

Municipality of Alpena, SD

**Independent Auditor's Report
and Financial Statements**

**For the Year Ended
December 31, 2014**

Municipality of Alpena, SD

Table of Contents

	Page
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> -----	1-2
Independent Auditor’s Report on Compliance for each Major Program and on Internal Control over Compliance Required by the OMB Circular A-133 -----	3-4
Schedule of Current Audit Findings and Questioned Costs -----	5-7
Schedule of Prior Year Audit Findings -----	8
Corrective Action Plan (Unaudited) -----	9
Independent Auditor’s Report -----	10-12
Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position – Modified Cash Basis -----	13
Statement of Activities – Modified Cash Basis -----	14
Fund Financial Statements	
Governmental Funds	
Balance Sheet – Modified Cash Basis-----	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis-----	16
Notes To The Modified Cash Basis Financial Statements -----	17-24
Supplemental Information -----	25
Schedule of Expenditures Federal Awards -----	26



**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 Trustees
Municipality of Alpena, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, and each major fund of the Municipality of Alpena, South Dakota (municipality) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Municipality’s basic financial statements, and have issued our report thereon dated November 28, 2022 which was adverse because we were not able to gather sufficient appropriate audit evidence to provide a basis for an audit opinion for the financial statements, governmental activities, the business-type activities, and each major fund and the related notes to the financial statements, and management has not properly reported the proprietary funds separate from the governmental funds. See the “Basis for Adverse Opinion” paragraph in the “Independent Auditor’s Report.”

Report On Internal Control over Financial Reporting

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

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 Municipality’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.

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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items 2014-01 and 2014-02 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Municipality of Alpena, SD's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the Municipality's response to the findings identified in our audit. The Municipality of Alpena, SD's response to the findings identified in our audit are described in the accompanying Schedule of Current Findings and Questioned Costs. The Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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



Huron, South Dakota
November 28, 2022



Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance Required by the OMB Circular A-133 Guidance

To the Board of Trustees
Municipality of Alpena, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Municipality of Alpena's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of Municipality of Alpena's major federal programs for the year ended December 31, 2014. Municipality of Alpena's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Municipality of Alpena complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Municipality of Alpena is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality of Alpena's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the 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 Municipality of Alpena's internal control over compliance.

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

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.



Huron, South Dakota
November 28, 2022

Municipality of Alpena, SD
 Schedule of Current Audit Findings and Questioned Costs
 December 31, 2014

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Adverse

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiencies identified that are not considered to be material weakness(es)? _____ X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiencies identified that are not material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a). _____ yes X no

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Wastewater System Improvement
66.458	Clean Water State Revolving Fund Capitalization Grant

Dollar threshold used to distinguish between Type A and Type B programs: _____ \$750,000 _____

Auditee qualified as low-risk auditee? _____ yes X no

Municipality of Alpena, SD
Schedule of Audit Findings
December 31, 2014

Section II – Financial Statement Findings

Internal Control-Relate Findings – Significant Deficiencies:

Finding No. 2014-01 – Lack of segregation of duties (Internal Control)

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

Condition: The Municipality has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, payroll, and review of manual journal entries functions due to a lack of segregation of duties.

Cause: The finance officer processes all transactions from beginning to end, reconciles bank statements, and prepares financial statements.

Effect: There is an increase likelihood that fraud or errors could occur and not be detected in a timely manner by employees or others in the ordinary course of performing their duties.

Recommendation: Municipality officials be cognizant of this lack of segregation of duties for revenues, expenditures, payroll, and review of manual journal entries and attempt to provide compensating internal controls whenever and wherever possible and practical.

Views of Responsible Officials: The Municipality agrees with the finding. A response can be found in the Corrective Action Plan.

Finding No. 2014-02 – Internal control over financial reporting

Criteria: The Municipality's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, 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.

Condition: The Municipality requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2014. 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 Municipality's existing internal controls and, therefore, could result in a misstatement of the Municipality's financial statements.

Cause: The Municipality does not have adequately trained staff 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 Municipality's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The city also did not prepare the financial statements in accordance with the modified cash basis of accounting.

Municipality of Alpena, SD
Schedule of Audit Findings
December 31, 2014 (Continued)

Finding No. 2014-02 – Internal control over financial reporting (Continued)

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.

Views of Responsible Officials: The Municipality agrees with the finding. A response can be found in the Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2014-3 – Late submission of federal awards to federal audit clearinghouse.

Criteria: OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the Municipality to submit its single audit reporting package to the federal audit clearing house no later than 9 months after calendar year-end.

Condition: The federal reporting deadline for the Municipality’s single audit reporting package was September 30, 2015; however, the Municipality did not issue its single audit reporting package until November 28, 2022.

Cause: As discussed in finding 2014-3, the late completion of the Municipality’s SEFA contributed to the late submission of its single audit reporting package.

Effect: The late submission affects federal programs the Municipality expended, however, this finding does not result in a deficiency in internal control over compliance or noncompliance for the individual federal programs.

Recommendation: The Municipality should improve its financial reporting process and be cognizant of all requirements relating the to the timely submission of its single audit reporting package to the federal audit clearinghouse.

Views of Responsible Officials: The Municipality agrees with the finding.

Municipality of Alpena, SD
Schedule of Prior Year Audit Findings
December 31, 2014 (Continued)

There are no prior year audit findings.

Municipality of Alpena, SD

*Office of the Finance Officer
Phone: (605)-461-8436*

*PO Box 75
Alpena SD 57370*

Corrective Action Plan (Unaudited)

Municipality of Alpena respectfully submits the following corrective action plan for the year ended December 31, 2014:

Name and address of independent public accounting firm:

ELO Prof. LLC
2260 Kansas Ave Se Ste 2
Huron, SD 57350

Findings - Financial Statement Audit

Finding No. 2014-001 – Lack of segregation of duties (Internal Control)

Corrective Action Plan: The Municipality has accepted the risk associated with Finding 2014-001 regarding the lack of segregation of duties and will continue to have the Board oversee operations.

Anticipated Completion Date: Ongoing.

Finding No. 2014-002 – Internal control over financial reporting

Corrective Action Plan: The Municipality has accepted the risk associated with Finding 2014-002 regarding the internal control over financial reporting. The Municipality requested the external auditors to prepare the financial statements, and related notes for the year ended.

Anticipated Completion Date: Ongoing.

If there are questions regarding this plan, please call Shawn Ochsner, Finance Officer, at 605-461-8436.



Independent Auditor's Report

To the Board of Trustees
Municipality of Alpena, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the Schedule of Expenditures of Federal Awards of the Municipality of Alpena, South Dakota, as of and for the year ended December 31, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except for the matter described in the "Basis for Adverse Opinion on the Financial Statements," we believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion of Financial Statements of the Governmental Activities, the Business-Type Activities, Each Major Fund and the Related Notes to the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the Schedule of Expenditures of Federal Awards of the Municipality of Alpena, South Dakota, as of and for the year ended December 31, 2014, and the related notes to the financial statements. We were not able to gather sufficient appropriate audit evidence to provide a basis for an audit opinion for the financial statements, governmental activities, the business-type activities, and each major fund and the related notes to the financial statements, as of and for the year ended December 31, 2014. Management has not properly reported the proprietary funds separate from the governmental funds.

Adverse Opinion

Because of the significance of the matter described in the “Basis for Adverse Opinion of the Financial Statements of the Governmental Activities, the Business-Type Activities, Each Major Fund and the Related Notes to the Financial Statements” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Municipality of Alpena. Accordingly, we will express an adverse opinion on these financial statements. Management has not properly reported the proprietary funds separate from the governmental funds.

Unmodified Opinion

In our opinion, the Schedule of Expenditures of Federal Awards referred to above present fairly, in all material respects, of the Municipality of Alpena, as of December 31, 2014, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

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

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality’s basic financial statements. The Municipality has chosen to omit the budgetary comparison schedule, notes to the budgetary comparison schedule, the schedule of Municipal contributions, the schedule of the Municipality’s proportionate share of net pension, and the Schedule of Long-Term Debt. They are not a required part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality’s financial statements. The Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and non-Profit Organizations* listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2022 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CIO of LLC". The signature is written in a cursive, slightly slanted style.

Huron, South Dakota
November 28, 2022

Municipality of Alpena, SD
Statement of Net Position – Modified Cash Basis
December 31, 2014

	<u>Primary Government Governmental Activities</u>
Assets	
Cash and cash equivalents	<u>\$ 571,285</u>
Total Assets	<u><u>\$ 571,285</u></u>
Net Position	
Unrestricted	<u>\$ 571,285</u>
Total Net Position	<u><u>\$ 571,285</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Alpena, SD
Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Primary Government Total</u>
Primary Government:					
Governmental Activities:					
General government	\$ 61,711	\$ 7,289	\$ 361,431	\$ 307,009	\$ 307,009
Public safety	74,338	--	--	(74,338)	(74,338)
Public works	415,992	111,329	--	(304,663)	(304,663)
Health and welfare	3,737	--	--	(3,737)	(3,737)
Culture-Recreation	26,374	--	--	(26,374)	(26,374)
Conservation and Development	104,957	--	--	(104,957)	(104,957)
Total Governmental Activities	<u>687,109</u>	<u>118,618</u>	<u>361,431</u>	<u>(207,060)</u>	<u>(207,060)</u>
Total Primary Government	<u>\$ 687,109</u>	<u>\$ 118,618</u>	<u>\$ 361,431</u>	<u>(207,060)</u>	<u>(207,060)</u>
General Revenues:					
Taxes:					
Property tax				142,981	142,981
Sales tax				127,253	127,253
Other tax				850	850
State Shared Revenues				9,835	9,835
Unrestricted investment earnings				486	486
Miscellaneous				378	378
Total General Revenues and Transfers				<u>281,783</u>	<u>281,783</u>
Change in Net Position				74,723	74,723
Net Position-Beginning of Year				<u>496,562</u>	<u>496,562</u>
Net Position-Ending of Year				<u>\$ 571,285</u>	<u>\$ 571,285</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Alpena, SD
Balance Sheet – Modified Cash Basis
Governmental Funds
December 31, 2014

	<u>General Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 571,285</u>
Total Assets	<u><u>\$ 571,285</u></u>
Fund Balances	
Unassigned	<u>\$ 571,285</u>
Total Fund Balances	<u><u>\$ 571,285</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Alpena, SD
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2014

	General Fund
Revenues	
Taxes:	
General property taxes	\$ 142,981
General sales and use taxes	127,253
Licenses and permits	850
Intergovernmental Revenues:	
State shared revenue	
Bank franchise tax	293
Motor vehicle commercial prorate	1,318
Liquor tax reversion	1,833
Motor vehicle licenses (5%)	5,353
Local government highway and bridge fund	658
Other state shared revenue	380
County shared revenue	
Charges for goods and services	111,329
Miscellaneous:	
Investment earnings	486
Rentals	7,289
Operating Grants	361,431
Other	378
Total Revenues	761,832
Expenditures	
General Government:	
Executive	61,711
Public Safety:	
Police	52,303
Fire	22,035
Civil Defense	
Public Works:	
Highways and streets	47,617
Sanitation	340,199
Other Public Works	28,176
Health and welfare	3,737
Culture-Recreation	26,374
Conservation and Development	104,957
Total Expenditures	687,109
Net Change in Fund Balance	74,723
Fund Balance - Beginning of Year	496,562
Fund Balance - End of Year	\$ 571,285

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Alpena, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2014

1. Summary of Significant Accounting Policies:

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

a. Financial Reporting Entity:

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

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Municipality is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality (primary government). The Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality.

At this time, Alpena has no component units which are separate legal entities and for which the Municipality is financially accountable.

b. Basis of Presentation:

Government-wide Financial Statements:

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

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

Municipality of Alpena, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2014

1. Summary of Significant Accounting Policies: (Continued)

Fund Financial Statements:

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

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

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

Governmental Funds:

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

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

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

Municipality of Alpena, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2014

1. Summary of Significant Accounting Policies: (Continued)

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

Water Fund – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities (SDCL 9-47-1). This fund is reported in the General Fund.

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

c. Measurement Focus and Basis of Accounting:

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

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Municipality of Alpena, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2014

1. Summary of Significant Accounting Policies: (Continued)

Basis of Accounting:

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

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

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

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

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit with a term to maturity at date of acquisition of three months or less.

e. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Municipality's taxpayers or citizenry. 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.

Municipality of Alpena, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2014

1. Summary of Significant Accounting Policies: (Continued)

f. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Position, revenues and expenses are classified as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

g. Cash and Cash Equivalents:

The Municipality pools the cash resources of its funds for cash management purposes. The proprietary 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 for the purpose of the Statement of Cash Flows.

h. Equity Classifications:

Government-wide Statements:

Equity is classified as Net Position and is displayed in one component:

1. Unrestricted net position – All net positions that do not meet the definition of Restricted Net Position.

Fund Financial Statements:

Governmental fund equity is classified as fund balance is distinguished as "Unassigned." Proprietary fund equity is classified the same as in the government-wide financial statements.

i. Application of Net Position:

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

j. Fund Balance Classification Policies and Procedures:

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

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Municipality of Alpena, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2014

1. Summary of Significant Accounting Policies: (Continued)

- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the governing body.
- Unassigned – included positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

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

2. Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk:

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

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

Municipality of Alpena, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2014

2. Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk: (Continued)

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

As of December 31, 2014, the Municipality did not have any investments.

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

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

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

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Municipality's policy is to credit all income from deposits and investments to the General Fund.

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

4. Risk Management:

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2014, the Municipality managed its risks as follows:

Employee Health Insurance:

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

Municipality of Alpena, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2014

4. Risk Management: (Continued)

Liability Insurance:

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

Worker's Compensation:

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

Unemployment Benefits:

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

Supplementary Information

Municipality of Alpena, SD
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture - Pass-Through Programs:		
SD Department of Environment and Natural Resources		
Clean Water State Revolving Fund Capitalization Grant	66.458	\$ 739,228
U.S Department of Housing and Urban Development - Pass Through Programs:		
SD Govenors's Office of Economic Development		
Community Development Block Grant/State's Program	14.228	<u>293,030</u>
Grant Total		<u><u>\$ 1,032,258</u></u>

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Municipality under programs of the federal government for the year ended December 31, 2014. 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*. Because the Schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Municipality.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in the OMB Circular A-133, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Municipality has elected not to use the 10-percent de minimis indirect cost rate as allowed under the OMB Circular A-133.