



Financial Statements  
December 31, 2011 and 2010  
**Town of Summit**

Town of Summit  
Municipal Officials  
December 31, 2011 and 2010

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Finance Officer ..... Norma Arend

Governing Board ..... Frank Eccles  
Kathleen Quale  
Steve Christofferson

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## Independent Auditor's Report

The Town Council  
Town of Summit  
Summit, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Summit as of December 31, 2011, and for each of the fiscal years in the two year period then ended, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Town of Summit prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Summit as of December 31, 2011, and the respective changes in financial position – modified cash basis, and, where applicable, cash flows – modified cash basis thereof for each of the fiscal years in the two year period then ended in conformity with the basis of accounting described in Note 1.

As described in Note 1 to the financial statements, the Town adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2012, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 Town's basic financial statements of the primary government. The schedule of long-term debt and budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of long-term debt, budgetary comparison information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. This 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. The accompanying corrective action plan on pages 41 and 42 is presented for purposes of additional analysis and is not a required part of the financial statements. The corrective action plan has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on it.

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota  
September 21, 2012

Town of Summit  
Statement of Net Assets—Modified Cash Basis  
December 31, 2011

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	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 220,754	\$ 173,727	\$ 394,481
	\$ 220,754	\$ 173,727	\$ 394,481
Net Assets			
Unrestricted	\$ 220,754	\$ 173,727	\$ 394,481
	\$ 220,754	\$ 173,727	\$ 394,481

Town of Summit  
Statements of Activities—Modified Cash Basis  
Years Ended December 31, 2011 and 2010

2011							
Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Loan Proceeds	Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>							
Governmental activities:							
General government	\$ 22,909	\$ 697	\$ -	\$ -	\$ (22,212)	\$ -	\$ (22,212)
Public safety	7,665	-	-	-	(7,665)	-	(7,665)
Public works	67,727	-	15,630	-	(52,097)	-	(52,097)
Culture and recreation	12,621	-	-	-	(12,621)	-	(12,621)
Debt service	-	-	-	-	-	-	-
Miscellaneous	50,971	-	-	-	(50,971)	-	(50,971)
Total governmental activities	<u>161,893</u>	<u>697</u>	<u>15,630</u>	<u>-</u>	<u>(145,566)</u>	<u>-</u>	<u>(145,566)</u>
Business-type activities:							
Water	1,274,816	30,930	-	1,115,781	-	(128,105)	(128,105)
Sewer	485,071	25,911	-	467,226	-	8,066	8,066
Solid waste	21,733	22,462	-	-	-	729	729
Total business-type activities	<u>1,781,620</u>	<u>79,303</u>	<u>-</u>	<u>1,583,007</u>	<u>-</u>	<u>(119,310)</u>	<u>(119,310)</u>
	<u>\$ 1,943,513</u>	<u>\$ 80,000</u>	<u>\$ 15,630</u>	<u>\$ 1,583,007</u>	<u>(145,566)</u>	<u>(119,310)</u>	<u>(264,876)</u>
<b>General Revenues</b>							
Taxes:							
Property taxes					49,056	-	49,056
Sales and use taxes					89,189	-	89,189
State shared revenues					1,974	-	1,974
Unrestricted investment earnings					8,532	-	8,532
Miscellaneous revenue					60,369	22	60,391
Transfers					(95,232)	95,232	-
Total general revenues and transfers					<u>113,888</u>	<u>95,254</u>	<u>209,142</u>
Change in Net Assets					(31,678)	(24,056)	(55,734)
Net Assets - Beginning					<u>252,432</u>	<u>197,783</u>	<u>450,215</u>
Net Assets - Ending					<u>\$ 220,754</u>	<u>\$ 173,727</u>	<u>\$ 394,481</u>

See Notes to Financial Statements

Town of Summit  
 Statements of Activities—Modified Cash Basis  
 Years Ended December 31, 2011 and 2010

Functions/Programs	2010						
	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Loan Proceeds	Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>							
Governmental activities:							
General government	\$ 21,869	\$ 340	\$ -	\$ -	\$ (21,529)	\$ -	\$ (21,529)
Public safety	8,313	-	-	-	(8,313)	-	(8,313)
Public works	46,181	-	14,652	-	(31,529)	-	(31,529)
Culture and recreation	10,300	-	-	-	(10,300)	-	(10,300)
Miscellaneous	53,959	-	-	-	(53,959)	-	(53,959)
<b>Total governmental activities</b>	<b>140,622</b>	<b>340</b>	<b>14,652</b>	<b>-</b>	<b>(125,630)</b>	<b>-</b>	<b>(125,630)</b>
Business-type activities:							
Water	26,504	30,212	-	6,100	-	9,808	9,808
Sewer	645,950	25,485	-	628,775	-	8,310	8,310
Solid waste	17,065	19,838	-	-	-	2,773	2,773
<b>Total business-type activities</b>	<b>689,519</b>	<b>75,535</b>	<b>-</b>	<b>634,875</b>	<b>-</b>	<b>20,891</b>	<b>20,891</b>
	<b>\$ 830,141</b>	<b>\$ 75,875</b>	<b>\$ 14,652</b>	<b>\$ 634,875</b>	<b>(125,630)</b>	<b>20,891</b>	<b>(104,739)</b>
<b>General Revenues</b>							
Taxes:							
Property taxes					43,040	-	43,040
Sales and use taxes					85,387	-	85,387
State shared revenues					1,968	-	1,968
Unrestricted investment earnings					9,135	-	9,135
Miscellaneous revenue					55,583	-	55,583
Transfers					(16,548)	16,548	-
<b>Total general revenues and transfers</b>					<b>178,565</b>	<b>16,548</b>	<b>195,113</b>
<b>Change in Net Assets</b>					<b>52,935</b>	<b>37,439</b>	<b>90,374</b>
<b>Net Assets - Beginning</b>					<b>199,497</b>	<b>160,344</b>	<b>359,841</b>
<b>Net Assets - Ending</b>					<b>\$ 252,432</b>	<b>\$ 197,783</b>	<b>\$ 450,215</b>

See Notes to Financial Statements

Town of Summit  
 Balance Sheet-Modified Cash Basis-Governmental Funds  
 December 31, 2011

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	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 214,034	\$ 6,720	\$ 220,754
	\$ 214,034	\$ 6,720	\$ 220,754
<b>Fund Balances</b>			
266 Assigned for Cemetery	\$ -	6,720	\$ 6,720
267 Unassigned	214,034	-	214,034
	\$ 214,034	\$ 6,720	\$ 220,754

Town of Summit

Statements of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis Governmental Funds  
 Years Ended December 31, 2011 and 2010

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	2011		
	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
310 Taxes			
311 General property taxes	\$ 45,958	\$ -	\$ 45,958
313 General sales and use taxes	89,189	-	89,189
319 Penalties and interest on delinquent taxes	3,098	-	3,098
Total taxes	<u>138,245</u>	<u>-</u>	<u>138,245</u>
320 Licenses and permits	<u>135</u>	<u>-</u>	<u>135</u>
330 Intergovernmental revenue			
335 State shared revenue:			
335.01 Bank franchise tax	217	-	217
335.02 Motor vehicle commercial prorata	2,127	-	2,127
335.03 Liquor tax reversion	1,757	-	1,757
335.04 Motor vehicle licenses (5%)	4,036	-	4,036
335.08 Local government highway and bridge fund	9,309	-	9,309
338 County shared revenue			
338.1 County road tax (25%)	158	-	158
Total intergovernmental revenue	<u>17,604</u>	<u>-</u>	<u>17,604</u>
340 Charges for goods and services			
341 General government	562	-	562
Total charges for goods and services	<u>562</u>	<u>-</u>	<u>562</u>
360 Miscellaneous revenue			
361 Investment earnings	8,519	13	8,532
362 Rentals	48,868	-	48,868
369 Other	11,501	-	11,501
Total miscellaneous revenue	<u>68,888</u>	<u>13</u>	<u>68,901</u>
Total revenues	<u>225,434</u>	<u>13</u>	<u>225,447</u>

Town of Summit

Statements of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis Governmental Funds  
Years Ended December 31, 2011 and 2010

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	2011		
	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures			
410 General government			
411 Legislative	4,267	-	4,267
412 Executive	5,004	-	5,004
414 Financial administration	2,253	-	2,253
419 Other	11,385	-	11,385
Total general government	22,909	-	22,909
420 Public safety			
422 Fire	7,665	-	7,665
Total public safety	7,665	-	7,665
430 Public works			
431 Highways and streets	52,721	-	52,721
432 Sanitation	2,465	-	2,465
437 Cemeteries	4,898	-	4,898
Total public works	60,084	-	60,084
450 Culture and recreation			
452 Parks	12,621	-	12,621
Total culture and recreation	12,621	-	12,621
470 Debt service	-	-	-
485 Capital outlay	9,724	-	9,724
490 Miscellaneous			
491 Miscellaneous expenses	48,890	-	48,890
Total miscellaenous	48,890	-	48,890
Total expenditures	161,893	-	161,893
Other Financing Sources (Uses)			
511 Transfers out	(95,232)	-	(95,232)
Total other financing sources (uses)	(95,232)	-	(95,232)
Net Change in Fund Balance	(31,691)	13	(31,678)
Fund Balance - Beginning	245,725	6,707	252,432
Fund Balance - Ending	\$ 214,034	\$ 6,720	\$ 220,754

Town of Summit

Statements of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis Governmental Funds  
Years Ended December 31, 2011 and 2010

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	2010		
	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
310 Taxes			
311 General property taxes	\$ 41,453	\$ -	\$ 41,453
313 General sales and use taxes	85,387	-	85,387
319 Penalties and interest on delinquent taxes	1,587	-	1,587
Total taxes	128,427	-	128,427
320 Licenses and permits	100	-	100
330 Intergovernmental revenue			
335 State shared revenue:			
335.01 Bank franchise tax	257	-	257
335.02 Motor vehicle commercial prorata	542	-	542
335.03 Liquor tax reversion	1,711	-	1,711
335.04 Motor vehicle licenses (5%)	3,984	-	3,984
335.08 Local government highway and bridge fund	9,968	-	9,968
338 County shared revenue			
338.1 County road tax (25%)	158	-	158
Total intergovernmental revenue	16,620	-	16,620
340 Charges for goods and services			
341 General government	240	-	240
Total charges for goods and services	240	-	240
360 Miscellaneous revenue			
361 Investment earnings	9,119	16	9,135
362 Rentals	50,860	-	50,860
369 Other	4,543	180	4,723
Total miscellaneous revenue	64,522	196	64,718
Total revenues	209,909	196	210,105

**Town of Summit**

**Statements of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis Governmental Funds**  
**Years Ended December 31, 2011 and 2010**

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	2010		
	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Expenditures</b>			
410 General government			
411 Legislative	3,030	-	3,030
412 Executive	2,466	-	2,466
414 Financial administration	3,786	-	3,786
419 Other	12,587	-	12,587
Total general government	21,869	-	21,869
420 Public safety			
422 Fire	8,313	-	8,313
Total public safety	8,313	-	8,313
430 Public works			
431 Highways and streets	41,779	-	41,779
432 Sanitation	212	-	212
437 Cemeteries	4,190	-	4,190
Total public works	46,181	-	46,181
450 Culture and recreation			
452 Parks	7,386	-	7,386
Total culture and recreation	7,386	-	7,386
470 Debt service	-	-	-
485 Capital outlay	6,104	-	6,104
490 Miscellaneous			
491 Miscellaneous expenses	50,769	-	50,769
Total miscellaneous	50,769	-	50,769
Total expenditures	140,622	-	140,622
<b>Other Financing Sources (Uses)</b>			
511 Transfers out	(16,548)	-	(16,548)
<b>Net Change in Fund Balance</b>	52,739	196	52,935
<b>Fund Balance - Beginning</b>	192,986	6,511	199,497
<b>Fund Balance - Ending</b>	\$ 245,725	\$ 6,707	\$ 252,432

Town of Summit  
 Balance Sheet—Modified Cash Basis—Proprietary Funds  
 December 31, 2011

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	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Totals
Assets				
Current Assets				
Cash and cash equivalents	<u>\$ 78,828</u>	<u>\$ 80,646</u>	<u>\$ 14,253</u>	<u>\$ 173,727</u>
	<u>\$ 78,828</u>	<u>\$ 80,646</u>	<u>\$ 14,253</u>	<u>\$ 173,727</u>
Net Assets				
Unrestricted net assets	<u>\$ 78,828</u>	<u>\$ 80,646</u>	<u>\$ 14,253</u>	<u>\$ 173,727</u>
	<u>\$ 78,828</u>	<u>\$ 80,646</u>	<u>\$ 14,253</u>	<u>\$ 173,727</u>

Town of Summit

Statements of Revenues, Expenses and Changes in Fund Net Assets—Modified Cash Basis—Proprietary Funds  
Years Ended December 31, 2011 and 2010

	2011			
	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Totals
Operating Revenue				
380 Charges for goods and services	\$ 30,930	\$ 25,911	\$ 22,462	\$ 79,303
Total operating revenue	30,930	25,911	22,462	79,303
Operating Expenses				
410 Personal services	3,266	3,266	7,173	13,705
420 Other current expense				
426.2 Materials	26,549	-	14,560	41,109
430 Capital assets	1,227,708	463,866	-	1,691,574
Total operating expenses	1,257,523	467,132	21,733	1,746,388
Operating Income (Loss)	(1,226,593)	(441,221)	729	(1,667,085)
Nonoperating Revenue				
331 Federal	843,881	321,103	-	1,164,984
361 Investment earnings	22	-	-	22
391.2 Long-term debt issued	271,900	146,123	-	418,023
441 Debt Service (principal)	(9,756)	(8,997)	-	(18,753)
442 Interest expense	(7,537)	(8,942)	-	(16,479)
Total nonoperating revenue	1,098,510	449,287	-	1,547,797
Income (Loss) Before Transfers	(128,083)	8,066	729	(119,288)
391.1 Transfer in	77,293	17,939	-	95,232
Change in Net Assets	(50,790)	26,005	729	(24,056)
Net Assets - Beginning	129,618	54,641	13,524	197,783
Net Assets - Ending	\$ 78,828	\$ 80,646	\$ 14,253	\$ 173,727

Town of Summit

Statements of Revenues, Expenses and Changes in Fund Net Assets—Modified Cash Basis—Proprietary Funds  
Years Ended December 31, 2011 and 2010

	2010			
	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Totals
Operating Revenue				
380 Charges for goods and services	\$ 30,212	\$ 25,485	\$ 19,838	\$ 75,535
Total operating revenue	<u>30,212</u>	<u>25,485</u>	<u>19,838</u>	<u>75,535</u>
Operating Expenses				
410 Personal services	2,793	2,793	6,348	11,934
420 Other current expense				
426.2 Materials	18,386	50	10,717	29,153
430 Capital assets	-	631,884	-	631,884
Total operating expenses	<u>21,179</u>	<u>634,727</u>	<u>17,065</u>	<u>672,971</u>
Operating Income (Loss)	<u>9,033</u>	<u>(609,242)</u>	<u>2,773</u>	<u>(597,436)</u>
Nonoperating Revenue				
331 Federal Grants	-	434,897	-	434,897
391.2 Money received from borrowing	6,100	193,878	-	199,978
441 Debt Service (principal)	(1,819)	(7,338)	-	(9,157)
442 Interest expense	(3,506)	(3,885)	-	(7,391)
Total nonoperating revenue	<u>775</u>	<u>617,552</u>	<u>-</u>	<u>618,327</u>
Income Before Transfers	9,808	8,310	2,773	20,891
391.1 Transfer in	<u>5,325</u>	<u>11,223</u>	<u>-</u>	<u>16,548</u>
Change in Net Assets	15,133	19,533	2,773	37,439
Net Assets - Beginning	<u>114,485</u>	<u>35,108</u>	<u>10,751</u>	<u>160,344</u>
Net Assets - Ending	<u>\$ 129,618</u>	<u>\$ 54,641</u>	<u>\$ 13,524</u>	<u>\$ 197,783</u>

Town of Summit  
Statements of Cash Flows—Modified Cash Basis—Proprietary Funds  
Years Ended December 31, 2011 and 2010

	2011			
	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Totals
Cash Flows from Operating Activities				
Receipt from customers	\$ 30,930	\$ 25,911	\$ 22,462	\$ 79,303
Payments to suppliers	(26,549)	-	(14,560)	(41,109)
Payments to employees	(3,266)	(3,266)	(7,173)	(13,705)
Net Cash from Operating Activities	<u>1,115</u>	<u>22,645</u>	<u>729</u>	<u>24,489</u>
Cash Flows from (used for) Capital and Related Financing Activities				
Federal grants	843,881	321,103	-	1,164,984
Proceeds from capital debt	271,900	146,123	-	418,023
Purchase of capital assets	(1,227,708)	(463,866)	-	(1,691,574)
Principal paid on capital debt	(9,756)	(8,997)	-	(18,753)
Interest paid on capital debt	(7,537)	(8,942)	-	(16,479)
Net Cash from (used for) Capital and Related Financing Activities	<u>(129,220)</u>	<u>(14,579)</u>	<u>-</u>	<u>(143,799)</u>
Cash Flows from Investing Activities				
Interest earnings	22	-	-	22
Transfers from other funds	77,293	17,939	-	95,232
Net Cash from Investing Activities	<u>77,315</u>	<u>17,939</u>	<u>-</u>	<u>95,254</u>
Net Change in Cash and Cash Equivalents	(50,790)	26,005	729	(24,056)
Cash and Cash Equivalents - Beginning	129,618	54,641	13,524	197,783
Cash and Cash Equivalents - Ending	<u>\$ 78,828</u>	<u>\$ 80,646</u>	<u>\$ 14,253</u>	<u>\$ 173,727</u>
Cash and Cash Equivalents Consist of:				
Cash and cash equivalents	\$ 78,828	\$ 80,646	\$ 14,253	\$ 173,727
Reconciliation of Operating Income (Loss) to				
Net Cash from Operating Activities				
Operating income (loss)	\$ (1,226,593)	\$ (441,221)	\$ 729	\$ (1,667,085)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Purchase of capital assets	1,227,708	463,866	-	1,691,574
Net Cash from Operating Activities	<u>\$ 1,115</u>	<u>\$ 22,645</u>	<u>\$ 729</u>	<u>\$ 24,489</u>

Town of Summit  
 Statements of Cash Flows—Modified Cash Basis—Proprietary Funds  
 Years Ended December 31, 2011 and 2010

	2010			
	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Totals
Cash Flows from Operating Activities				
Receipt from customers	\$ 30,212	\$ 25,485	\$ 19,838	\$ 75,535
Payments to suppliers	(18,386)	(50)	(10,717)	(29,153)
Payments to employees	(2,793)	(2,793)	(6,348)	(11,934)
Net Cash from Operating Activities	<u>9,033</u>	<u>22,642</u>	<u>2,773</u>	<u>34,448</u>
Cash Flows from (used for) Capital and Related Financing Activities				
Federal grants	-	434,897	-	434,897
Proceeds from capital debt	6,100	193,878	-	199,978
Purchase of capital assets	-	(631,884)	-	(631,884)
Principal paid on capital debt	(1,819)	(7,338)	-	(9,157)
Interest paid on capital debt	(3,506)	(3,885)	-	(7,391)
Net Cash from (used for) Capital and Related Financing Activities	<u>775</u>	<u>(14,332)</u>	<u>-</u>	<u>(13,557)</u>
Cash Flows from Investing Activities				
Transfers from other funds	5,325	11,223	-	16,548
Net Cash from Investing Activities	<u>5,325</u>	<u>11,223</u>	<u>-</u>	<u>16,548</u>
Net Change in Cash and Cash Equivalents	15,133	19,533	2,773	37,439
Cash and Cash Equivalents - Beginning	114,485	35,108	10,751	160,344
Cash and Cash Equivalents - Ending	<u>\$ 129,618</u>	<u>\$ 54,641</u>	<u>\$ 13,524</u>	<u>\$ 197,783</u>
Cash and Cash Equivalents Consist of:				
Cash and cash equivalents	\$ 129,618	\$ 54,641	\$ 13,524	\$ 197,783
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 9,033	\$ (609,242)	\$ 2,773	\$ (597,436)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Purchase of capital assets	-	631,884	-	631,884
Net Cash from Operating Activities	<u>\$ 9,033</u>	<u>\$ 22,642</u>	<u>\$ 2,773</u>	<u>\$ 34,448</u>

## **Note 1 - Summary of Significant Accounting Policies**

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

### **A. Financial Reporting Entity**

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

### **B. Basis of Presentation**

#### **Government-Wide Financial Statements**

The statement of net assets and statements of activities display information about the Town as a whole. They include all funds of the Town except for fiduciary. 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 statements of activities present a comparison between direct expenses and program revenues for each segment of the business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

#### **Fund Financial Statements**

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

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

The funds of the Town are described below:

### **Governmental Funds**

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

### **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.

The enterprise funds do not apply any FASB statements and interpretations issued after November 30, 1989. The Town reports the following major enterprise funds:

- **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).
- **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).
- **Solid Waste Fund** – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal rubble site facilities, and the municipal garbage compaction/bailing and disposal/hauling operations.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **C. Measurement Focus and Basis of Accounting**

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

The Town uses modified cash basis for financial reporting. Modified cash basis is a basis of accounting other than US GAAP. Under US GAAP, 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 statements 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 applied within the limitations of the modified cash basis of accounting.

### **Basis of Accounting**

In the government-wide statement of net assets and statements 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 only modification to the cash basis of accounting implemented by the Town in these financial statements is the recording of long-term investments in certificates of deposit (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost and inter fund advances and borrowings arising from the use of a pooled cash account.

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

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

The Town has changed accounting policies due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement redefines the elements of fund balance in governmental funds and more clearly describes the different types of governmental funds.

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

#### **E. Interfund Eliminations and Reclassifications**

##### **Government-Wide Financial Statements**

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

- The Town's interfund receivables and payables were eliminated as of December 31, 2011 and 2010.
- The Town did not have internal service fund activity which required elimination as of December 31, 2011 and 2010.

#### **F. Capital Assets**

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs.

#### **G. 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.

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. Under the modified cash basis, 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.

#### **H. Program Revenues**

In the government-wide statements of activities, reported program revenues derive directly from the program itself or from parties other than the Town's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

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

#### **I. Proprietary Funds Revenue and Expense Classifications**

In the proprietary fund's statements of revenues, expenses and changes in fund net assets, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

#### **J. Cash and Cash Equivalents**

The Town pools the cash resources of its funds for cash management purposes. The water, sewer and liquor funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents.

#### **K. Equity Classifications**

##### **Government-Wide Statements**

Equity is classified as net assets and is comprised of two components, restricted net assets and unrestricted net assets. Because capital assets are not reported by the Town under the modified cash basis of accounting, only the following components are displayed:

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" or "invested in capital assets, net of related debt".

##### **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. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

#### **L. Application of Net Assets**

The Town uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements 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.

#### **M. Fund Balance Classification Policies and Procedures**

Beginning with fiscal year 2011, the Town implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable Fund Balance** – Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- **Restricted Fund Balance** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed Fund Balance** – Amounts constrained to specific purposes by the Town itself, using its highest level of decision-making authority (i.e., Town Council). To be reported as committed, amounts cannot be used for any other purpose unless the Town takes the same highest level action to remove or change the constraint.
- **Assigned Fund Balance** – Amounts the Town intends to use for a specific purpose. Intent can be expressed by the Town Council or by an official or body to which the Town Council delegates the authority.
- **Unassigned Fund Balance** – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. An assigned fund balance is established by Town Council through adoption of a resolution designating a fund balance is intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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

#### **N. Rounding**

Computer generated rounding variances exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

#### **Note 2 - Deposits and Investments**

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

**Deposits**

The Town's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% 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 the 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.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of December 31, 2011 and 2010, the Town maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

The actual bank balances at December 31, 2011 and 2010 are as follows:

	2011	2010
Insured (FDIC/NCUA)	\$ 351,065	\$ 431,295
Uninsured, collateral jointly held by State's/Town's agent in the name of the state and the pledging financial institution	44,106	35,718
	\$ 395,171	\$ 467,013

The Town's carrying amount of deposits at December 31, 2011 and 2010 is as follows:

	2011	2010
Cash and cash equivalents	\$ 394,481	\$ 450,215

**Investments**

In general, SDCL 4-5-6 permits Town funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

As of December 31, 2011 and 2010, the Town did not hold any investments as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. The Town also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Town's policy is to credit all income from deposits and investments to the fund making the investment.

Under the modified cash basis of accounting, investments are stated at cost.

### **Note 3 - Property Taxes**

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

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

### **Note 4 - Significant Contingencies - Litigation**

At December 31, 2011 and 2010, the Town was not involved in any litigation that would be material to the financial statements.

### **Note 5 - Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2011 and 2010, the Town managed its risks as follows:

#### **Employee Health Insurance**

The Town does not offer employee health insurance or health insurance reimbursement.

#### **Liability Insurance**

The Town 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 from these risks have not exceeded the liability coverage during the past three years.

### **Worker's Compensation**

The Town joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Town's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the fund to resolve any worker's compensation claims. The Town pays an annual premium, to provide worker's compensation coverage to its employees, under a self-funded program and the premiums are paid 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 an additional \$2,000,000 per individual per incident.

The Town does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

### **Unemployment Benefits**

The Town contributes to the South Dakota Unemployment Insurance Fund. Contributions are made on qualifying wages based on an experience rate. Claims for any unemployment benefits are made to this fund. Benefits claimed have never exceeded the funds ability to pay.

### **Note 6 - Related Party**

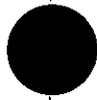
In 2011 and 2010, the Town conducted business with a construction company in which the board chair was employed with. The construction company was hired through the proper bid process to help with the sewer project. Construction costs for the years ended December 31, 2011 and 2010 totaled \$253,870 and \$192,324, respectively. The Town also conducted other business with the construction company for services as allowable under South Dakota Codified Law. These costs totaled \$31,954 and \$5,144 for the years ended December 31, 2011 and 2010, respectively.

**Note 7 - Interfund Transfers**

Interfund transfers are comprised of the following:

	Transfers to Business-Type Activities Water	Transfers to Business-Type Activities Sewer
2011 Transfers from:		
Major Funds:		
General Funds	\$ 77,293	\$ 17,939
2010 Transfers from:		
Major Funds:		
General Funds	5,325	11,223

In 2011 and 2010, the General Fund transferred amounts to the sewer and water funds for the purpose of debt service payments. The General Fund also transferred an additional \$60,000 to the Water Fund in 2011 to help supplement funds for the water project taking place during the year.



Supplementary Information  
December 31, 2011 and 2010  
**Town of Summit**

Town of Summit  
Schedules of Changes in Long-Term Debt  
Years Ended December 31, 2011 and 2010

<u>Indebtedness</u>	<u>Long-Term Debt 1/1/10</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 12/31/10</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 12/31/11</u>
Enterprise Long-Term Debt							
231.02 Revenue bonds (sewer)	\$ 145,148	\$ 199,977	\$ 9,157	\$ 335,968	\$ 418,023	\$ 18,753	\$ 735,238

Town of Summit  
 Budgetary Comparison Schedules—General Fund  
 Years Ended December 31, 2011 and 2010

	2011			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 27,000	\$ 27,000	\$ 45,958	\$ 18,958
313 General sales and use taxes	75,000	75,000	89,189	14,189
319 Penalties and interest on delinquent taxes	480	480	3,098	2,618
Total taxes	<u>102,480</u>	<u>102,480</u>	<u>138,245</u>	<u>35,765</u>
320 License and permits	<u>100</u>	<u>100</u>	<u>135</u>	<u>35</u>
330 Intergovernmental revenue				
335 State shared revenue				
335.01 Bank franchise tax	220	220	217	(3)
335.02 Motor vehicle commercial prorate	775	775	2,127	1,352
335.03 Liquor tax reversion	1,400	1,400	1,757	357
335.04 Motor vehicle licenses (5%)	3,200	3,200	4,036	836
335.08 Local government highway and bridge fund	7,100	7,100	9,309	2,209
338 County shared revenue				
338.1 County road tax (25%)	<u>500</u>	<u>500</u>	<u>158</u>	<u>(342)</u>
Total intergovernmental revenue	<u>13,195</u>	<u>13,195</u>	<u>17,604</u>	<u>4,409</u>
340 Charges for goods and services				
341 General government	<u>12,000</u>	<u>12,000</u>	<u>562</u>	<u>(11,438)</u>
Total charges for goods and services	<u>12,000</u>	<u>12,000</u>	<u>562</u>	<u>(11,438)</u>
360 Miscellaneous revenue				
361 Investment earnings	6,000	6,000	8,519	2,519
362 Rentals	50,000	50,000	48,868	(1,132)
369 Other	<u>9,845</u>	<u>9,845</u>	<u>11,501</u>	<u>1,656</u>
Total miscellaneous revenue	<u>65,845</u>	<u>65,845</u>	<u>68,888</u>	<u>3,043</u>
Total revenues	<u>193,620</u>	<u>193,620</u>	<u>225,434</u>	<u>31,814</u>

Town of Summit  
 Budgetary Comparison Schedules—General Fund  
 Years Ended December 31, 2011 and 2010

	2011			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Expenditures				
410 General government				
411 Legislative	1,800	1,800	4,267	(2,467)
412 Executive	1,800	1,800	5,004	(3,204)
413 Election	300	300	-	300
414 Financial administration	7,840	7,840	2,253	5,587
419 Other	-	-	11,385	(11,385)
Total general government	<u>11,740</u>	<u>11,740</u>	<u>22,909</u>	<u>(11,169)</u>
420 Public safety				
422 Fire	6,500	6,500	7,665	(1,165)
Total public safety	<u>6,500</u>	<u>6,500</u>	<u>7,665</u>	<u>(1,165)</u>
430 Public works				
431 Highways and streets	27,400	27,400	60,364	(32,964)
432 Sanitation	46,120	46,120	2,465	43,655
437 Cemeteries	1,200	1,200	4,898	(3,698)
Total public works	<u>74,720</u>	<u>74,720</u>	<u>67,727</u>	<u>6,993</u>
450 Culture and recreation				
452 Parks	2,000	2,000	12,621	(10,621)
Total culture and recreation	<u>2,000</u>	<u>2,000</u>	<u>12,621</u>	<u>(10,621)</u>
470 Debt service	35,000	35,000	-	35,000
490 Miscellaneous				
491 Miscellaneous expense	50,660	50,660	50,971	(311)
Total miscellaneous	<u>50,660</u>	<u>50,660</u>	<u>50,971</u>	<u>(311)</u>
Total expenditures	<u>180,620</u>	<u>180,620</u>	<u>161,893</u>	<u>18,727</u>
Other Financing Sources (Uses)				
511 Transfers out	-	-	(95,232)	(95,232)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(95,232)</u>	<u>(95,232)</u>
Excess of Revenue over (under) Expenditures	13,000	13,000	(31,691)	(44,691)
Fund Balance - Beginning	-	-	245,725	245,725
Fund Balance - Ending	<u>\$ 13,000</u>	<u>\$ 13,000</u>	<u>\$ 214,034</u>	<u>\$ 201,034</u>

Town of Summit  
 Budgetary Comparison Schedules—General Fund  
 Years Ended December 31, 2011 and 2010

	2010			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 27,000	\$ 27,000	\$ 41,453	\$ 14,453
313 General sales and use taxes	75,000	75,000	85,387	10,387
319 Penalties and interest on delinquent taxes	480	480	1,587	1,107
Total taxes	<u>102,480</u>	<u>102,480</u>	<u>128,427</u>	<u>25,947</u>
320 Licenses and permits	<u>100</u>	<u>100</u>	<u>100</u>	<u>-</u>
330 Intergovernmental revenue				
335 State shared revenue				
335.01 Bank franchise tax	220	220	257	37
335.02 Motor vehicle commercial prorate	775	775	542	(233)
335.03 Liquor tax reversion	1,400	1,400	1,711	311
335.04 Motor vehicle licenses (5%)	3,200	3,200	3,984	784
335.08 Local government highway and bridge fund	7,100	7,100	9,968	2,868
338 County shared revenue				
338.1 County road tax (25%)	500	500	158	(342)
Total intergovernmental revenue	<u>13,195</u>	<u>13,195</u>	<u>16,620</u>	<u>3,425</u>
340 Charges for goods and services				
341 General government	<u>12,000</u>	<u>12,000</u>	<u>240</u>	<u>(11,760)</u>
Total charges for goods and services	<u>12,000</u>	<u>12,000</u>	<u>240</u>	<u>(11,760)</u>
360 Miscellaneous revenue				
361 Investment earnings	6,000	6,000	9,119	3,119
362 Rentals	50,000	50,000	50,860	860
369 Other	9,845	9,845	4,543	(5,302)
Total miscellaneous revenue	<u>65,845</u>	<u>65,845</u>	<u>64,522</u>	<u>(1,323)</u>
Total revenues	<u>193,620</u>	<u>193,620</u>	<u>209,909</u>	<u>16,289</u>

Town of Summit  
Budgetary Comparison Schedules—General Fund  
Years Ended December 31, 2011 and 2010

	2010			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
<b>Expenditures</b>				
410 General government				
411 Legislative	1,800	1,800	3,030	(1,230)
412 Executive	1,800	1,800	2,466	(666)
413 Elections	300	300	-	300
414 Financial administration	7,840	7,840	3,786	4,054
419 Other	-	-	12,587	(12,587)
Total general government	<u>11,740</u>	<u>11,740</u>	<u>21,869</u>	<u>(10,129)</u>
420 Public safety				
422 Fire	6,500	6,500	8,313	(1,813)
Total public safety	<u>6,500</u>	<u>6,500</u>	<u>8,313</u>	<u>(1,813)</u>
430 Public works				
431 Highways and streets	27,400	27,400	41,779	(14,379)
432 Sanitation	46,120	46,120	212	45,908
437 Cemeteries	1,200	1,200	4,190	(2,990)
Total public works	<u>74,720</u>	<u>74,720</u>	<u>46,181</u>	<u>28,539</u>
450 Culture and recreation				
452 Parks	2,000	2,000	10,300	(8,300)
Total culture and recreation	<u>2,000</u>	<u>2,000</u>	<u>10,300</u>	<u>(8,300)</u>
470 Debt service	35,000	35,000	-	35,000
490 Miscellaneous				
491 Miscellaneous expenses	50,660	50,000	53,959	(3,959)
Total miscellaneous	<u>50,660</u>	<u>50,000</u>	<u>53,959</u>	<u>(3,959)</u>
Total expenditures	<u>180,620</u>	<u>179,960</u>	<u>140,622</u>	<u>39,338</u>
<b>Other Financing Sources (Uses)</b>				
511 Transfers out	-	-	(16,548)	(16,548)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(16,548)</u>	<u>(16,548)</u>
Excess of Revenue over (Under) Expenditures	13,000	13,660	52,739	55,627
Fund Balance - Beginning	192,986	192,986	192,986	-
Fund Balance - Ending	<u>\$ 205,986</u>	<u>\$ 206,646</u>	<u>\$ 245,725</u>	<u>\$ 55,627</u>

**Note 1 - Budgets and Budgetary Accounting**

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular Council meeting in September of each year or within ten days thereafter, the Town Council introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Town Council, 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% of the total municipal budget and may be transferred by resolution of the Town Council to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the Town Council.

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, special revenue funds and capital projects funds.

The Town did not encumber any amounts at December 31, 2011 and 2010.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. Budget for the General Fund is adopted on a basis consistent with a modified cash basis of accounting.

**Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences**

The financial statements prepared on the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the governmental funds statements of revenues, expenditures and changes in fund balances; however, in the budgetary schedules, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

Town of Summit  
 Schedule of Expenditures of Federal Awards  
 Year Ended December 31, 2011 and 2010

Federal Grantor/Pass-Through Grantor Program Title	Pass-Through Identification Number	CFDA Number	2011 Amount	2010 Amount
Department of Housing and Urban Development Indirect Federal Funding: SD Governor's Office of Economic Development, Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	*****	14.228	\$ 180,104	\$ 334,897
Total Department of Housing and Urban Development			<u>180,104</u>	<u>334,897</u>
U.S. Department of Agriculture Rural Utilities Services ARRA - Water and Waste Disposal Systems for Rural Communities	*****	10.760	1,399,003	192,773
Total US Department of Agriculture			<u>1,399,003</u>	<u>192,773</u>
Environmental Protection Agency SD Department of Environment and Natural Resources, ARRA Capitalization Grants for Clean Water State Revolving Funds	C461296-01	66.458	-	100,000
Total Environment Protection Agency			<u>-</u>	<u>100,000</u>
Grand Total			<u>\$ 1,579,107</u>	<u>\$ 627,670</u>

\*\*\*\*\* No Pass-Through Entity Identifying Number Given

**Note 1 - Schedule of Federal Expenditures**

The accompanying schedule of federal expenditures of federal awards includes the federal grant activity of the Town and is presented on the modified cash basis of accounting. 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 amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Findings Relating to the Financial Statements**

There are no prior year audit findings related to federal award programs.

**Findings Relating to the Financial Statements**

There are no prior year audit findings related to federal award programs.



CPAs & BUSINESS ADVISORS

**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***

The Town Council  
Town of Summit  
Summit, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Summit as of December 31, 2011, and for each of the fiscal years in the two year period then ended, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 21, 2012. The statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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**

Management of the Town is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered the Town'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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis.

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 and; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as finding 2010-1 and 2011-1 and 2010-2 and 2011-2 that we consider to be material weaknesses.

## Compliance and Other Matters

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

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, Town Council, management, and others within the Town, the South Dakota Legislature, state granting agencies, and federal awarding agencies and pass-through entities 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, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota  
September 21, 2012



CPAs & BUSINESS ADVISORS

**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**

The Town Council  
Town of Summit  
Summit, South Dakota

**Compliance**

We have audited the Town of Summit's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the years ended December 31, 2011 and 2010. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of 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 Town's management. Our responsibility is to express an opinion on the Town'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 Town'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 Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on to each of its major federal programs for the years ended December 31, 2011 and 2010.

## **Internal Control over Compliance**

Management of the Town 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 Town's internal control over compliance with the 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 Town's internal control over compliance.

A deficiency in internal control over compliance 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 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 over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify a deficiency in internal control over compliance that we consider to be a material weakness, as defined above.

This report is intended solely for the information and use of the Mayor, Town Council, management, and others within the entity, the South Dakota Legislature, state granting agencies, and federal awarding agencies and pass-through entities 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, this report is a matter of public record and its distribution is not limited.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in dark ink and is positioned above the typed address and date.

Aberdeen, South Dakota  
September 21, 2012



## **Part II – Findings Relating to the Financial Statements**

### **2010-1 and 2011-1 - Preparation of Financial Statements and Related Footnotes**

**Condition:** The Town of Summit does not have an internal control system designed to provide for the preparation of the financial statements being audited. As a part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the Town's internal control and; therefore, could result in a misstatement of the Town's financial statements.

**Criteria:** The Town's internal control structure should be designed to provide for the preparation of the financial statements, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with the modified cash basis of accounting.

**Cause:** The Town does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to at times propose material journal entries.

**Effect:** This condition may affect the Town's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

**Recommendation:** This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

**Management Response:** Management and the Town Council will review for propriety the draft financial statements, footnotes, schedule of expenditures of federal awards, and audit adjusting entries prepared by the auditor. Due to the Town's size, we will accept the risk associated with this condition based on cost and other considerations.

### **2010-2 and 2011-2 - Lack of Segregation of Duties within the Accounting Function**

**Condition:** The Town of Summit has a limited number of office personnel, and accordingly, does not have an adequate segregation of duties within the accounting function to ensure adequate internal controls in revenue, expenditures, and payroll functions.

**Criteria:** A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

**Cause:** The Town has insufficient number of staff to adequately separate duties.

**Effect:** This condition may affect the Town's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

**Recommendation:** This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. We also recommend that the Town Council adequately review the accounting transactions and reports prepared by the Finance Manager on a regular basis.

**Management Response:** Management accepts the risk associated with the lack of segregation of duties within the accounting function of the Town. As part of its duties, the Town Council will continue to provide oversight and review of financial transactions to mitigate the risk associated with this condition as much as possible.

### **Cognizant or Oversight Agency for Audit**

The Town of Summit respectfully submits the following corrective action plan for the two years ended December 31, 2011.

Name and address of independent public accounting firm:      Eide Bailly LLP  
24 Second Avenue SW  
PO Box 430  
Aberdeen, SD 57402-0430

Audit Period: January 1, 2010 to December 31, 2011

The findings from the December 31, 2011 and 2010 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### **Findings – Financial Statement Audit**

#### **Material Weakness**

#### **2010-1 and 2011-1 - Preparation of Financial Statements and Related Footnotes**

**Condition:** The Town of Summit requested the external auditors to prepare the financial statements and related notes for the two years ended December 31, 2011. As a part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the Town's existing internal controls and; therefore, could result in a misstatement of the Town's financial statements.

**Criteria:** The Town's internal control structure should be designed to provide for the preparation of the financial statements, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with the modified cash basis of accounting.

**Cause:** The Town does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to at times propose material journal entries.

**Effect:** This condition may affect the Town's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**Recommendation:** This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

**Planned Action:** Management did provide an electronic version of the annual report submitted to the South Dakota Department of Legislative Audit and discussed audit recommendations with the auditor. Management accepts the risk associated with preparation of the final audited financial statements by the independent auditor.

**2010-2 and 2011-2 - Lack of Segregation of Duties within the Accounting Function**

**Condition:** The Town of Summit has a limited number of office personnel, and accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

**Criteria:** A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

**Cause:** The Town has an insufficient number of staff to adequately separate duties.

**Effect:** This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

**Recommendation:** Although it is recognized that number of office staff may not be large enough to permit adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the Town Council exercise adequate oversight of the accounting function.

**Planned Action:** Management accepts the risk associated with lack of segregation of duties in the Town.