

**MUNICIPALITY OF SCOTLAND
SCOTLAND, SOUTH DAKOTA**

AUDIT REPORT

**FOR THE YEAR JANUARY 1, 2013 TO DECEMBER 31, 2013
AND
FOR THE YEAR JANUARY 1, 2014 TO DECEMBER 31, 2014**

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF SCOTLAND

MUNICIPAL OFFICIALS
DECEMBER 31, 2014

MAYOR:

Curtis Hofer

GOVERNING BOARD:

Dick Behl, President
Jerry Neugebauer, Vice-President
Joe Bouza
Ron Dvorak
H. Victor Settje
Amy Thum

FINANCE OFFICER:

Tanya Bult

ATTORNEY:

Kent Lehr

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Schedule of Prior Audit Findings and Questioned Costs	3
Schedule of Current Audit Findings	4-5
Independent Auditor's Report	6-7
BASIC FINANCIAL STATEMENTS:	
As Of and For the Year Ended December 31, 2014:	
Government-Wide Financial Statements:	
Statement of Net Position – Modified Cash Basis	8
Statement of Activities – Modified Cash Basis	9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet – Modified Cash Basis	10
Statement of Revenues, Expenditures, and Changes In Fund Balance – Modified Cash Basis	11-13
Proprietary Funds:	
Statement of Net Position – Modified Cash Basis	14
Statement of Revenues, Expenses, and Changes in Fund Net Position – Modified Cash Basis	15
Fiduciary Funds:	
Statement of Net Position – Modified Cash Basis	16
As of and For the Year Ended December 31, 2013:	
Government-Wide Financial Statements:	
Statement of Net Position – Modified Cash Basis	17
Statement of Activities – Modified Cash Basis	18
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet – Modified Cash Basis	19
Statement of Revenues, Expenditures, and Changes In Fund Balance – Modified Cash Basis	20-22

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

TABLE OF CONTENTS
(Continued)

Proprietary Funds:	
Statement of Net Position – Modified Cash Basis	23
Statement of Revenues, Expenses, and Changes in Fund Net Position – Modified Cash Basis	24
Fiduciary Funds:	
Statement of Net Position – Modified Cash Basis	25
Notes to the Modified Cash Basis Financial Statements	26-35
Supplementary Information:	
For the Year Ended December 31, 2014:	
Budgetary Comparison Schedules – Budgetary Basis:	
General Fund	36-37
Second Penny Sales Tax Fund	38
For the Year Ended December 31, 2013:	
Budgetary Comparison Schedules – Budgetary Basis:	
General Fund	39-40
Second Penny Sales Tax Fund	41
Notes to the Supplementary Information – Budgetary Comparison Schedules	42
Schedule of Long-Term Liabilities	43-44

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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

Governing Board
Municipality of Scotland
Scotland, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Scotland, South Dakota (Municipality), as of December 31, 2014 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated June 1, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2014-001 to be a material weakness.

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, and contracts and grant agreements, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Current Audit Findings as items 2014-002 and 2014-003.

Municipality's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.
Certified Public Accountants
June 1, 2015

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

PRIOR FEDERAL AUDIT FINDINGS:

Internal Control Over Revenues:

Finding Number 2012-01:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2014-001.

PRIOR OTHER AUDIT FINDINGS:

Finding Number 2012-02:

During the period of January 1, 2010 through July 31, 2012, the Scotland Municipal Finance Officer misappropriated \$17,992.69 of utility cash receipts from the Municipality. This comment has been corrected.

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT OTHER AUDIT FINDINGS:

Internal Control – Related Findings – Material Weaknesses:

Finding Number 2014-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for the revenues. This is the eighth consecutive audit in which a similar deficiency has been reported.

Criteria:

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

Condition:

The Finance Officer processes all revenue transactions from beginning to end. The Finance Officer also receives money, issues receipts, records receipts, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

1. We recommend that the Municipality of Scotland 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:

The Municipality of Scotland Mayor, Curtis Hofer, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Scotland, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

Compliance – Related Findings:

Finding Number 2014-002:

Expenditures exceeded the amounts budgeted in the General Fund in 2013 and in the Second Penny Fund in 2014. This is the first consecutive audit in which a similar deficiency has been reported.

Criteria:

SDCL 9-21-9 states in part, "Neither the governing body nor any department or officer of the municipality shall add to the municipal expenditures in any fiscal year any sum in excess of the amount provided for in the annual appropriation ordinance except as otherwise specially provided. Nor shall the amount spent for any purpose or any department exceed the total amount appropriated for such purpose or for such department in the annual appropriation ordinance for such year, except as otherwise specially provided."

Condition:

The Municipality expended money in excess of amounts budgeted without supplementing the budget as allowed by SDCL 9-21-7.

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF CURRENT AUDIT FINDINGS
(Continued)

Effect:

Without amending the budget or limiting expenditures, expenditures are being made without proper authority.

Recommendation:

2. We recommend that the expenditures be limited to amounts budgeted or budget supplements be made in accordance with SDCL 9-21-7 and 9-21-9 to allow for expenditures.

Management's Response:

The Municipality of Scotland Mayor, Curtis Hofer, is the contact person responsible for the corrective action plan for this comment. The Municipality will be more careful to follow the budgetary guidelines prescribed by law.

Compliance – Related Findings:

Finding Number 2014-003:

The Municipality of Scotland purchased a dump truck/sander without advertising for competitive bids as required by SDCL 5-18A-14. This is the first consecutive audit in which a similar deficiency has been reported.

Criteria:

SDCL 5-18A-14 states in part, "a contract for the purchase of supplies or services, other than professional services, that involves the expenditures of twenty-five thousand dollars or more, the purchasing agency shall advertise for bids or proposals."

Condition:

We examined several instances which required bidding and found that the above mentioned instance was improper. The Municipality entered into a contract with Jeff Villotta for \$26,000.00 without evidence of receiving competitive bids.

Effect:

The lack of bidding in this instance may have caused the entity to pay more for the equipment than it would have had competitive bids been obtained.

Recommendation:

3. We recommend that all expenditures for equipment over \$25,000 be bid as required by law.

Management's Response:

The Municipality of Scotland Mayor, Curtis Hofer, is the contact person responsible for the corrective action plan for this comment. We will monitor all anticipated expenditures which may exceed the bid limit. We will advertise for bids if it is probable that the expenditure may exceed the bid limit.

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the officials during the course of the audit and with the Mayor and Council President on June 17, 2015.

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

CERTIFIED PUBLIC ACCOUNTANTS
Phone: 605-928-7241
FAX No.: 605-928-1441
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Scotland
Scotland, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Scotland, South Dakota, (Municipality) as of December 31, 2014 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Scotland as of December 31, 2014, and the respective changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

We draw attention to Note 1.c. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's financial statements. The Budgetary Comparison Schedules and the Long-Term Liabilities schedule listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2015 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 and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
 Certified Public Accountants
 June 1, 2015

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
 P.O. Box 247
 105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF SCOTLAND
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2014

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	1,183,924.43	277,227.23	1,461,151.66
Investments	309,596.11	100,000.00	409,596.11
Restricted Assets:			
Cash and Cash Equivalents		103,912.84	103,912.84
TOTAL ASSETS	1,493,520.54	481,140.07	1,974,660.61
NET POSITION:			
Restricted for:			
Debt Service Purposes		103,912.84	103,912.84
Permanently Restricted Purposes			
Expendable	22,967.45		22,967.45
Non-Expendable	50,000.00		50,000.00
Unrestricted (Deficit)	1,420,553.09	377,227.23	1,797,780.32
TOTAL NET POSITION	1,493,520.54	481,140.07	1,974,660.61

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		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	98,643.92	7,995.54			(90,648.38)		(90,648.38)
Public Safety	468,167.56		4,843.36	77,643.30	(385,680.90)		(385,680.90)
Public Works	164,834.30	7,047.94	35,018.09	7,000.00	(115,768.27)		(115,768.27)
Health and Welfare	29,415.18	30,811.05			1,395.87		1,395.87
Culture and Recreation	93,443.44	16,586.68	9,019.62	6,000.00	(61,837.14)		(61,837.14)
Conservation and Development	6,739.97				(6,739.97)		(6,739.97)
Debt Service	28,599.84				(28,599.84)		(28,599.84)
Total Governmental Activities	889,844.21	62,441.21	48,881.07	90,643.30	(687,878.63)		(687,878.63)
Business-type Activities:							
Water	294,889.67	285,747.28				(9,142.39)	(9,142.39)
Sewer	117,407.89	191,530.30				74,122.41	74,122.41
Garbage	68,315.40	72,525.03				4,209.63	4,209.63
Total Business-Type Activities	480,612.96	549,802.61	0.00	0.00		69,189.65	69,189.65
Total Primary Government	1,370,457.17	612,243.82	48,881.07	90,643.30	(687,878.63)	69,189.65	(618,688.98)
General Revenues:							
Taxes:							
Property Taxes					325,332.13		325,332.13
Sales Taxes					366,655.09		366,655.09
State Shared Revenues					3,896.96		3,896.96
Unrestricted Investment Earnings					2,097.24		2,097.24
Miscellaneous Revenue					11,013.91		11,013.91
Total General Revenues					708,995.33	0.00	708,995.33
Change in Net Position					21,116.70	69,189.65	90,306.35
Net Position - Beginning					1,472,403.84	411,950.42	1,884,354.26
NET POSITION - ENDING					1,493,520.54	481,140.07	1,974,660.61

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

**MUNICIPALITY OF SCOTLAND
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2014**

	<u>General Fund</u>	<u>Second Penny Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Total</u>
ASSETS:				
Cash and Cash Equivalents	883,772.47	271,184.51	28,967.45	1,183,924.43
Investments	265,596.11		44,000.00	309,596.11
TOTAL ASSETS	<u>1,149,368.58</u>	<u>271,184.51</u>	<u>72,967.45</u>	<u>1,493,520.54</u>
FUND BALANCES:				
Nonspendable			50,000.00	50,000.00
Restricted			22,967.45	22,967.45
Committed for Capital Improv./Debt Retirement		271,184.51		271,184.51
Assigned for Ambulance	209,112.00			209,112.00
Assigned for Athletic Association	7,850.99			7,850.99
Unassigned	932,405.59			932,405.59
TOTAL FUND BALANCES	<u>1,149,368.58</u>	<u>271,184.51</u>	<u>72,967.45</u>	<u>1,493,520.54</u>

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	General Fund	Second Penny Fund	Cemetery Perpetual Care Fund	Total
Revenues:				
Taxes:				
General Property Taxes	323,773.02			323,773.02
General Sales and Use Taxes	183,327.55	183,327.54		366,655.09
Penalties & Interest on Delinquent Taxes	1,559.11			1,559.11
Total Taxes	508,659.68	183,327.54	0.00	691,987.22
Licenses and Permits	7,420.54	0.00	0.00	7,420.54
Intergovernmental Revenue:				
Federal Grants	4,843.36	77,643.30		82,486.66
State Grants	4,593.80			4,593.80
State Shared Revenue:				
Bank Franchise Tax	711.72			711.72
Motor Vehicle Commercial Prorate	2,102.13			2,102.13
Liquor Tax Reversion	3,185.24			3,185.24
Motor Vehicle Licenses	9,270.56			9,270.56
Local Government Highway and Bridge Fund	16,777.84			16,777.84
County Shared Revenue:				
County Road Tax	2,273.76			2,273.76
Total Intergovernmental Revenue	43,758.41	77,643.30	0.00	121,401.71
Charges for Goods and Services:				
Highways and Streets	3,847.94			3,847.94
Culture and Recreation	16,586.68			16,586.68
Ambulance	30,811.05			30,811.05
Cemetery	1,100.00		2,100.00	3,200.00
Total Charges for Goods and Services	52,345.67	0.00	2,100.00	54,445.67
Miscellaneous Revenue:				
Investment Earnings	1,896.45		200.79	2,097.24
Rentals	575.00			575.00
Contributions and Donations from Private Sources	22,019.62			22,019.62
Other	4,694.91			4,694.91
Total Miscellaneous Revenue	29,185.98	0.00	200.79	29,386.77
Total Revenue	641,370.28	260,970.84	2,300.79	904,641.91

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	General Fund	Second Penny Fund	Cemetery Perpetual Care Fund	Total
Expenditures:				
General Government:				
Legislative	23,962.88			23,962.88
Elections	359.77			359.77
Financial Administration	49,992.62			49,992.62
Other	24,328.65			24,328.65
Total General Government	98,643.92	0.00	0.00	98,643.92
Public Safety:				
Police	86,988.79			86,988.79
Fire	11,964.27	369,214.50		381,178.77
Total Public Safety	98,953.06	369,214.50	0.00	468,167.56
Public Works:				
Highways and Streets	153,482.44			153,482.44
Sanitation	4,209.87			4,209.87
Cemeteries	7,141.99			7,141.99
Total Public Works	164,834.30	0.00	0.00	164,834.30
Health and Welfare:				
Health	3,259.01			3,259.01
Ambulance	26,156.17			26,156.17
Total Health and Welfare	29,415.18	0.00	0.00	29,415.18
Culture and Recreation:				
Recreation	67,934.06			67,934.06
Parks	10,460.19			10,460.19
Libraries	15,049.19			15,049.19
Total Culture and Recreation	93,443.44	0.00	0.00	93,443.44
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	6,739.97			6,739.97
Total Conservation and Development	6,739.97	0.00	0.00	6,739.97
Debt Service	0.00	28,599.84	0.00	28,599.84
Total Expenditures	492,029.87	397,814.34	0.00	889,844.21
Excess Revenues Over (Under) Expenditures	149,340.41	(136,843.50)	2,300.79	14,797.70

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	<u>General Fund</u>	<u>Second Penny Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Total</u>
Other Financing Sources (Uses):				
Sale of Municipal Property	5,400.00			5,400.00
Compensation for Loss or Damage to Capital Assets	919.00			919.00
Total Other Financing Sources (Uses)	6,319.00	0.00	0.00	6,319.00
Net Change in Fund Balance	155,659.41	(136,843.50)	2,300.79	21,116.70
Fund Balance - Beginning	993,709.17	408,028.01	70,666.66	1,472,403.84
FUND BALANCE - ENDING	1,149,368.58	271,184.51	72,967.45	1,493,520.54

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2014

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Garbage Fund	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	29,365.42	224,327.34	23,534.47	277,227.23
Investments	100,000.00			100,000.00
Total Current Assets	129,365.42	224,327.34	23,534.47	377,227.23
Noncurrent Assets:				
Restricted Cash and Cash Equivalents		103,912.84		103,912.84
Total Noncurrent Assets	0.00	103,912.84	0.00	103,912.84
TOTAL ASSETS	129,365.42	328,240.18	23,534.47	481,140.07
NET POSITION:				
Restricted for:				
Revenue Bond Debt Service		103,912.84		103,912.84
Unrestricted	129,365.42	224,327.34	23,534.47	377,227.23
TOTAL NET POSITION	129,365.42	328,240.18	23,534.47	481,140.07

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2014

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Garbage Fund	
Operating Revenue:				
Charges for Goods and Services	285,747.28	139,704.60	72,525.03	497,976.91
Revenue Designated for Servicing Debt		51,825.70		51,825.70
Total Operating Revenue	285,747.28	191,530.30	72,525.03	549,802.61
Operating Expenses:				
Personal Services	20,367.97	26,613.54		46,981.51
Other Current Expense	36,058.70	48,699.95	68,315.40	153,074.05
Materials	238,463.00			238,463.00
Total Operating Expenses	294,889.67	75,313.49	68,315.40	438,518.56
Operating Income (Loss)	(9,142.39)	116,216.81	4,209.63	111,284.05
Nonoperating Revenue:				
Debt Service (Principal)		(16,532.19)		(16,532.19)
Interest Expense		(25,562.21)		(25,562.21)
Total Nonoperating Revenue	0.00	(42,094.40)	0.00	(42,094.40)
Change in Net Position	(9,142.39)	74,122.41	4,209.63	69,189.65
Net Position - Beginning	138,507.81	254,117.77	19,324.84	411,950.42
NET POSITION - ENDING	129,365.42	328,240.18	23,534.47	481,140.07

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
December 31, 2014

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	<u>2,019.15</u>
TOTAL ASSETS	<u>2,019.15</u>
NET POSITION:	
Net Position Held in Agency Capacity	<u>2,019.15</u>
TOTAL NET POSITION	<u><u>2,019.15</u></u>

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	1,163,856.17	259,863.28	1,423,719.45
Investments	308,547.67	100,000.00	408,547.67
Restricted Assets:			
Cash and Cash Equivalents		52,087.14	52,087.14
TOTAL ASSETS	1,472,403.84	411,950.42	1,884,354.26
NET POSITION:			
Restricted for:			
Debt Service Purposes		52,087.14	52,087.14
Permanently Restricted Purposes			
Expendable	20,666.66		20,666.66
Non-Expendable	50,000.00		50,000.00
Unrestricted (Deficit)	1,401,737.18	359,863.28	1,761,600.46
TOTAL NET POSITION	1,472,403.84	411,950.42	1,884,354.26

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
General Government	97,322.47	3,491.00			(93,831.47)		(93,831.47)
Public Safety	72,451.21	340.80	3,314.00		(68,796.41)		(68,796.41)
Public Works	232,275.82	4,950.00	31,120.84		(196,204.98)		(196,204.98)
Health and Welfare	163,249.82	44,293.50			(118,956.32)		(118,956.32)
Culture and Recreation	70,921.31	5,486.94			(65,434.37)		(65,434.37)
Conservation and Development	7,283.51				(7,283.51)		(7,283.51)
Debt Service	28,599.84				(28,599.84)		(28,599.84)
Total Governmental Activities	672,103.98	58,562.24	34,434.84	0.00	(579,106.90)		(579,106.90)
Business-type Activities:							
Water	281,986.03	271,212.17				(10,773.86)	(10,773.86)
Sewer	137,312.91	190,089.29				52,776.38	52,776.38
Garbage	66,864.34	72,292.94				5,428.60	5,428.60
Total Business-Type Activities	486,163.28	533,594.40	0.00	0.00		47,431.12	47,431.12
Total Primary Government	1,158,267.26	592,156.64	34,434.84	0.00	(579,106.90)	47,431.12	(531,675.78)
General Revenues:							
Taxes:							
Property Taxes					310,616.29		310,616.29
Sales Taxes					354,415.29		354,415.29
State Shared Revenues					7,093.28		7,093.28
Grants and Contributions not Restricted to Specific Programs					3,254.23		3,254.23
Unrestricted Investment Earnings					1,873.31	160.95	2,034.26
Miscellaneous Revenue					6,771.62		6,771.62
Extraordinary Item - Bonding Reimbursement for Theft						17,764.96	17,764.96
Total General Revenues and Extraordinary Items					684,024.02	17,925.91	701,949.93
Change in Net Position					104,917.12	65,357.03	170,274.15
Net Position - Beginning					1,367,486.72	346,593.39	1,714,080.11
NET POSITION - ENDING					1,472,403.84	411,950.42	1,884,354.26

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

**MUNICIPALITY OF SCOTLAND
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2013**

	<u>General Fund</u>	<u>Second Penny Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Total</u>
ASSETS:				
Cash and Cash Equivalents	729,161.50	408,028.01	26,666.66	1,163,856.17
Investments	264,547.67		44,000.00	308,547.67
TOTAL ASSETS	<u>993,709.17</u>	<u>408,028.01</u>	<u>70,666.66</u>	<u>1,472,403.84</u>
FUND BALANCES:				
Nonspendable			50,000.00	50,000.00
Restricted			20,666.66	20,666.66
Committed for Capital Improv./Debt Retirement		408,028.01		408,028.01
Assigned for Ambulance	197,522.01			197,522.01
Unassigned	796,187.16			796,187.16
TOTAL FUND BALANCES	<u>993,709.17</u>	<u>408,028.01</u>	<u>70,666.66</u>	<u>1,472,403.84</u>

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	<u>General Fund</u>	<u>Second Penny Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Total</u>
Revenues:				
Taxes:				
General Property Taxes	308,730.12			308,730.12
General Sales and Use Taxes	177,207.63	177,207.66		354,415.29
Penalties & Interest on Delinquent Taxes	1,886.17			1,886.17
Total Taxes	487,823.92	177,207.66	0.00	665,031.58
Licenses and Permits	3,491.00	0.00	0.00	3,491.00
Intergovernmental Revenue:				
State Shared Revenue:				
Bank Franchise Tax	1,357.85			1,357.85
Motor Vehicle Commercial Prorate	1,974.04			1,974.04
Liquor Tax Reversion	5,735.43			5,735.43
Motor Vehicle Licenses	7,971.39			7,971.39
Local Government Highway and Bridge Fund	14,751.65			14,751.65
County Shared Revenue:				
County Road Tax	2,273.76			2,273.76
Other	2,000.00			2,000.00
Other Intergovernmental Revenues	1,314.00			1,314.00
Total Intergovernmental Revenue	37,378.12	0.00	0.00	37,378.12
Charges for Goods and Services:				
Highways and Streets	3,600.00			3,600.00
Sanitation	100.00			100.00
Culture and Recreation	5,486.94			5,486.94
Ambulance	44,293.50			44,293.50
Cemetery	1,150.00		100.00	1,250.00
Total Charges for Goods and Services	54,630.44	0.00	100.00	54,730.44
Fines and Forfeits:				
Court Fines and Costs	340.80	0.00	0.00	340.80
Miscellaneous Revenue:				
Investment Earnings	1,710.91		162.40	1,873.31
Rentals	698.19			698.19
Contributions and Donations from Private Sources	5,504.23		1,900.00	7,404.23
Other	3,740.03			3,740.03
Total Miscellaneous Revenue	11,653.36	0.00	2,062.40	13,715.76
Total Revenue	595,317.64	177,207.66	2,162.40	774,687.70

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	General Fund	Second Penny Fund	Cemetery Perpetual Care Fund	Total
Expenditures:				
General Government:				
Legislative	23,475.80			23,475.80
Elections	433.98			433.98
Financial Administration	60,635.40			60,635.40
Other	12,777.29			12,777.29
Total General Government	97,322.47	0.00	0.00	97,322.47
Public Safety:				
Police	59,569.91			59,569.91
Fire	12,881.30			12,881.30
Total Public Safety	72,451.21	0.00	0.00	72,451.21
Public Works:				
Highways and Streets	151,714.59	63,461.89		215,176.48
Sanitation	5,372.32			5,372.32
Cemeteries	11,727.02			11,727.02
Total Public Works	168,813.93	63,461.89	0.00	232,275.82
Health and Welfare:				
Health	817.82			817.82
Ambulance	162,432.00			162,432.00
Total Health and Welfare	163,249.82	0.00	0.00	163,249.82
Culture and Recreation:				
Recreation	26,052.72			26,052.72
Parks	23,559.82			23,559.82
Libraries	21,262.88			21,262.88
Historical Preservation	45.89			45.89
Total Culture and Recreation	70,921.31	0.00	0.00	70,921.31
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	7,283.51			7,283.51
Total Conservation and Development	7,283.51	0.00	0.00	7,283.51
Debt Service	0.00	28,599.84	0.00	28,599.84
Total Expenditures	580,042.25	92,061.73	0.00	672,103.98
Excess Revenues Over (Under) Expenditures	15,275.39	85,145.93	2,162.40	102,583.72

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	<u>General Fund</u>	<u>Second Penny Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Total</u>
Other Financing Sources (Uses):				
Sale of Municipal Property	1,531.40			1,531.40
Compensation for Loss or Damage to Capital Assets	802.00			802.00
Total Other Financing Sources (Uses)	2,333.40	0.00	0.00	2,333.40
Net Change in Fund Balance	17,608.79	85,145.93	2,162.40	104,917.12
Fund Balance - Beginning	976,100.38	322,882.08	68,504.26	1,367,486.72
FUND BALANCE - ENDING	993,709.17	408,028.01	70,666.66	1,472,403.84

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2013

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Garbage Fund	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	38,507.81	202,030.63	19,324.84	259,863.28
Investments	100,000.00			100,000.00
Total Current Assets	138,507.81	202,030.63	19,324.84	359,863.28
Noncurrent Assets:				
Restricted Cash and Cash Equivalents		52,087.14		52,087.14
Total Noncurrent Assets	0.00	52,087.14	0.00	52,087.14
TOTAL ASSETS	138,507.81	254,117.77	19,324.84	411,950.42
NET POSITION:				
Restricted for:				
Revenue Bond Debt Service		52,087.14		52,087.14
Unrestricted	138,507.81	202,030.63	19,324.84	359,863.28
TOTAL NET POSITION	138,507.81	254,117.77	19,324.84	411,950.42

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2013

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Garbage Fund	
Operating Revenue:				
Charges for Goods and Services	271,212.17	138,002.15	72,292.94	481,507.26
Revenue Designated for Servicing Debt		52,087.14		52,087.14
Total Operating Revenue	271,212.17	190,089.29	72,292.94	533,594.40
Operating Expenses:				
Personal Services	21,401.33	21,521.53	66,864.34	109,787.20
Other Current Expense	22,681.70	73,067.14		95,748.84
Materials	237,903.00			237,903.00
Capital Assets		1,218.00		1,218.00
Total Operating Expenses	281,986.03	95,806.67	66,864.34	444,657.04
Operating Income (Loss)	(10,773.86)	94,282.62	5,428.60	88,937.36
Nonoperating Revenue:				
Investment Earnings	160.95			160.95
Debt Service (Principal)		(12,052.67)		(12,052.67)
Interest Expense		(29,453.57)		(29,453.57)
Total Nonoperating Revenue	160.95	(41,506.24)	0.00	(41,345.29)
Income (Loss) Before Extraordinary Items	(10,612.91)	52,776.38	5,428.60	47,592.07
Extraordinary Item - Bonding Reimbursement for Theft	8,929.68	4,474.92	4,360.36	17,764.96
Change in Net Position	(1,683.23)	57,251.30	9,788.96	65,357.03
Net Position - Beginning	140,191.04	196,866.47	9,535.88	346,593.39
NET POSITION - ENDING	138,507.81	254,117.77	19,324.84	411,950.42

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

MUNICIPALITY OF SCOTLAND
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
December 31, 2013

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	<u>5,246.34</u>
TOTAL ASSETS	<u>5,246.34</u>
NET POSITION:	
Net Position Held in Agency Capacity	<u>5,246.34</u>
TOTAL NET POSITION	<u><u>5,246.34</u></u>

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

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the 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 three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or it meets the following criteria:

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the 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 a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of special 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.

Second Penny Sales Tax Fund – to account for an additional one percent sales tax which may be used only for capital improvement, land acquisition, and debt retirement, per municipal ordinance. This is a major fund.

Permanent Funds – permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Municipality's programs—that is for the benefit of the Municipality and its citizenry.

Cemetery Perpetual Care Fund – to account for the payments received for perpetual care of cemeteries which is permanently set aside and for which only the income from the trust fund investments is used for the care and maintenance of the cemetery. (SDCL 9-32-18) This is a major fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fee and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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.

Garbage Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal garbage system. (SDCL 9-32-11 and 34A-6) This is a major fund.

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and are never considered to be major funds:

Agency Funds – agency funds are used to account for resources held by the Municipality in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The Municipality maintains an agency fund for the following purpose: cafeteria plan for employees.

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

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Basis of Accounting:

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

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

- a. 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.

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

e. Long-Term Liabilities:

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances is recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category. Under the modified cash basis of accounting, all long-term debts arising from cash transactions to be repaid from governmental

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

and business-type resources are not reported as liabilities in the respective columns on the government-wide financial statements.

Long-term debts arising from cash transactions of governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

f. 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.

g. Proprietary Funds Revenue and Expense Classifications:

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

h. Equity Classifications:

Government-wide Statements:

Equity is classified as net position and is displayed in two components.

1. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted net position – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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.

i. Application of Net Position:

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

j. 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 balance as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in a 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 Finance Officer.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Nonspendable Fund Balance is comprised of the following:

- Amount legally or contractually required to be maintained intact such as Cemetery Perpetual Care.

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

<u>Fund Balance</u>	<u>2013 Amount</u>	<u>2014 Amount</u>	<u>Action</u>
Second Penny Fund	\$ 408,028.01	\$ 271,184.51	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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Second Penny Fund	Sales Tax

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS:

The Municipality is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations:

	Year Ended 12/31/2013	Year Ended 12/31/2014
General Fund:		
<u>Activity</u>		
Ambulance	\$ 154,032.00	
Libraries	\$ 290.59	
Historical Preservation	\$ 45.89	
Second Penny Sales Tax Fund:		
<u>Activity</u>		
Fire		\$ 213,817.50
Debt Service	\$ 3.84	

The Municipal Council plans to take the following actions to address these violations: use supplemental budgets when legal authority allows.

3. 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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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.

Custodial Credit Risk – Deposits – the risk that, in the event of a depository failure, the Municipality’s deposits may not be returned to it. The Municipality does not have a deposit policy for custodial credit risk.

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 to the fund making the investment, except for interest generated by the Cemetery Perpetual Care Fund, which must be credited to the General Fund, and used only for maintenance of the municipal cemetery, as required by SDCL 9-32-18.

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 property in the Municipality.

5. LONG-TERM COMMITMENT

On September 3, 1985, the Municipality of Scotland entered into a 40-year commitment with B-Y Water District to provide water to the Municipality. A monthly charge in the amount of \$117.00 is paid by the Municipality to B-Y Water District. The monthly charge represents a contribution by the Municipality to aid B-Y Water District in the construction of the facilities necessary to provide the Municipality with water. The Municipality will not acquire ownership of any of these water facilities through these payments. Payments are made from the Municipality’s Water Fund.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

The following are the minimum payments on this commitment:

	Water Fund
2015	\$ 1,404.00
2016	\$ 1,404.00
2017	\$ 1,404.00
2018	\$ 1,404.00
2019	\$ 1,404.00
2020-2024	\$ 7,020.00
2025	\$ 936.00

6. RESTRICTED NET POSITION

Restricted net position for the years ended December 31, 2013 and 2014 were as follows:

	12/31/2013	12/31/2014
Permanently Restricted:		
Cemetery Perpetual Care	\$ 70,666.66	\$ 72,967.45
Total Restricted Net Position	\$ 70,666.66	\$ 72,967.45

These balances are restricted due to statutory requirements and bond covenants.

7. RETIREMENT PLAN

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provide retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provision are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2014, 2013, and 2012 were \$8,369.73, \$7,020.86, and \$7,854.37, respectively, equal to the required contributions each year.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

8. SIGNIFICANT CONTINGENCIES - LITIGATION

At December 31, 2014, the Municipality was not involved in any significant 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, 2014, the Municipality managed its risks as follows:

Employee Health Insurance:

The Municipality purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The Municipality purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during 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 the pool to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$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 provided coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SCOTLAND
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis)	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Property Taxes	327,437.00	327,437.00	323,773.02	(3,663.98)
General Sales and Use Taxes	184,000.00	184,000.00	183,327.55	(672.45)
Penalties & Interest on Delinquent Taxes	0.00	0.00	1,559.11	1,559.11
Total Taxes	<u>511,437.00</u>	<u>511,437.00</u>	<u>508,659.68</u>	<u>(2,777.32)</u>
Licenses and Permits	<u>3,250.00</u>	<u>3,250.00</u>	<u>7,420.54</u>	<u>4,170.54</u>
Intergovernmental Revenue:				
Federal Grants	0.00	4,843.36	4,843.36	0.00
State Grants	0.00	2,597.80	4,593.80	1,996.00
State Shared Revenue:				
Bank Franchise Tax	2,000.00	2,000.00	711.72	(1,288.28)
Motor Vehicle Commercial Prorate	2,000.00	2,000.00	2,102.13	102.13
Liquor Tax Reversion	5,000.00	5,000.00	3,185.24	(1,814.76)
Motor Vehicle Licenses	5,000.00	5,000.00	9,270.56	4,270.56
Local Government Highway and Bridge Fund	12,000.00	12,000.00	16,777.84	4,777.84
County Shared Revenue:				
County Road Tax	2,300.00	2,300.00	2,273.76	(26.24)
Total Intergovernmental Revenue	<u>28,300.00</u>	<u>35,741.16</u>	<u>43,758.41</u>	<u>8,017.25</u>
Charges for Goods and Services:				
Highways and Streets	500.00	500.00	3,847.94	3,347.94
Culture and Recreation	5,500.00	5,500.00	16,586.68	11,086.68
Ambulance	0.00	0.00	30,811.05	30,811.05
Cemetery	2,000.00	2,000.00	1,100.00	(900.00)
Total Charges for Goods & Services	<u>8,000.00</u>	<u>8,000.00</u>	<u>52,345.67</u>	<u>44,345.67</u>
Fines and Forfeits:				
Court Fines and Costs	<u>500.00</u>	<u>500.00</u>	<u>0.00</u>	<u>(500.00)</u>
Miscellaneous Revenue:				
Investment Earnings	1,000.00	1,000.00	1,896.45	896.45
Rentals	900.00	900.00	575.00	(325.00)
Contributions and Donations from Private Sources	0.00	5,000.00	22,019.62	17,019.62
Other	3,550.00	3,550.00	4,694.91	1,144.91
Total Miscellaneous Revenue	<u>5,450.00</u>	<u>10,450.00</u>	<u>29,185.98</u>	<u>18,735.98</u>
Total Revenue	<u>556,937.00</u>	<u>569,378.16</u>	<u>641,370.28</u>	<u>71,992.12</u>
Expenditures:				
General Government:				
Legislative	25,900.00	25,900.00	23,962.88	1,937.12
Contingency	14,502.00	14,502.00		
Amount Transferred		(2,515.45)		11,986.55
Elections	600.00	600.00	359.77	240.23
Financial Administration	71,800.00	71,800.00	49,992.62	21,807.38
Other	32,500.00	32,500.00	24,328.65	8,171.35
Total General Government	<u>145,302.00</u>	<u>142,786.55</u>	<u>98,643.92</u>	<u>44,142.63</u>

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SCOTLAND
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures (Continued):				
Public Safety:				
Police	81,750.00	89,191.16	86,988.79	2,202.37
Fire	10,500.00	11,964.27	11,964.27	0.00
Total Public Safety	<u>92,250.00</u>	<u>101,155.43</u>	<u>98,953.06</u>	<u>2,202.37</u>
Public Works:				
Highways and Streets	181,700.00	181,700.00	153,482.44	28,217.56
Sanitation	5,270.00	5,270.00	4,209.87	1,060.13
Cemeteries	8,575.00	8,575.00	7,141.99	1,433.01
Total Public Works	<u>195,545.00</u>	<u>195,545.00</u>	<u>164,834.30</u>	<u>30,710.70</u>
Health and Welfare:				
Health	4,840.00	4,840.00	3,259.01	1,580.99
Ambulance	8,400.00	27,536.21	26,156.17	1,380.04
Total Health and Welfare	<u>13,240.00</u>	<u>32,376.21</u>	<u>29,415.18</u>	<u>2,961.03</u>
Culture and Recreation:				
Recreation	56,275.00	73,049.69	67,934.06	5,115.63
Parks	16,675.00	16,675.00	10,460.19	6,214.81
Libraries	20,350.00	20,350.00	15,049.19	5,300.81
Total Culture and Recreation	<u>93,300.00</u>	<u>110,074.69</u>	<u>93,443.44</u>	<u>16,631.25</u>
Conservation and Development:				
Economic Development & Assistance (Industrial Development)	18,800.00	18,800.00	6,739.97	12,060.03
Total Conservation and Development	<u>18,800.00</u>	<u>18,800.00</u>	<u>6,739.97</u>	<u>12,060.03</u>
Total Expenditures	<u>558,437.00</u>	<u>600,737.88</u>	<u>492,029.87</u>	<u>108,708.01</u>
Excess of Revenue Over (Under) Expenditures	<u>(1,500.00)</u>	<u>(31,359.72)</u>	<u>149,340.41</u>	<u>180,700.13</u>
Other Financing Sources (Uses):				
Sale of Municipal Property	1,500.00	1,500.00	5,400.00	3,900.00
Compensation for Loss or Damage to Capital Assets	0.00	0.00	919.00	919.00
Total Other Financing Sources (Uses)	<u>1,500.00</u>	<u>1,500.00</u>	<u>6,319.00</u>	<u>4,819.00</u>
Net Change in Fund Balances	<u>0.00</u>	<u>(29,859.72)</u>	<u>155,659.41</u>	<u>185,519.13</u>
Fund Balance - Beginning	993,709.17	993,709.17	993,709.17	0.00
FUND BALANCE - ENDING	<u>993,709.17</u>	<u>963,849.45</u>	<u>1,149,368.58</u>	<u>185,519.13</u>

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SCOTLAND
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SECOND PENNY SALES TAX FUND
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Sales and Use Taxes	184,000.00	184,000.00	183,327.54	(672.46)
Total Taxes	184,000.00	184,000.00	183,327.54	(672.46)
Intergovernmental Revenue:				
Federal Grants	0.00	0.00	77,643.30	77,643.30
Total Intergovernmental Revenue	0.00	0.00	77,643.30	77,643.30
Total Revenue	184,000.00	184,000.00	260,970.84	76,970.84
Expenditures:				
Public Safety:				
Fire	155,397.00	155,397.00	369,214.50	(213,817.50)
Total Public Safety	155,397.00	155,397.00	369,214.50	(213,817.50)
Debt Service	28,603.00	28,603.00	28,599.84	3.16
Total Expenditures	184,000.00	184,000.00	397,814.34	(213,814.34)
Net Change in Fund Balances	0.00	0.00	(136,843.50)	(136,843.50)
Fund Balance - Beginning	408,028.01	408,028.01	408,028.01	0.00
FUND BALANCE - ENDING	408,028.01	408,028.01	271,184.51	(136,843.50)

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SCOTLAND
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u> <u>Positive (Negative)</u>
Revenues:				
Taxes:				
General Property Taxes	312,718.00	312,718.00	308,730.12	(3,987.88)
General Sales and Use Taxes	180,000.00	180,000.00	177,207.63	(2,792.37)
Penalties & Interest on Delinquent Taxes	0.00	0.00	1,886.17	1,886.17
Total Taxes	<u>492,718.00</u>	<u>492,718.00</u>	<u>487,823.92</u>	<u>(4,894.08)</u>
Licenses and Permits	<u>3,250.00</u>	<u>3,250.00</u>	<u>3,491.00</u>	<u>241.00</u>
Intergovernmental Revenue:				
State Shared Revenue:				
Bank Franchise Tax	2,000.00	2,000.00	1,357.85	(642.15)
Motor Vehicle Commercial Prorate	2,000.00	2,000.00	1,974.04	(25.96)
Liquor Tax Reversion	5,000.00	5,000.00	5,735.43	735.43
Motor Vehicle Licenses	5,000.00	5,000.00	7,971.39	2,971.39
Local Government Highway and Bridge Fund	12,000.00	12,000.00	14,751.65	2,751.65
County Shared Revenue:				
County Road Tax	2,300.00	2,300.00	2,273.76	(26.24)
Other	0.00	0.00	2,000.00	2,000.00
Other Intergovernmental Revenues	0.00	0.00	1,314.00	1,314.00
Total Intergovernmental Revenue	<u>28,300.00</u>	<u>28,300.00</u>	<u>37,378.12</u>	<u>9,078.12</u>
Charges for Goods and Services:				
Highways and Streets	1,000.00	1,000.00	3,600.00	2,600.00
Sanitation	0.00	0.00	100.00	100.00
Culture and Recreation	9,300.00	9,300.00	5,486.94	(3,813.06)
Ambulance	0.00	0.00	44,293.50	44,293.50
Cemetery	1,000.00	1,000.00	1,150.00	150.00
Total Charges for Goods & Services	<u>11,300.00</u>	<u>11,300.00</u>	<u>54,630.44</u>	<u>43,330.44</u>
Fines and Forfeits:				
Court Fines and Costs	<u>1,000.00</u>	<u>1,000.00</u>	<u>340.80</u>	<u>(659.20)</u>
Miscellaneous Revenue:				
Investment Earnings	2,000.00	2,000.00	1,710.91	(289.09)
Rentals	800.00	800.00	698.19	(101.81)
Contributions and Donations from Private Sources	0.00	2,500.00	5,504.23	3,004.23
Other	6,100.00	6,100.00	3,740.03	(2,359.97)
Total Miscellaneous Revenue	<u>8,900.00</u>	<u>11,400.00</u>	<u>11,653.36</u>	<u>253.36</u>
Total Revenue	<u>545,468.00</u>	<u>547,968.00</u>	<u>595,317.64</u>	<u>47,349.64</u>
Expenditures:				
General Government:				
Legislative	25,800.00	25,800.00	23,475.80	2,324.20
Elections	620.00	620.00	433.98	186.02
Financial Administration	75,560.00	75,560.00	60,635.40	14,924.60
Other	35,330.00	35,330.00	12,777.29	22,552.71
Total General Government	<u>137,310.00</u>	<u>137,310.00</u>	<u>97,322.47</u>	<u>39,987.53</u>

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SCOTLAND
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued):				
Public Safety:				
Police	88,850.00	88,850.00	59,569.91	29,280.09
Fire	10,500.00	12,881.30	12,881.30	0.00
Total Public Safety	<u>99,350.00</u>	<u>101,731.30</u>	<u>72,451.21</u>	<u>29,280.09</u>
Public Works:				
Highways and Streets	176,120.00	176,120.00	151,714.59	24,405.41
Sanitation	6,220.00	6,220.00	5,372.32	847.68
Cemeteries	9,225.00	11,727.02	11,727.02	0.00
Total Public Works	<u>191,565.00</u>	<u>194,067.02</u>	<u>168,813.93</u>	<u>25,253.09</u>
Health and Welfare:				
Health	4,940.00	4,940.00	817.82	4,122.18
Ambulance	8,400.00	8,400.00	162,432.00	(154,032.00)
Total Health and Welfare	<u>13,340.00</u>	<u>13,340.00</u>	<u>163,249.82</u>	<u>(149,909.82)</u>
Culture and Recreation:				
Recreation	34,025.00	34,025.00	26,052.72	7,972.28
Parks	31,680.00	31,680.00	23,559.82	8,120.18
Libraries	18,950.00	20,972.29	21,262.88	(290.59)
Historical Preservation	0.00	0.00	45.89	(45.89)
Total Culture and Recreation	<u>84,655.00</u>	<u>86,677.29</u>	<u>70,921.31</u>	<u>15,755.98</u>
Conservation and Development:				
Economic Development & Assistance (Industrial Development)	18,800.00	18,800.00	7,283.51	11,516.49
Total Conservation and Development	<u>18,800.00</u>	<u>18,800.00</u>	<u>7,283.51</u>	<u>11,516.49</u>
Total Expenditures	<u>545,020.00</u>	<u>551,925.61</u>	<u>580,042.25</u>	<u>(28,116.64)</u>
Excess of Revenue Over (Under) Expenditures	<u>448.00</u>	<u>(3,957.61)</u>	<u>15,275.39</u>	<u>19,233.00</u>
Other Financing Sources (Uses):				
Sale of Municipal Property	0.00	0.00	1,531.40	1,531.40
Compensation for Loss or Damage to Capital Assets	0.00	0.00	802.00	802.00
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>0.00</u>	<u>2,333.40</u>	<u>2,333.40</u>
Net Change in Fund Balances	<u>448.00</u>	<u>(3,957.61)</u>	<u>17,608.79</u>	<u>21,566.40</u>
Fund Balance - Beginning	976,100.38	976,100.38	976,100.38	0.00
FUND BALANCE - ENDING	<u>976,548.38</u>	<u>972,142.77</u>	<u>993,709.17</u>	<u>21,566.40</u>

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SCOTLAND
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SECOND PENNY SALES TAX FUND
For the Year Ended December 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	220,000.00	220,000.00	177,207.66	(42,792.34)
Total Taxes	<u>220,000.00</u>	<u>220,000.00</u>	<u>177,207.66</u>	<u>(42,792.34)</u>
Total Revenue	<u>220,000.00</u>	<u>220,000.00</u>	<u>177,207.66</u>	<u>(42,792.34)</u>
Expenditures:				
Public Works:				
Highways and Streets	183,000.00	183,000.00	63,461.89	119,538.11
Total Public Works	<u>183,000.00</u>	<u>183,000.00</u>	<u>63,461.89</u>	<u>119,538.11</u>
Culture and Recreation:				
Recreation	4,000.00	4,000.00	0.00	4,000.00
Parks	3,000.00	3,000.00	0.00	3,000.00
Total Culture and Recreation	<u>7,000.00</u>	<u>7,000.00</u>	<u>0.00</u>	<u>7,000.00</u>
Debt Service	<u>28,596.00</u>	<u>28,596.00</u>	<u>28,599.84</u>	<u>(3.84)</u>
Total Expenditures	<u>218,596.00</u>	<u>218,596.00</u>	<u>92,061.73</u>	<u>126,534.27</u>
Net Change in Fund Balances	<u>1,404.00</u>	<u>1,404.00</u>	<u>85,145.93</u>	<u>83,741.93</u>
Fund Balance - Beginning	<u>322,882.08</u>	<u>322,882.08</u>	<u>322,882.08</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u><u>324,286.08</u></u>	<u><u>324,286.08</u></u>	<u><u>408,028.01</u></u>	<u><u>83,741.93</u></u>

NOTES TO THE SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

NOTE 1. Budgets and Budgetary Accounting

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpected 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 and special revenue fund.

The Municipality did not encumber any amounts at December 31, 2013 and 2014.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue fund.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with the modified cash basis of accounting.

NOTE 2. GAAP/Budgetary Accounting Basis Differences

The Municipality's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenue and expenditures are recognized on a modified cash basis. Utilizing the modified cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

SUPPLEMENTARY INFORMATIONSCHEDULE OF LONG-TERM LIABILITIES
For the Two Years Ended December 31, 2014

A summary of changes in long-term liabilities follows:

	Beginning Balance 01/01/2013	Additions	Deletions	Ending Balance 12/31/2014	Due Within One Year
Primary Government:					
Governmental Activities:					
Bonds Payable:					
Clean Water Sales Tax Revenue Bonds, Series 2003	175,892.43		23,257.93	152,634.50	12,251.15
Drinking Water Sales Tax Revenue Bonds, Series 2003	191,708.71		13,029.16	178,679.55	6,762.20
Total Governmental Activities	<u>367,601.14</u>	<u>0.00</u>	<u>36,287.09</u>	<u>331,314.05</u>	<u>19,013.35</u>
Business-Type Activities:					
Bonds Payable:					
Clean Water #2 Borrower Bonds, Series 2012	804,740.00		28,584.86	776,155.14	17,076.07
Total Business-Type Activities	<u>804,740.00</u>	<u>0.00</u>	<u>28,584.86</u>	<u>776,155.14</u>	<u>17,076.07</u>
TOTAL PRIMARY GOVERNMENT	<u>1,172,341.14</u>	<u>0.00</u>	<u>64,871.95</u>	<u>1,107,469.19</u>	<u>36,089.42</u>

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

Clean Water No. 1 Sales Tax Revenue Bonds, Series 2003, 3.50% Interest Rate, Maturing April 15, 2025, Payable from the Second Penny Sales Tax Fund.	\$ 152,634.50
Drinking Water No. 1 Sales Tax Revenue Bonds, Series 2003, 2.50% Interest Rate, Maturing April 15, 2035, Payable from the Second Penny Sales Tax Fund.	\$ 178,679.55
Clean Water No. 2 Borrower Bond, Series 2012, 3.25% Interest Rate, Maturing January 15, 2043 Payable from the Sewer Fund.	\$ 776,155.14

SUPPLEMENTARY INFORMATION

The annual requirements to amortize all debt outstanding as of December 31, 2014, are as follows:

Annual Requirements to Maturity for Long-Term Debt
December 31, 2014

Year Ending December 31,	Clean Water No. 1 Sales Tax Revenue Bonds - Series 2003		Drinking Water No. 1 Sales Tax Revenue Bonds - Series 2003	
	Principal	Interest	Principal	Interest
2015	12,251.15	5,182.57	6,762.20	4,403.92
2016	12,685.59	4,748.13	6,932.84	4,233.28
2017	13,135.45	4,298.27	7,107.80	4,058.32
2018	13,601.26	3,832.46	7,287.16	3,878.96
2019	14,083.58	3,350.14	7,471.06	3,695.06
2020-2024	78,273.22	8,895.38	40,280.29	15,550.31
2025-2029	8,604.25	112.61	45,625.80	10,204.20
2030-2034			51,680.69	4,149.91
2035-2039			5,531.71	51.35
2040-2044				
Totals	<u>152,634.50</u>	<u>30,419.56</u>	<u>178,679.55</u>	<u>50,225.31</u>

Year Ending December 31,	Clean Water No. 2 Sales Tax Revenue Bonds - Series 2012		Totals	
	Principal	Interest	Principal	Interest
2015	17,076.07	25,018.33	36,089.42	34,604.82
2016	17,637.84	24,456.56	37,256.27	33,437.97
2017	18,218.09	23,876.31	38,461.34	32,232.90
2018	18,817.44	23,276.96	39,705.86	30,988.38
2019	19,436.50	22,657.90	40,991.14	29,703.10
2020-2024	107,205.14	103,266.86	225,758.65	127,712.55
2025-2029	126,038.52	84,433.48	180,268.57	94,750.29
2030-2034	148,180.48	62,291.52	199,861.17	66,441.43
2035-2039	174,212.24	36,259.76	179,743.95	36,311.11
2040-2044	129,332.82	7,473.98	129,332.82	7,473.98
Totals	<u>776,155.14</u>	<u>413,011.66</u>	<u>1,107,469.19</u>	<u>493,656.53</u>