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN LONG-TERM DEBT
 FOR THE TWO YEARS ENDING DECEMBER 31, 2008

| | Beginning 12-31-06 | 2007 | | 2008 | | Governmental | Business-Type | Principal Due in 2009 |
|---|-----------------------|--------------------------|--------------------------|--------------------|--------------------|----------------|---------------|-----------------------------|
| | | Additions (Deletions) | Additions (Deletions) | Ending 12-31-08 | Ending 12-31-08 | Activities | Activities | |
| GOVERNMENTAL | | | | | | | | |
| 2003 Copier/fax use agreement: | | | | | | | | |
| Total amount of \$2,941 | | | | | | | | |
| Maturing 3-5-2007 | | | | | | | | |
| Imputed interest at 8.00% | | | | | | | | |
| Quarterly payments of \$216.57 | | | | | | | | |
| Paid by the general fund | 213 | (213) | | | 0 | | | 0.00 |
| BUSINESS-TYPE | | | | | | | | |
| Water System Revenue Bond, Series 2002: | | | | | | | | |
| Total amount of \$350,000 | | | | | | | | |
| Maturing on 1-1-2034 | | | | | | | | |
| Interest at 0.00% | | | | | | | | |
| Quarterly payments of \$2,916.67 | | | | | | | | |
| Paid by the water fund | 314,999 | (11,666) | (11,666) | | | 291,667 | | 11,666 |
| Sewer System Revenue Bond, Series 2005: | | | | | | | | |
| Total amount of \$204,000 | | | | | | | | |
| Maturing 1-1-2027 | | | | | | | | |
| Imputed interest at 3.25% | | | | | | | | |
| Quarterly payments of \$3,569.64 | | | | | | | | |
| Paid by the sewer fund | 69,985 | 98,277 (4,114) | 35,738 (5,884) | | | 194,002 | | 7,973 |
| Totals | 385,197 | 82,284 | 18,188 | | 0 | 485,669 | | 19,639 |

| Payment Schedules: | Total Payment | Principal | Interest | Remaining Balance |
|--|------------------|----------------|---------------|----------------------|
| Water System Revenue Bond, Series 2002: | | | | |
| 2009 | 11,667 | 11,667 | 0 | 280,000 |
| 2010 | 11,667 | 11,667 | 0 | 268,333 |
| 2011 | 11,666 | 11,666 | 0 | 256,667 |
| 2012 | 11,667 | 11,667 | 0 | 245,000 |
| 2013 | 11,667 | 11,667 | 0 | 233,333 |
| 2014-2018 | 58,333 | 58,333 | 0 | 175,000 |
| 2019-2023 | 58,333 | 58,333 | 0 | 116,667 |
| 2024-2028 | 58,333 | 58,333 | 0 | 58,334 |
| 2029-2033 | 58,334 | 58,334 | 0 | 0 |
| Totals | 291,667 | 291,667 | 0 | |
| Sewer System Revenue Bond, Series 2005: | | | | |
| 2009 | 14,278 | 7,973 | 6,305 | 186,029 |
| 2010 | 14,279 | 8,233 | 6,046 | 177,796 |
| 2011 | 14,278 | 8,500 | 5,778 | 169,296 |
| 2012 | 14,279 | 8,776 | 5,503 | 160,520 |
| 2013 | 14,278 | 9,062 | 5,216 | 151,458 |
| 2014-2018 | 71,393 | 49,922 | 21,471 | 101,536 |
| 2019-2023 | 71,393 | 58,579 | 12,814 | 42,957 |
| 2024-2027 | 45,974 | 42,957 | 3,017 | 0 |
| Totals | 260,152 | 194,002 | 66,150 | |

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

Governing Board
Town of Nisland
Nisland, South Dakota

I have audited the modified cash basis financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nisland as of December 31, 2008 and for each of the years in the biennial period then ended. These statements collectively comprise the Town's basic financial statements. I have issued my unqualified report thereon dated October 15, 2009.

I conducted my 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 Controller General of the United States.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Town of Nisland's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of current audit findings as items 2008-01, -02, and -03.

The Town's responses to findings identified in my audit are described in the accompanying schedule of current audit findings. I did not audit the Town's responses and, accordingly, I express no opinion on them.

I did note other matters involving compliance that I reported to the governing body and management of the Town of Nisland in a separate Letter of Comments dated October 15, 2009.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town of Nisland's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Nisland's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Nisland's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement in the Town's financial statements, that is more than inconsequential, will not be prevented or detected by the Town's internal control. I consider the deficiencies described in the accompanying schedule of current audit findings as items number 2008-01, 02, and -03 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

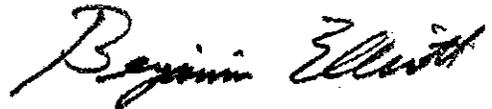
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, I consider item 2008-02 to be material weakness.

The Town's responses to findings identified in my audit are described in the accompanying schedule of current audit findings. I did not audit the Town's responses and, accordingly, I express no opinion on them.

I did note other matters involving internal control over financial reporting that I reported to the governing body and management of the Town of Nisland in a separate Letter of Comments dated October 15, 2009.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the Town of Nisland and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDCL 4-11-11, this report is a matter of public record and its distribution is not limited.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota



October 15, 2009

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit Findings: None

Prior Other Audit Findings:

2006-01: [Budget Overdrafts] -- Repeated below as item 2008-01
2002-03: [Capital Asset Records] -- Repeated below as item 2008-02
2006-03: [Financial Statements] -- Repeated below as item 2008-03

SCHEDULE OF CURRENT AUDIT FINDINGS

2008-01: Budget Overdrafts
(compliance and internal control)
(This is the second audit to mention this condition)

Criteria:

SDCL 9-21 requires governmental expenditures to be authorized in an annual appropriation ordinance or by a supplemental appropriation ordinance, approved by the governing body prior to the end of year of the town's fiscal year.

Condition:

The Town of Nisland had the following significant overdrafts of departmental expenditures compared to appropriations:

| | 2008 | 2007 |
|-----------------------------------|-----------|------------|
| General Fund - general government | | 21,083 (1) |
| - streets | | 9,532 (1) |
| - sanitation | 1,599 (1) | 2,106 (1) |
| - fair grounds | | 571 (2) |
| Mosquito Fund - operations | 1,837 (1) | 2,189 (1) |

- (1) The Town did not budget a sufficient amount for these expenditures.
- (2) The Town did not have a budget for these expenditures.

Questioned Cost:

Expenditures in excess of a budget can lead to unnecessary expenditures.

Possible Effect:

Expenditures in excess of a budget can lead to unnecessary taxation.

Also, joint and several liability may attach to any official who approves an expenditure in excess of the amount budgeted for any purpose or department.
SDCL 9-21-9 and 9-21-10

Recommendation:

I recommend the Town stay within its budget using contingency transfers and supplemental appropriations to adjust particular budget line items when necessary.

Management Response:

In the future the Town expects to make use of contingency transfers and supplemental appropriations to eliminate budget overdrafts.

Finding 2008-02: Capital Asset Records
(compliance and internal control)
(This is the fifth audit report to mention this condition.)

Criteria:

Accounting standards established by SDCL 4-11-6 requires adequate records to support a town's capital asset amounts.

TOWN OF NISLAND
DECEMBER 31, 2008
SCHEDULE OF CURRENT AUDIT FINDINGS (continued)

Condition:

The Town of Nisland does not keep adequate capital asset records.

Possible Effect:

Inadequate capital asset records can result in inaccurate financial reporting and, possibly, the misappropriation of funds.

Recommendation:

The Town should maintain adequate capital asset records.

Management Response:

Management agrees with this recommendation and will attempt to develop adequate capital asset records.

Finding 2008-03: Preparation of Annual Report and Financial Statements
(compliance and internal control)
(This is the second audit report to mention this condition.)

Criteria:

A good system of internal control contemplates an adequate system for recording and processing entries for ultimate preparation of an annual report.

Condition:

The Town elected to not have an internal control system designed to provide for the preparation of the annual report being audited. As the auditor, I was requested to draft these financial statements and accompanying notes to the financial statements.

Possible Effect:

Asking the auditor to draft these financial statements and accompanying notes could result in a misstatement of the financial statements that would not be prevented or detected.

Recommendation:

It is not unusual for a Town this size to have the auditor draft the financial statements and accompanying notes. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response:

Due to cost constraints, the Town will continue to have the auditor draft the financial statements and accompanying notes to the financial statements.