

MUNICIPALITY OF ROSLYN

AUDIT REPORT

For the Two Years Ended December 31, 2011

**MUNICIPALITY OF ROSLYN
MUNICIPAL OFFICIALS
December 31, 2011**

Trustees:

**Gary Knebel, President
Steve Schmidt
Tom Lee**

Municipal Finance Officer:

Rebecca Lundquist

Municipal Attorney:

Thomas L. Sannes

MUNICIPALITY OF ROSLYN
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

Governing Board
Municipality of Roslyn
Roslyn, South Dakota

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Roslyn, South Dakota (Municipality), as of December 31, 2011 and for each of the years in the biennial period then ended which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated April 2, 2012.

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.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Current Audit Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiency described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item No. 2011-01 to be a significant deficiency. A *significant deficiency* is a

deficiency or 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.

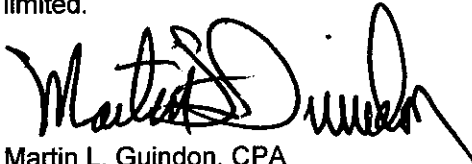
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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*.

The Municipality of Roslyn did not wish to respond to the finding identified in our audit as described in the accompanying Schedule of Current Audit Findings and Questioned Costs.

We also noted certain additional matters that we reported to management of the Municipality in a separate letter dated April 2, 2012.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, and the governing board and management of the Municipality of Roslyn, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 §__.320, this report is matter of public record and its distribution is not limited.



Martin L. Guindon, CPA
Auditor General

April 2, 2012



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Governing Board
Municipality of Roslyn
Roslyn, South Dakota

Compliance

We have audited the Municipality of Roslyn, South Dakota (Municipality), compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Municipality's major federal programs for the biennial period ended December 31, 2011. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Municipality's compliance with those requirements.

In our opinion, the Municipality of Roslyn, South Dakota complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the biennial period ended December 31, 2011.

Internal Control Over Compliance

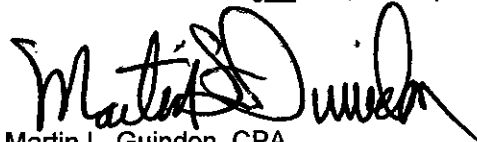
The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the

purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, the governing board and management of the Municipality of Roslyn, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 § 320, this report is matter of public record and its distribution is not limited.



Martin L. Guindon, CPA
Auditor General

April 2, 2012

MUNICIPALITY OF ROSLYN
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Audit Finding:

Finding No. 2007-01:

During the period of January 2002 through January 2007, the prior municipal finance officer received utility services from the Municipality for which no payments were made and did not deposit all utility collections in the amount of \$3,944.99. This amount has been repaid to the Municipality. This finding has been resolved.

SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

Summary of the Independent Auditor's Results:

Financial Statements

- a. An unqualified opinion was issued on the financial statements of each opinion unit.
- b. A significant deficiency was disclosed by our audit of the financial statements for a lack of segregation of duties for revenues as discussed in Finding No. 2011-01.
- c. Our audit did not disclose any noncompliance which was material to the financial statements.

Federal Awards

- d. An unqualified opinion was issued on compliance with the requirements applicable to major programs.
- e. Our audit did not disclose any audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a).
- f. The federal awards tested as major programs were:
 - 1. Water and Waste Disposal Systems for Rural Communities – ARRA – CFDA No. 10.781.
 - 2. Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii – CFDA No. 14.228.
 - 3. Capitalization Grants for Drinking Water State Revolving Funds – ARRA – CFDA No. 66.468.
- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
- h. The Municipality of Roslyn did not qualify as a low-risk auditee.

Current Federal Audit Findings:

There are no written current federal compliance audit findings to report.

Current Other Audit Finding:

Internal Control-Related Finding – Significant Deficiency:

Segregation of Duties

Finding No. 2011-01:

A lack of proper segregation of duties existed for the revenue function resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

Analysis:

The finance officer processed all revenue transactions from beginning to end. The finance officer received money, issued receipts, recorded receipts, posted receipts in the accounting records, prepared bank deposits, reconciled bank statements and prepared financial statements. As a result, an inadequate segregation of duties existed for the revenue function of the municipality.

RECOMMENDATION:

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

Management's Response:

Management chose not to respond to this finding.



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AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Roslyn
Roslyn, South Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Roslyn, South Dakota (Municipality), as of December 31, 2011 and for each of the years in the biennial period then ended, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Municipality's management. 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 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 Municipality's internal control over financial reporting. Accordingly, we 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

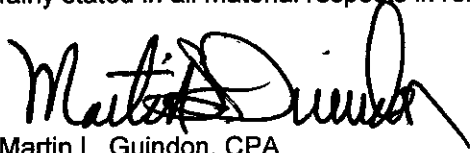
As described in Note 1.c. to the financial statements, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Roslyn, South Dakota as of December 31, 2011, and the respective changes in financial position, thereof for each of the years in the biennial period then ended in conformity with the modified cash basis of accounting described in Note 1.c. to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2012 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Schedule of Changes in Long-Term Debt listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 as a whole.



Martin L. Guindon, CPA
Auditor General

April 2, 2012

MUNICIPALITY OF ROSLYN
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
December 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 290,023.41	\$ 41,791.84	\$ 331,815.25
Investments	257,570.22		257,570.22
Restricted Assets:			
Investments		2,500.00	2,500.00
TOTAL ASSETS	\$ 547,593.63	\$ 44,291.84	\$ 591,885.47
NET ASSETS:			
Restricted For: (See Note 5)			
Debt Service Purposes	\$	\$ 2,500.00	\$ 2,500.00
Other Purposes	458,986.58		458,986.58
Unrestricted	88,607.05	41,791.84	130,398.89
TOTAL NET ASSETS	\$ 547,593.63	\$ 44,291.84	\$ 591,885.47

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

MUNICIPALITY OF ROSLYN
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 130,234.84	\$ 14,941.00	\$ 2,909.53	\$	\$ (112,384.31)	\$	\$ (112,384.31)
Public Safety	750.00				(750.00)		(750.00)
Public Works	46,101.74		9,611.00		(36,490.74)		(36,490.74)
Health and Welfare	1,000.00				(1,000.00)		(1,000.00)
Conservation and Development	8,703.24		6,356.97		(2,346.27)		(2,346.27)
Miscellaneous Expenditures	100.00	3,779.27			3,679.27		3,679.27
Total Governmental Activities	186,889.82	18,720.27	18,877.50	0.00	(149,292.05)	0.00	(149,292.05)
Business-Type Activities:							
Water	145,899.31	25,220.36	1,639.32	52,832.50		(66,207.13)	(66,207.13)
Sewer	125,452.62	24,573.61	1,639.27	52,832.50		(46,407.24)	(46,407.24)
Solid Waste	13,829.11	13,399.30				(429.81)	(429.81)
Total Business-Type Activities	285,181.04	63,193.27	3,278.59	105,665.00	0.00	(113,044.18)	(113,044.18)
Total Primary Government	\$ 472,070.86	\$ 81,913.54	\$ 22,156.09	\$ 105,665.00	(149,292.05)	(113,044.18)	(262,336.23)
General Revenues:							
Taxes:							
Property Taxes					54,892.59		54,892.59
Sales Taxes					41,332.69		41,332.69
State Shared Revenues					1,564.73		1,564.73
Unrestricted Investment Earnings					2,050.82		2,050.82
Debt Issued						117,194.00	117,194.00
Miscellaneous Revenue					14,831.48		14,831.48
Extraordinary Items (See Note 7)					(250,000.00)		(250,000.00)
Transfers					(2,500.00)	2,500.00	0.00
Total General Revenues, Extraordinary Items, and Transfers					(137,827.69)	119,694.00	(18,133.69)
Change in Net Assets					(287,119.74)	6,649.82	(280,469.92)
Net Assets - Beginning					834,713.37	37,642.02	872,355.39
NET ASSETS - ENDING					\$ 547,593.63	\$ 44,291.84	\$ 591,885.47

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

MUNICIPALITY OF ROSLYN
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 60,729.57	\$ 2,680.00	\$ 8,537.00	\$	\$ (49,512.57)	\$	\$ (49,512.57)
Public Safety	750.00				(750.00)		(750.00)
Public Works	24,404.90		9,279.38		(15,125.52)		(15,125.52)
Health and Welfare	450.00				(450.00)		(450.00)
Conservation and Development	6,322.00		6,106.01		(215.99)		(215.99)
Miscellaneous Expenditures	100.00	2,941.29			2,841.29		2,841.29
Total Governmental Activities	92,756.47	5,621.29	23,922.39	0.00	(63,212.79)	0.00	(63,212.79)
Business-Type Activities:							
Water	1,134,230.14	26,131.77	375.48	891,177.50		(216,545.39)	(216,545.39)
Sewer	1,165,241.59	24,871.12	375.49	891,177.50		(248,817.48)	(248,817.48)
Solid Waste	13,168.17	13,601.40				433.23	433.23
Total Business-Type Activities	2,312,639.90	64,604.29	750.97	1,782,355.00	0.00	(464,929.64)	(464,929.64)
Total Primary Government	\$ 2,405,396.37	\$ 70,225.58	\$ 24,673.36	\$ 1,782,355.00	(63,212.79)	(464,929.64)	(528,142.43)
General Revenues:							
Taxes:							
Property Taxes					383,854.04		383,854.04
Sales Taxes					43,476.98		43,476.98
State Shared Revenues					1,700.58		1,700.58
Unrestricted Investment Earnings					2,204.25		2,204.25
Debt Issued						415,000.00	415,000.00
Miscellaneous Revenue					30,214.36		30,214.36
Extraordinary Items (See Note 7)					284,447.41		284,447.41
Total General Revenues and Extraordinary Items					745,897.62	415,000.00	1,160,897.62
Change in Net Assets					682,684.83	(49,929.64)	632,755.19
Net Assets - Beginning					152,028.54	87,571.66	239,600.20
NET ASSETS - ENDING					\$ 834,713.37	\$ 37,642.02	\$ 872,355.39

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

**MUNICIPALITY OF ROSLYN
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2011**

	<u>General Fund</u>	<u>School Property Fund</u>	<u>Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:					
Cash and Cash Equivalents	\$ 34,821.94	\$ 89,178.96	\$ 162,780.36	\$ 3,242.15	\$ 290,023.41
Investments	53,785.11	150,000.00	53,785.11		257,570.22
TOTAL ASSETS	<u><u>\$ 88,607.05</u></u>	<u><u>\$ 239,178.96</u></u>	<u><u>\$ 216,565.47</u></u>	<u><u>\$ 3,242.15</u></u>	<u><u>\$ 547,593.63</u></u>
FUND BALANCES:					
Restricted	\$	\$ 239,178.96	\$	\$	\$ 239,178.96
Committed			216,565.47		216,565.47
Assigned				3,242.15	3,242.15
Unassigned	88,607.05				88,607.05
TOTAL FUND BALANCES	<u><u>\$ 88,607.05</u></u>	<u><u>\$ 239,178.96</u></u>	<u><u>\$ 216,565.47</u></u>	<u><u>\$ 3,242.15</u></u>	<u><u>\$ 547,593.63</u></u>

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

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MUNICIPALITY OF ROSLYN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011

	General Fund	School Property Fund	Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
General Property Taxes	\$ 45,367.22	\$ 8,711.22			\$ 54,078.44
General Sales and Use Taxes			41,332.69		41,332.69
Penalties and Interest on Delinquent Taxes	814.15				814.15
Licenses and Permits	740.00				740.00
Intergovernmental Revenue:					
Federal Grants	6,356.97	2,849.53			9,206.50
State Shared Revenue:					
Bank Franchise Tax	157.60				157.60
Motor Vehicle Commercial Prorate	682.07				682.07
Liquor Tax Reversion	1,407.13				1,407.13
Motor Vehicle Licenses (5%)	1,607.13				1,607.13
Local Government Highway and Bridge Fund	4,821.36				4,821.36
Other	60.00				60.00
County Shared Revenue:					
County Road Tax (25%)	459.86				459.86
County Highway and Bridge Reserve Tax (25%)	185.74				185.74
County Wheel Tax	1,104.84				1,104.84
Charges for Goods and Services:					
Sanitation	750.00				750.00
Miscellaneous Revenue:					
Investment Earnings	864.56	745.56	440.70		2,050.82
Rentals	325.00	13,876.00			14,201.00
Liquor Operating Agreement Income	3,779.27				3,779.27
Other	6,464.96	2,227.20		20.00	8,712.16
Total Revenues	75,947.86	28,409.51	41,773.39	20.00	146,150.76
Expenditures:					
General Government:					
Legislative	10,923.76				10,923.76

Financial Administration	18,296.93				18,296.93
Other	3,118.13	97,896.02			101,014.15
Public Safety:					
Fire	750.00				750.00
Public Works:					
Highways and Streets	32,501.42		13,000.32		45,501.74
Sanitation		600.00			600.00
Health and Welfare:					
Health	1,000.00				1,000.00
Culture and Recreation:					
Museums	3,400.00				3,400.00
Conservation and Development:					
Economic Development and Assistances (Industrial Development)	5,303.24				5,303.24
Miscellaneous:					
Liquor Operating Agreements	100.00				100.00
Total Expenditures	<u>75,393.48</u>	<u>98,496.02</u>	<u>13,000.32</u>	<u>0.00</u>	<u>186,889.82</u>
Excess of Revenues Over (Under) Expenditures	<u>554.38</u>	<u>(70,086.51)</u>	<u>28,773.07</u>	<u>20.00</u>	<u>(40,739.06)</u>
Other Financing Sources (Uses):					
Transfers Out			(2,500.00)		(2,500.00)
Sale of Municipal Property	659.40	5,459.92			6,119.32
Total Other Financing Sources (Uses)	<u>659.40</u>	<u>5,459.92</u>	<u>(2,500.00)</u>	<u>0.00</u>	<u>3,619.32</u>
Extraordinary Items (See Note 7)		(250,000.00)			(250,000.00)
Net Change in Fund Balance	1,213.78	(314,626.59)	26,273.07	20.00	(287,119.74)
Fund Balance - Beginning	<u>87,393.27</u>	<u>553,805.55</u>	<u>190,292.40</u>	<u>3,222.15</u>	<u>834,713.37</u>
FUND BALANCE - ENDING	<u>\$ 88,607.05</u>	<u>\$ 239,178.96</u>	<u>\$ 216,565.47</u>	<u>\$ 3,242.15</u>	<u>\$ 547,593.63</u>

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

MUNICIPALITY OF ROSLYN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010

	General Fund	School Property Fund	Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
General Property Taxes	\$ 42,280.21	\$ 341,426.08		\$	\$ 383,706.29
General Sales and Use Taxes			43,476.98		43,476.98
Penalties and Interest on Delinquent Taxes	147.75				147.75
Licenses and Permits	780.00				780.00
Intergovernmental Revenue:					
Federal Grants	6,106.01				6,106.01
State Grants			8,477.00		8,477.00
State Shared Revenue:					
Bank Franchise Tax	330.60				330.60
Motor Vehicle Commercial Prorate	576.75				576.75
Liquor Tax Reversion	1,369.98				1,369.98
Motor Vehicle Licenses (5%)	1,464.03				1,464.03
Local Government Highway and Bridge Fund	4,690.49				4,690.49
Other	60.00				60.00
County Shared Revenue:					
County Road Tax (25%)	459.86				459.86
County Highway and Bridge Reserve Tax (25%)	128.25				128.25
County Wheel Tax	1,160.00				1,160.00
Charges for Goods and Services:					
Sanitation	800.00				800.00
Miscellaneous Revenue:					
Investment Earnings	1,265.62	278.02	660.61		2,204.25
Rentals	400.00	1,500.00			1,900.00
Liquor Operating Agreement Income	2,941.29				2,941.29
Other	1,338.52	2,128.59	4,238.25	30.00	7,735.36
Total Revenues	66,299.36	345,332.69	56,852.84	30.00	468,514.89
Expenditures:					
General Government:					
Legislative	11,254.32				11,254.32
Financial Administration	16,434.45				16,434.45

Other	1,508.26	17,963.75	16,953.00		36,425.01
Public Safety:					
Fire	750.00				750.00
Public Works:					
Highways and Streets	20,918.58		2,996.52		23,915.10
Sanitation		489.80			489.80
Health and Welfare:					
Health	450.00				450.00
Culture and Recreation:					
Museums	3,970.00				3,970.00
Conservation and Development:					
Economic Development and Assistances (Industrial Development)	2,352.00				2,352.00
Miscellaneous:					
Liquor Operating Agreements	100.00				100.00
Total Expenditures	<u>57,737.61</u>	<u>18,453.55</u>	<u>19,949.52</u>	<u>0.00</u>	<u>96,140.68</u>
Excess of Revenues Over (Under) Expenditures	<u>8,561.75</u>	<u>326,879.14</u>	<u>36,903.32</u>	<u>30.00</u>	<u>372,374.21</u>
Other Financing Sources (Uses):					
Transfers In			80,000.00		80,000.00
Transfers Out		(80,000.00)			(80,000.00)
Sale of Municipal Property		22,479.00			22,479.00
Compensation for Loss or Damage to Capital Assets	3,384.21				3,384.21
Total Other Financing Sources (Uses)	<u>3,384.21</u>	<u>(57,521.00)</u>	<u>80,000.00</u>	<u>0.00</u>	<u>25,863.21</u>
Extraordinary Items (See Note 7)		<u>284,447.41</u>			<u>284,447.41</u>
Net Change in Fund Balance	11,945.96	553,805.55	116,903.32	30.00	682,684.83
Fund Balance - Beginning	<u>75,447.31</u>	<u>0.00</u>	<u>73,389.08</u>	<u>3,192.15</u>	<u>152,028.54</u>
FUND BALANCE - ENDING	<u>\$ 87,393.27</u>	<u>\$ 553,805.55</u>	<u>\$ 190,292.40</u>	<u>\$ 3,222.15</u>	<u>\$ 834,713.37</u>

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

**MUNICIPALITY OF ROSLYN
BALANCE SHEET - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2011**

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 12,920.61	\$ 26,072.24	\$ 2,798.99	\$ 41,791.84
Noncurrent Assets:				
Restricted Investments	1,250.00	1,250.00		2,500.00
TOTAL ASSETS	\$ 14,170.61	\$ 27,322.24	\$ 2,798.99	\$ 44,291.84
NET ASSETS:				
Restricted Net Assets, Restricted For:				
Revenue Bond Debt Service	\$ 1,250.00	\$ 1,250.00		\$ 2,500.00
Unrestricted Net Assets	12,920.61	26,072.24	2,798.99	41,791.84
TOTAL NET ASSETS	\$ 14,170.61	\$ 27,322.24	\$ 2,798.99	\$ 44,291.84

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

MUNICIPALITY OF ROSLYN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
Operating Revenues:				
Charges for Goods and Services	\$	\$	\$ 13,399.30	\$ 13,399.30
Revenue Dedicated to Servicing Debt	25,120.36	24,573.61		49,693.97
Miscellaneous	100.00			100.00
Total Operating Revenues	<u>25,220.36</u>	<u>24,573.61</u>	<u>13,399.30</u>	<u>63,193.27</u>
Operating Expenses:				
Personal Services	733.00	947.50		1,680.50
Other Current Expense	119,955.99	114,200.12	13,829.11	247,985.22
Materials	16,990.32			16,990.32
Total Operating Expenses	<u>137,679.31</u>	<u>115,147.62</u>	<u>13,829.11</u>	<u>266,656.04</u>
Operating Income (Loss)	<u>(112,458.95)</u>	<u>(90,574.01)</u>	<u>(429.81)</u>	<u>(203,462.77)</u>
Nonoperating Revenues (Expenses):				
Operating Grants	1,639.32	1,639.27		3,278.59
Debt Service (Principal)	(3,150.00)	(4,525.82)		(7,675.82)
Interest Expense	(5,070.00)	(5,779.18)		(10,849.18)
Long-Term Debt Issued	58,597.00	58,597.00		117,194.00
Total Nonoperating Revenues (Expenses)	<u>52,016.32</u>	<u>49,931.27</u>	<u>0.00</u>	<u>101,947.59</u>
Income (Loss) Before Contributions and Transfers	<u>(60,442.63)</u>	<u>(40,642.74)</u>	<u>(429.81)</u>	<u>(101,515.18)</u>
Capital Contributions	52,832.50	52,832.50		105,665.00
Transfers In	1,250.00	1,250.00		2,500.00
Change in Net Assets	<u>(6,360.13)</u>	<u>13,439.76</u>	<u>(429.81)</u>	<u>6,649.82</u>
Net Assets - Beginning	<u>20,530.74</u>	<u>13,882.48</u>	<u>3,228.80</u>	<u>37,642.02</u>
NET ASSETS - ENDING	<u>\$ 14,170.61</u>	<u>\$ 27,322.24</u>	<u>\$ 2,798.99</u>	<u>\$ 44,291.84</u>

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

MUNICIPALITY OF ROSLYN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
Operating Revenues:				
Charges for Goods and Services	\$ 25,431.77	\$ 24,871.12	\$ 13,601.40	\$ 13,601.40
Revenue Dedicated to Servicing Debt	700.00			50,302.89
Miscellaneous				700.00
Total Operating Revenues	26,131.77	24,871.12	13,601.40	64,604.29
Operating Expenses:				
Personal Services	600.00	600.00		1,200.00
Other Current Expense	1,114,190.76	1,159,846.59	13,168.17	2,287,205.52
Materials	14,644.38			14,644.38
Total Operating Expenses	1,129,435.14	1,160,446.59	13,168.17	2,303,049.90
Operating Income (Loss)	(1,103,303.37)	(1,135,575.47)	433.23	(2,238,445.61)
Nonoperating Revenues (Expenses):				
Operating Grants	375.48	375.49		750.97
Debt Service (Principal)	(3,257.78)	(3,257.78)		(6,515.56)
Interest Expense	(1,537.22)	(1,537.22)		(3,074.44)
Long-Term Debt Issued	207,500.00	207,500.00		415,000.00
Total Nonoperating Revenues (Expenses)	203,080.48	203,080.49	0.00	406,160.97
Income (Loss) Before Contributions	(900,222.89)	(932,494.98)	433.23	(1,832,284.64)
Capital Contributions	891,177.50	891,177.50		1,782,355.00
Change in Net Assets	(9,045.39)	(41,317.48)	433.23	(49,929.64)
Net Assets - Beginning	29,576.13	55,199.96	2,795.57	87,571.66
NET ASSETS - ENDING	\$ 20,530.74	\$ 13,882.48	\$ 3,228.80	\$ 37,642.02

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

MUNICIPALITY OF ROSLYN
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

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

b. Basis of Presentation:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the Municipality financial reporting entity are described below:

Governmental Funds:

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

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

School Property Fund – to account for the proceeds from the reorganization of the Roslyn School District in 2010 to be used to pay any outstanding liabilities of the Roslyn School District and to be used for the upkeep and maintenance of the school building. This is a major fund.

Sales Tax Fund – to account for the collection of sales tax revenue for which the tax shall be used for capital improvement, land acquisition, the funding of public ambulances and medical emergency response vehicles, public hospitals or nonprofit hospitals with fifty or fewer licensed beds, other public health care facilities or nonprofit health care facilities with fifty or fewer licensed beds, the transfer to the special 911 fund authorized by SDCL 34-45-12, the purchasing of major rehabilitation or reconstruction of streets as defined in the June 1994 SD DOT Pavement Condition Survey Guide for City Street. This fund may be established at the direction of the governing body through local ordinance. This is major fund.

The remaining Special Revenue fund is not considered to be a major fund: Centennial Fund. This fund is reported on the fund financial statements as "Other Governmental Funds".

Proprietary Funds:

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

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

Sewer Fund – financed primarily by user charges this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.

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

c. Measurement Focus and Basis of Accounting:

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

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

Measurement Focus:

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

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

Basis of Accounting:

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

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

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

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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

The enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Deposits and Investments:

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

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

e. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Municipality's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

f. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Assets, revenues and expenses are classified as operating activities or nonoperating activities. Operating activities generally result from providing services and producing and delivering goods, and include all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities. Cash flows from operating activities generally are the cash effects of transactions and other events that enter into the determination of operating income.

g. Equity Classifications:

Government-wide Financial Statements:

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

1. Restricted net assets – Consists of net assets 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 assets – All other net assets 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.

h. Application of Net Assets:

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

i. Fund Balance Classification Policies and Procedures:

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

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Municipal Council.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Municipal Governing Board committed the following fund balance types by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
Sales Tax	\$ 216,565.47	Ordinance

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

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

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
School Property Fund	Roslyn School Reorganization
Sales Tax Fund	Sales Tax

A schedule of fund balances is provided as follows:

**MUNICIPALITY OF ROSLYN
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2011**

	<u>General Fund</u>	<u>School Property Fund</u>	<u>Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:					
Restricted for:					
Outstanding Liabilities and Building Maintenance	\$	\$ 239,178.96	\$	\$	\$ 239,178.96
Committed for:					
Capital Improvements			216,565.47		216,565.47
Assigned to:					
Other Purposes				3,242.15	3,242.15
Unassigned	<u>88,607.05</u>				<u>88,607.05</u>
Total Fund Balances	<u>\$ 88,607.05</u>	<u>\$ 239,178.96</u>	<u>\$ 216,565.47</u>	<u>\$ 3,242.15</u>	<u>\$ 547,593.63</u>

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

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

Deposits – The Municipality’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits Municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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

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

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

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Municipality’s policy is to credit all income from investments (certificates of deposit) to the fund making the investment, and all income from the money market account was split between the General Fund and School Property Fund. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income except where legal or contractual requirements require investment income to be credited to a fund other than the one associated with the assets. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund would be reported. However, the financial statements did not reflect such transfers.

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>
\$ 2,500	For Debt Service, by debt covenants (sinking funds required to be in a separate account)

4. PROPERTY TAXES

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

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

5. RESTRICTED NET ASSETS

Restricted net assets for the year ended December 31, 2011 were as follows:

Major Funds:

Capital Improvement Purposes	\$ 216,565.47
School Building Maintenance Purposes	239,178.96

Other Purposes:

Centennial Celebration Purposes	<u>3,242.15</u>
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Total Restricted Net Assets \$ 458,986.58

These balances are restricted due to municipal ordinance, school reorganizational plan, and donor restrictions.

6. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2010 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u>	
	Sales Tax	Fund
School Property Fund	\$	80,000.00

Interfund transfers for the year ended December 31, 2011 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u>		
	Water	Sewer	Total
	Fund	Fund	
Sales Tax Fund	\$ 1,250.00	\$ 1,250.00	\$ 2,500.00

The Municipality transferred money to repay the Sales Tax Fund \$80,000 and to set up debt reserve amounts in the Water and Sewer Fund.

7. EXTRAORDINARY ITEMS

The voters in the Roslyn School District approved a plan to consolidate with Langford and Webster School Districts effective July 1, 2010. Part of the Reorganizational Plan stipulated that the School's real property, inventory and some equipment were to be distributed to the Municipality of Roslyn effective July 1, 2010. The Plan also stipulated that the second half of the dissolved Roslyn School District's 2009 taxes payable 2010 would flow into the Municipality of Roslyn to be used to pay outstanding liabilities of the Roslyn School District obligated prior to dissolving and not paid by June 30, 2010 and for maintenance of the facilities.

In August of 2010, the Municipality of Roslyn received \$284,447.41 as the ending fund balances from the Roslyn School District when it dissolved. However, since the disposition of any ending fund balances of the Roslyn School District were not addressed in the approved reorganization plan, an audit of the School District resulted in a recommendation that the Municipality of Roslyn and the Langford and Webster School Districts come to an agreement as to the proper disposition of the unobligated cash balances.

In October 2011, a Full and Final Release Agreement was entered into resulting in the Municipality of Roslyn to pay the sum of \$250,000, with \$150,000 paid to the Webster School District and \$100,000 paid to the Langford School District.

8. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2011, the Municipality was not involved in any litigation.

9. RISK MANAGEMENT

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2011, the Municipality managed its risks as follows:

Liability Insurance:

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

<u>Coverage</u>	<u>Deductible</u>
General Liability	\$ 0
Municipal Buildings	\$ 250
School Complex	\$ 5,000
Boiler	\$ 1,500
Officials' Liability	\$ 500

The agreement with the SDPAA provides that the above coverages will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The Municipality would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

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

As of December 31, 2011, the Municipality has vested balance in the cumulative reserve fund of \$2,843.38 (fully vested).

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

Worker's Compensation:

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

limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

Unemployment Benefits:

The Municipality has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the two years ended December 31, 2011, two claims were filed for unemployment benefits for former school employees. These claims resulted in the payment of benefits in the amount of \$16,239.89 through December 31, 2011 plus an additional \$2,695.00 paid in February 2012. It is not anticipated that any additional claims for unemployment benefits will be filed in the next year.

MUNICIPALITY OF ROSLYN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Two Years Ended December 31, 2011

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures 2010	Expenditures 2011
US Department of Agriculture:				
Direct Federal Funding:				
Water and Waste Disposal Systems for Rural Communities- Loan Funds (See Note 3)	10.760		\$	\$ 117,194.00
Water and Waste Disposal Systems for Rural Communities- ARRA - Grant Funds (See Note 2)	10.781		767,335.00	105,665.00
Water and Waste Disposal Systems for Rural Communities- ARRA - Loan Funds (See Note 2 and 3)	10.781		415,000.00	
Indirect Federal Funding:				
Northeast South Dakota Community Action Program, Rural Community Development Initiative	10.446		9,631.45	5,391.41
Total US Department of Agriculture			<u>1,191,966.45</u>	<u>228,250.41</u>
US Department of Housing and Urban Development:				
CDBG - State-Administered Small Cities Program Cluster:				
Indirect Federal Funding:				
SD Governor's Office of Economic Development, Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii (See Note 2)	14.228	0909-119	515,000.00	
US Environmental Protection Agency:				
Indirect Federal Funding:				
SD Department of Environment and Natural Resources, Capitalization Grants for Drinking Water State Revolving Funds - ARRA (See Note 2)	66.468	C462183-01	500,000.00	
GRAND TOTAL			<u>\$ 2,206,966.45</u>	<u>\$ 228,250.41</u>

Note 1: This accompanying schedule of expenditures of federal awards includes the federal grant activity of the municipality and is presented on the modified cash basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amount presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Note 2: This represents a Major Federal Financial Assistance Program.

Note 3: The Municipality had the following loan balances outstanding at December 31, 2011.

Cluster/Program Title	Federal CFDA Number	Amount Outstanding	Included as Federal Expenditure on this Schedule	Included as Federal Expenditure on this Schedule
Water and Waste Disposal Systems for Rural Communities - ARRA	10.781	\$ 402,184.44	\$ 415,000.00	
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 115,818.18		\$ 117,194.00

MUNICIPALITY OF ROSLYN
SCHEDULE OF CHANGES IN LONG-TERM DEBT
For the Two Years Ended December 31, 2011

<u>Indebtedness</u>	<u>Long-Term Debt January 1, 2010</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt December 31, 2011</u>
Enterprise Long-Term Debt:				
Revenue Bonds - Series 2009	\$	\$ 415,000.00	\$ (12,815.56)	\$ 402,184.44
Revenue Bonds - Series 2011		117,194.00	(1,375.82)	115,818.18
Total	<u>\$ 0.00</u>	<u>\$ 532,194.00</u>	<u>\$ (14,191.38)</u>	<u>\$ 518,002.62</u>