

BUTTE-MEADE SANITARY WATER DISTRICT
FINANCIAL REPORT
DECEMBER 31, 2015 AND 2014



BUTTE-MEADE SANITARY WATER DISTRICT
DECEMBER 31, 2015 AND 2014

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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*

To the Board of Directors
Butte-Meade Sanitary Water District
Newell, 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 financial statements of Butte-Meade Sanitary Water District (the District) as of and for the year ended December 31, 2015 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Butte-Meade Sanitary Water District'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 Butte-Meade Sanitary Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Butte-Meade Sanitary Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*
(CONTINUED)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Butte-Meade Sanitary Water District'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 that are required to be reported under *Government Auditing Standards*.

Butte Meade Sanitary Water District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The District's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 District'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.



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
(CONCLUDED)

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

David Pummel Associates, LLP

June 30, 2016



BUTTE MEADE SANITARY WATER DISTRICT
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015

FINDING 2015-1

SEGREGATION OF DUTIES

CRITERIA

An adequate segregation of duties strengthens the effectiveness of the internal control process.

CONDITION FOUND

There is a lack of segregation of duties over receipts and disbursements within the District.

CAUSE

The size of the district staff does not provide for an optimum segregation of duties.

EFFECT

Two employees perform most procedures of the receipting process and another employee performs most procedures of the disbursement process.

RECOMMENDATION

The board of directors and manager should continue to perform all practical oversight and review functions.

MANAGEMENT'S RESPONSE

Management and the board of directors will continue to perform oversight and review functions and will implement additional oversight and review procedures where practical.





INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Butte-Meade Sanitary Water District
Newell, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Butte-Meade Sanitary Water District (the District), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 entity'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 financial position of Butte-Meade Sanitary Water District, as of December 31, 2015 and 2014, and the respective changes in financial position, and, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 8 and 9, and the Schedule of Net Pension Liability/Asset and Pension Contributions on pages 31 and 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Butte-Meade Sanitary Water District's basic financial statements. The supplementary information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information schedules have 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 any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016, on our consideration of the Butte-Meade Sanitary Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 Butte-Meade Sanitary Water District's internal control over financial reporting and compliance.

David Pummel & Associates, LLP

June 30, 2016



BUTTE-MEADE SANITARY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

FINANCIAL HIGHLIGHTS

Butte Meade Sanitary Water District's (the District) net position increased by \$148,483 from 2014 to 2015 after a decrease of \$33,727 from 2013 to 2014. The increase from 2014 to 2015 was mostly due to increased water sales and decreased wages and benefits. The decrease from 2013 to 2014 was mostly due to more repair costs.

Water sales and other sales are directly linked to customer demand. 2015 water sales and other sales increased \$36,553 from 2014 due to increased demand and new meter reading system from 2014. The decrease from 2013 to 2014 was due to decreased demand from favorable rainfall levels. Other sales reflect both new construction and repair and maintenance done by District customers. Customers buy material at cost, plus sales tax, through the District. Customer payments constitute other sales.

The District is still replacing customer meters to the new remote read system. At year end 2014 approximately 70% had been replaced. At year end 2015 approximately 85% had been replaced.

In 2015, total operating expenses decreased \$67,429 from 2014, due to less wages and repairs. In 2014 total operating expenses increased \$28,008 from 2013 due to continued problems with existing lines.

The District retired \$65,626 and \$97,230 in existing debt during 2015 and 2014, respectively. The District borrowed an additional \$149,659 in 2014 from a local financial institution to replace a problem waterline in the Arpan area. There were no additional borrowings in 2015.

OVERVIEW OF FINANCIAL STATEMENTS

This report consists of the management discussion and analysis, the basic financial statements, and supplementary information. All District activities are conducted within one enterprise fund.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

There were no significant changes in operations for the District from 2015 to 2014 or 2013. The District will continue to replace manual water meters with remote read meters during 2016. Two loans to Rural Development were paid in full in March 2014.

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* in 2015.

BUTTE-MEADE SANITARY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015 AND 2014

ECONOMIC FACTORS AND NEXT YEAR'S RATES (CONTINUED)

Traditionally all loan obligations are met, and any excess transferred to the operation and maintenance account to fund larger projects, maintenance, or repairs that would exceed normal budgeted amounts.

FINANCIAL ANALYSIS OF THE DISTRICT

The District's statements of net position and activities changed as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 485,715	\$ 350,074	\$ 359,913
Restricted cash and funded reserves	163,353	192,004	187,418
Property and equipment	2,449,960	2,536,653	2,504,538
Other assets	59,839	--	--
Deferred outflows of resources	<u>103,613</u>	<u>--</u>	<u>--</u>
Total assets and deferred outflows of resources	<u>\$ 3,262,480</u>	<u>\$ 3,078,731</u>	<u>\$ 3,051,869</u>
Current liabilities	\$ 95,136	\$ 81,666	\$ 75,148
Meter deposits	76,311	74,211	72,336
Long-term debt	<u>1,271,082</u>	<u>1,339,679</u>	<u>1,287,483</u>
Total liabilities	<u>1,442,529</u>	<u>1,495,556</u>	<u>1,434,967</u>
Deferred inflows of resources	<u>88,293</u>	<u>--</u>	<u>--</u>
Net position -			
Net investment in capital assets	1,110,656	1,131,724	1,152,905
Restricted	86,466	116,219	113,733
Unrestricted	<u>534,536</u>	<u>335,232</u>	<u>350,264</u>
Total net position	<u>\$ 1,731,658</u>	<u>\$ 1,583,175</u>	<u>\$ 1,616,902</u>
Water and other operating revenue	\$ 795,943	\$ 759,390	\$ 795,426
Operating expense	(656,431)	(723,860)	(666,397)
Non-operating income and expense	<u>(58,764)</u>	<u>(69,257)</u>	<u>(57,830)</u>
Increase (decrease) in net position	80,748	(33,727)	71,199
Net position - beginning of year	1,583,175	1,616,902	1,545,703
Prior period adjustments (GASB 68)	67,735	--	--
Net position - end of year	<u>\$ 1,731,658</u>	<u>\$ 1,583,175</u>	<u>\$ 1,616,902</u>

CONTACTING DISTRICT MANAGEMENT

This financial report is designed to provide the members, customers, and creditors with a general overview of the District's finances and demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Butte-Meade Sanitary Water District, PO Box 5, Newell, SD 57760.

BUTTE-MEADE SANITARY WATER DISTRICT
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2015 AND 2014

ASSETS

	2015	2014
CURRENT ASSETS		
Cash	\$ 112,592	\$ 64,223
Savings	223,648	118,451
Accounts receivable - billed	49,860	55,010
Accounts receivable - unbilled	11,838	16,334
Accrued interest receivable	--	65
Inventory	68,928	76,218
Prepaid expenses	18,849	19,773
TOTAL CURRENT ASSETS	485,715	350,074
RESTRICTED CASH AND FUNDED RESERVES		
Rural Development reserve - cash	30,215	60,192
Rural Development reserve - certificate of deposit	56,251	56,027
Meter deposits held for members - cash	13,283	12,277
Meter deposits held for members - certificate of deposit	63,604	63,508
	163,353	192,004
PROPERTY AND EQUIPMENT		
Furniture and equipment	24,711	24,711
Buildings and structures	100,833	100,243
Equipment - miscellaneous	35,298	32,654
Collection & distribution system	5,322,750	5,293,768
Land	14,087	14,087
Vehicles	53,360	53,360
	5,551,039	5,518,823
Less accumulated depreciation	(3,101,079)	(2,982,170)
	2,449,960	2,536,653
OTHER ASSETS		
Net pension asset	59,839	--
	59,839	--
DEFERRED OUTFLOWS OF RESOURCES		
Pension	103,613	--
	103,613	--
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 3,262,480	\$ 3,078,731

See accompanying notes.



LIABILITIES AND NET POSITION

	2015	2014
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 68,221	\$ 65,250
Accounts payable	26,041	15,328
Accrued interest payable	874	1,088
	95,136	81,666
 DEPOSITS		
Meter deposits	76,311	74,211
	76,311	74,211
 LONG-TERM DEBT, NET CURRENT MATURITIES		
Mortgages and notes payable	1,271,082	1,339,679
	1,271,082	1,339,679
	1,442,529	1,495,556
 DEFERRED INFLOWS OF RESOURCES		
Pension	88,293	--
	88,293	--
 NET POSITION		
Net investment in capital assets	1,110,656	1,131,724
Restricted for Rural Development reserve	86,466	116,219
Restricted for SDRS pension purposes	75,159	--
Unrestricted	459,377	335,232
	1,731,658	1,583,175
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 3,262,480	\$ 3,078,731



BUTTE-MEADE SANITARY WATER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING REVENUE		
Water sales	\$ 769,812	\$ 735,983
Other sales	26,131	23,407
	795,943	759,390
 OPERATING EXPENSES		
Auto	16,366	20,941
Depreciation	119,502	117,074
Insurance	22,715	21,356
Mileage	382	344
Directors' fees	3,400	3,200
Office expense, dues, and travel	17,236	15,708
Payroll taxes	18,053	24,943
Professional fees	9,887	10,379
Maintenance and supplies	115,475	130,759
Employee benefits	39,177	60,048
Wages	235,982	260,818
Utilities	58,256	58,290
	656,431	723,860
 OPERATING INCOME	 139,512	 35,530
 NONOPERATING REVENUE (EXPENSE)		
Loss on disposal of equipment	(1,142)	(470)
Insurance proceeds	11,747	--
Interest income	398	557
Interest expense	(70,467)	(69,544)
	(59,464)	(69,457)
 NET INCOME (LOSS)	 80,048	 (33,927)
 Add additional memberships	 700	 200
 INCREASE (DECREASE) IN NET POSITION	 80,748	 (33,727)
 NET POSITION - BEGINNING OF YEAR	 1,583,175	 1,616,902
Prior period adjustment	67,735	--
 NET POSITION - END OF YEAR	 \$ 1,731,658	 \$ 1,583,175

See accompanying notes.



BUTTE-MEADE SANITARY WATER DISTRICT
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 807,689	\$ 760,124
Cash payments to employees for services	(282,583)	(345,809)
Cash payments to other suppliers of goods and services	(245,722)	(267,729)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>279,384</u>	<u>146,586</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(320)	(552)
Interest received	463	675
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>143</u>	<u>123</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Insurance proceeds	11,747	--
Memberships	700	200
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>12,447</u>	<u>200</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(31,072)	(149,659)
Proceeds from disposal of equipment	--	--
Proceeds from long-term debt	--	150,526
Payments of long-term debt	(65,626)	(97,230)
Interest paid	(70,681)	(69,608)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(167,379)</u>	<u>(165,971)</u>
NET INCREASE (DECREASE) IN CASH	124,595	(19,062)
CASH - BEGINNING OF PERIOD	<u>255,143</u>	<u>274,205</u>
CASH - END OF PERIOD	<u>\$ 379,738</u>	<u>\$ 255,143</u>

See accompanying notes.



BUTTE-MEADE SANITARY WATER DISTRICT
 STATEMENTS OF CASH FLOWS (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 139,512	\$ 35,530
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	119,502	117,074
Pension adjustment	(7,424)	--
(Increase) decrease in		
Accounts receivable	9,646	(1,141)
Inventory	7,290	(11,787)
Prepaid expenses	924	(447)
Increase in		
Meter deposits	2,100	1,875
Accounts payable	7,834	5,482
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 279,384	\$ 146,586

See accompanying notes.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 - NATURE OF ACTIVITIES

The Butte-Meade Sanitary Water District (the District) is a government entity comprised of one enterprise fund. The financial statements are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue when earned and expenditures when a liability is incurred. The District is a subdivision of the government of the State of South Dakota.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounts receivable - unbilled

Unbilled accounts receivable represent estimated water revenues earned by the District which had not been billed to customers at year end.

B. Inventory

Inventory is stated at cost, as determined on the first-in, first-out method.

C. Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful lives are as follows:

Furniture and fixtures	5-10 years
Buildings and structures	10-40 years
Equipment	5-10 years
Collection system	5-40 years
Distribution system	10-50 years

The District's policy is to capitalize those assets with a useful life greater than one year, and an initial acquisition cost of \$200 or more. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized. The District capitalizes interest expense during construction projects.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Vacation and sick leave

Annual leave is earned by the full-time employees at a rate of two weeks after 1 year, three weeks from 10 to 19 years and four weeks after 20 years. Sick leave is earned by full-time employees at a rate of twelve (12) days per year. Upon termination the employees are not entitled to receive compensation for their annual leave or sick leave balances. The District's policy for annual leave and sick leave is that the employee must use or lose leave balances by January 1 of each year.

E. Revenue and expense classifications

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenue 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, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

F. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

G. Cash and cash equivalents

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments and deposits with a term to maturity of three months or less to be cash equivalents.

H. 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.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

J. Equity classifications

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. 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.
3. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

K. Application of net position

It is the District'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.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

L. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. Municipal contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

NOTE 3 - DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK

Deposits and investments

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

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

Investments - In general, SDCL 4-5-6 permits District 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



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

NOTE 3 - DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK (CONCLUDED)

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 District as discussed above. The District has no investment policy that would further limit its investment choices.

The District had no investments as of December 31, 2015.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

NOTE 4 - PROPERTY AND EQUIPMENT

Summary by category of changes in property and equipment:

<u>Category</u>	<u>Balance December 31, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2015</u>
Land	\$ 14,087	\$ --	\$ --	\$ 14,087
Furniture and equipment	24,711	--	--	24,711
Buildings and structures	100,243	590	--	100,833
Equipment - miscellaneous	32,654	4,379	(1,735)	35,298
Collection and distribution system	5,293,768	28,982	--	5,322,750
Vehicles	53,360	--	--	53,360
	<u>\$ 5,518,823</u>	<u>\$ 33,951</u>	<u>(\$ 1,735)</u>	<u>\$ 5,551,039</u>

Summary by category of changes in accumulated depreciation:

<u>Category</u>	<u>Balance December 31, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2015</u>
Furniture and equipment	\$ 16,277	\$ 2,033	\$ --	\$ 18,310
Buildings and structures	43,551	2,714	--	46,265
Equipment - miscellaneous	19,610	2,675	(593)	21,692
Collection and distribution system	2,877,474	103,420	--	2,980,894
Vehicles	25,258	8,660	--	33,918
	<u>\$ 2,982,170</u>	<u>\$ 119,502</u>	<u>(\$ 593)</u>	<u>\$ 3,101,079</u>



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	2015	2014
5.25% loan due First National Bank, payable in monthly installments of \$1,621 including interest, maturing July 2024.	\$ 133,475	\$ 145,738
6.625% revenue bond due Rural Development, payable in monthly installments of \$5,236 including interest, maturing June 2032.	621,597	642,494
4.125% revenue bond due Rural Development, payable in monthly installments of \$1,939 including interest, maturing July 2048.	412,380	418,500
3% loan due National Rural Water System, payable in monthly installments of \$676 including interest, maturing August 2018.	20,761	28,130
2.25% loan due South Dakota Department of Natural Resources in quarterly installments of \$5,661 including interest. Payments begin June 15, 2013. The loan matures April 2023.	151,090	170,067
	1,339,303	1,404,929
Less current maturities	(68,221)	(65,250)
	\$ 1,271,082	\$ 1,339,679



BUTTE-MEADE SANITARY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2015 AND 2014

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2015, including interest payments of \$773,925 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	68,220	68,086	136,306
2017	71,390	64,916	136,306
2018	71,938	60,988	132,926
2019	69,885	58,310	128,195
2020	73,312	54,883	128,195
2021-2025	335,530	221,279	556,809
2026-2030	302,182	128,318	430,500
2031-2035	132,416	54,841	187,257
2036-2040	79,024	37,316	116,340
2041-2045	97,091	19,249	116,340
thereafter	38,315	5,739	44,054
	<u>\$ 1,339,303</u>	<u>\$ 773,925</u>	<u>\$ 2,113,228</u>

The terms of the revenue bonds require that the District maintain a debt service account. A sum equal to the minimum of 1/12 of the annual installment coming due on the next succeeding January 1, is to be deposited to this account each month. Principal and interest payments are to be made from this account. At December 31, 2015, the District was in complete compliance with these terms.

The terms of the revenue bonds also require that all the surplus net revenues, in excess of the amounts required in the maintenance of the debt service account noted above, be deposited in a reserve account. This account shall be used for major repairs, maintenance, and improvements on the water system. No funds were available for deposit to this account as of December 31, 2015.



BUTTE-MEADE SANITARY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2015 AND 2014

NOTE 5 - LONG-TERM DEBT (CONCLUDED)

A summary of the changes in long-term debt follows:

	Balance December 31, 2014	Proceeds	Retired	Balance December 31, 2015	Due Within One Year
Note Payable					
First National Bank	\$ 145,738	\$ --	(\$ 12,263)	\$ 133,475	\$ 12,617
Revenue Bonds - Rural Development	1,060,994	--	(27,017)	1,033,977	28,694
Note Payable - National Rural Water System	28,130	--	(7,369)	20,761	7,611
Note Payable - South Dakota Department of Natural Resources	170,067	--	(18,977)	151,090	19,299
	<u>\$ 1,404,929</u>	<u>\$ --</u>	<u>(\$ 65,626)</u>	<u>\$ 1,339,303</u>	<u>\$ 68,221</u>

NOTE 6 - PRIOR PERIOD ADJUSTMENTS

The District implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of January 1, 2015 as follows:

Net position January 1, 2015, as previously reported	
Restatement for pension accounting	\$ 1,583,175
Net pension asset	102,626
Pension related deferred outflows of resources	(34,891)
Net position January 1, 2015, as restated	<u>\$ 1,650,910</u>



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

NOTE 7 - PENSION PLAN

Plan Information

All employees working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605)773-3731.

Benefits Provided

SDRS has three different classes of employees, Class A, Class B public safety, and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation, times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

NOTE 7 - PENSION PLAN (CONTINUED)

Benefits Provided (Continued)

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more - 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded - 2.1% minimum and 2.8% maximum with COLA
 - 80.0% to 90.0% funded - 2.1% minimum and 2.4% maximum with COLA
- If the SDRS market value funded ratio is less than 80% - 2.1% COLA

All benefits, except those depending on the member's accumulated contributions, are annually increased by the cost-of-living adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014, and 2013 were \$14,081, \$15,938, and \$14,501, respectively, equal to the required contributions each year.

Pension liabilities (assets), pension expense (revenue), and deferred outflows of resources and deferred inflows of resources to pensions

At June 3, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the



BUTTE-MEADE SANITARY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2015 AND 2014

NOTE 7 - PENSION PLAN (CONTINUED)

Pension liabilities (assets), pension expense (revenue), and deferred outflows of resources and deferred inflows of resources to pensions (Continued)

District as of this measurement period and reported by the District as of December 31, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$1,520,418
Less proportionate share of total pension liability	<u>1,460,579</u>
Proportionate share of net pension liability (asset)	<u>(\$ 59,839)</u>

At December 31, 2015 the District reported a liability (asset) of (\$59,839) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the District's proportion was .0141086%, which is an increase of .0001359% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the District recognized pension expense (revenue) of \$6,657. At December 31, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience.	\$ 12,252	\$ --
Changes in assumption.	47,448	--
Net difference between projected and actual earnings on pension plan investments.	36,554	88,293



BUTTE-MEADE SANITARY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2015 AND 2014

NOTE 7 - PENSION PLAN (CONTINUED)

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Changes in proportion and difference between District contributions and proportionate share of contributions.	439	--
District contributions subsequent to the measurement date.	<u>6,919</u>	<u>--</u>
Total	<u>\$ 103,613</u>	<u>\$ 88,293</u>

\$6,919 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended December 31:	
2016	\$ 2,963
2017	2,963
2018	(7,500)
2019	9,975
2020	--
thereafter	--
Total	<u>\$ 8,401</u>

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate Of Return	7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense



BUTTE-MEADE SANITARY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2015 AND 2014

NOTE 7 - PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.) The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.8%
Total	<u>100.0%</u>	



BUTTE-MEADE SANITARY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2015 AND 2014

NOTE 7 - PENSION PLAN (CONCLUDED)

Discount Rate

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate

The following presents the District's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1%</u>	<u>Current</u>	<u>1%</u>
	<u>Decrease</u>	<u>Discount</u>	<u>Increase</u>
		<u>Rate</u>	
District's proportionate share of the net pension liability (asset)	\$150,613	(\$59,839)	(\$231,444)

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

NOTE 8 - RURAL DEVELOPMENT RESERVES

Cash held in Rural Development reserve accounts consists of funds set aside for debt service, repairs, replacements, improvements, and additions as approved by Rural Development.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

NOTE 9 - INSURANCE COVERAGE

The District has the following insurance coverage:

Alteris Insurance Services, November 15, 2015 to November 15, 2016	
Property coverage	\$ 2,904,000
Umbrella coverage	\$ 1,000,000
Liability coverage	
Occurrence limit	\$ 1,000,000
Aggregate limit	\$ 3,000,000
Medical expense limit	\$ 10,000
Automobile coverage	
Liability	\$ 1,000,000
Uninsured motorists	\$ 1,000,000
Underinsured motorists	\$ 1,000,000
Workers Compensation	
Accident limit (per accident)	\$ 500,000
Disease limit (per employee)	\$ 500,000
Disease policy limit	\$ 500,000
Directors and Officers Liability	\$ 1,000,000

Western Surety Company
Fidelity Bond #5240227, October 31, 2015 to
October 31, 2016 \$175,000 clerk/treasurer

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2015, the District managed its risks as follows:

Liability Insurance

The District purchases liability insurance for risks related to torts; theft of or damage to property; errors and omissions of directors and officers; and automobile accident or damage from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2015 AND 2014

NOTE 10 - RISK MANAGEMENT (CONTINUED)

Worker's Compensation

The District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits

The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

NOTE 11 - SUBSEQUENT EVENTS

The District had no subsequent events requiring recording or disclosure in the financial statements through June 30, 2016, which is the date the financial statements were available to be issued.



BUTTE-MEADE SANITARY WATER DISTRICT
 SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION
 LIABILITY (ASSET)
 SOUTH DAKOTA RETIREMENT SYSTEM

	2015
District's proportion of the net pension liability (asset)	-0.0141086%
District's proportionate share of net pension liability (asset)	(59,839)
District's covered-employee payroll	257,580
District's proportional share of the net pension liability (asset) as a percentage of its covered - employee payroll	-23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	-104.10%

The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is June 30.



BUTTE-MEADE SANITARY WATER DISTRICT
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT CONTRIBUTIONS
SOUTH DAKOTA RETIREMENT SYSTEM

	<u>2015</u>
Contractually required contribution	\$ 14,081
Contributions in relation to the contractually required contribution	<u>14,081</u>
Contribution deficiency (excess)	<u>\$ --</u>
District's covered - employee payroll	\$ 234,684
Contributions as a percentage of covered - employee payroll	6.00%



BUTTE-MEADE SANITARY WATER DISTRICT
 SUPPLEMENTARY INFORMATION SCHEDULES
 FOR THE YEAR ENDED DECEMBER 31, 2015

METER DEPOSITS

Water meter deposits are held separately in depository accounts in the name of the District.

COMPENSATION OF DIRECTORS

For the years ended December 31, 2015 and 2014, fees of \$3,400 and \$3,200 and mileage of \$382 and \$345 were paid to directors.

RURAL DEVELOPMENT RESERVES

In accordance with the provisions of the regulatory agreement, restricted cash is held by First National Bank which is insured by the Federal Deposit Insurance Corporation. Restricted cash is to be used for debt service, repairs, replacements, and improvements of property as approved by Rural Development. Restricted cash transactions for the year ended December 31, 2015 are as follows:

Balance - December 31, 2014	\$ 116,219
Deposits	247
Withdrawals	<u>(\$ 30,000)</u>
 Balance - December 31, 2015	 \$ 86,466
Required balance	<u>86,100</u>
Amount in excess	<u>\$ 366</u>

AGED ACCOUNTS RECEIVABLE

Current	\$ 58,333
31-60 days	110
61-90 days	1,105
91 days and over	<u>2,150</u>
	<u>\$ 61,698</u>

