



Financial Statements
December 31, 2015
City of Doland

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Independent Auditor's Report

The City Council
City of Doland
Doland, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities and each major fund of the City of Doland as of December 31, 2015, and for the fiscal year then ended and the related notes to the financial statements, which collectively comprise the City'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 the basis of accounting described in Note 1; this includes determining that the other comprehensive basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstance. 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 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 Audit 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 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 respective financial position - modified cash basis - of the governmental activities, the business-type activities, and each major fund of the City of Doland as of December 31, 2015, and the respective changes in financial position - modified cash basis and, where applicable, cash flows - modified cash basis thereof and for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statement, 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 opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The listing of municipal officers, budgetary comparison, and schedule of changes in long-term debt are presented for purposes of additional analysis and are not a required part of the financial statements.

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

The listing of municipal officers has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2016 on our consideration of the City of Doland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Audit Standards* in considering the City of Doland's internal control over financial reporting and compliance.



Aberdeen, South Dakota
August 10, 2016

City of Doland
Statement of Net Position—Modified Cash Basis
December 31, 2015

| | Primary Government | | |
|---------------------------|----------------------------|-----------------------------|-------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 302,572 | \$ 30,743 | \$ 333,315 |
| | <u>\$ 302,572</u> | <u>\$ 30,743</u> | <u>\$ 333,315</u> |
| Net Position | | | |
| Unrestricted | \$ 302,572 | \$ 30,743 | \$ 333,315 |
| | <u>\$ 302,572</u> | <u>\$ 30,743</u> | <u>\$ 333,315</u> |

City of Doland
Statement of Activities—Modified Cash Basis
Year Ended December 31, 2015

| Functions/Programs | Expenses | Program Revenues | | | Net Revenue (Expense) and Changes in Net Position | | |
|---|---------------------|-------------------------|--|---|--|-----------------------------|-------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants, Contributions, and Loan Proceeds | Primary Government | | Total |
| | | | | | Governmental Activities | Business-Type Activities | |
| Primary Government | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 81,854 | \$ 18,786 | \$ 4,416 | \$ 4,519 | \$ (54,133) | \$ - | \$ (54,133) |
| Public safety | 2,000 | - | - | - | (2,000) | - | (2,000) |
| Public works | 64,224 | 33,366 | - | - | (30,858) | - | (30,858) |
| Culture and recreation | 19,725 | 972 | - | 1,023 | (17,730) | - | (17,730) |
| Conservation and development | 107,290 | - | - | - | (107,290) | - | (107,290) |
| Total governmental activities | 275,093 | 53,124 | 4,416 | 5,542 | (212,011) | - | (212,011) |
| Business-type activities: | | | | | | | |
| Water | 143,465 | 60,872 | 62,421 | 10,950 | - | (9,222) | (9,222) |
| Sewer | 1,702,756 | 62,613 | 738,523 | 873,995 | - | (27,625) | (27,625) |
| Total business-type activities | 1,846,221 | 123,485 | 800,944 | 884,945 | - | (36,847) | (36,847) |
| Total primary government | <u>\$ 2,121,314</u> | <u>\$ 176,609</u> | <u>\$ 805,360</u> | <u>\$ 890,487</u> | <u>(212,011)</u> | <u>(36,847)</u> | <u>(248,858)</u> |
| General Revenues | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | | | | 87,539 | - | 87,539 |
| Sales taxes | | | | | 91,019 | - | 91,019 |
| State shared revenues | | | | | 22,944 | - | 22,944 |
| County shared revenues | | | | | 823 | - | 823 |
| Unrestricted investment earnings | | | | | 532 | 2 | 534 |
| Miscellaneous revenue | | | | | 17,989 | - | 17,989 |
| Sale of Municipal Property | | | | | - | - | - |
| Compensation for Damage to Capital Assets | | | | | - | - | - |
| Total general revenues | | | | | 220,846 | 2 | 220,848 |
| Change in Net Position | | | | | 8,835 | (36,845) | (28,010) |
| Net Position - Beginning | | | | | 293,737 | 67,588 | 361,325 |
| Net Position - Ending | | | | | <u>\$ 302,572</u> | <u>\$ 30,743</u> | <u>\$ 333,315</u> |

See Notes to Financial Statements

City of Doland
Balance Sheet—Modified Cash Basis—Governmental Funds
December 31, 2015

| | General Fund | Revolving Loan Fund | Library Fund | Total Governmental Funds |
|---------------------------|-------------------|---------------------------|------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 215,703 | \$ 48,887 | \$ 37,982 | \$ 302,572 |
| | <u>\$ 215,703</u> | <u>\$ 48,887</u> | <u>\$ 37,982</u> | <u>\$ 302,572</u> |
| Fund Balances | | | | |
| Unassigned | \$ 215,703 | \$ 48,887 | \$ 37,982 | \$ 302,572 |
| | <u>\$ 215,703</u> | <u>\$ 48,887</u> | <u>\$ 37,982</u> | <u>\$ 302,572</u> |

City of Doland

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2015

| | General Fund | Revolving Loan Fund | Library Fund | Total Governmental Funds |
|--|-----------------|---------------------------|-----------------|--------------------------------|
| Revenues | | | | |
| 310 Taxes | | | | |
| 311 General property taxes | \$ 87,539 | \$ - | \$ - | \$ 87,539 |
| 313 General sales and use taxes | 91,019 | - | - | 91,019 |
| Total taxes | 178,558 | - | - | 178,558 |
| 320 Licenses and permits | 550 | - | - | 550 |
| 330 Intergovernmental revenue | | | | |
| 331 Federal grants | 4,416 | - | - | 4,416 |
| 335 State shared revenue | | | | |
| 335.01 Bank franchise tax | 914 | - | - | 914 |
| 335.02 Motor vehicle commercial prorate | 1,522 | - | - | 1,522 |
| 335.03 Liquor tax reversion | 1,119 | - | - | 1,119 |
| 335.04 Motor vehicle licenses (5%) | 6,347 | - | - | 6,347 |
| 335.08 Local government highway and bridge fund | 13,042 | - | - | 13,042 |
| 338 County shared revenue | | | | |
| 338.01 County road tax (25%) | 440 | - | - | 440 |
| 338.02 County highway and bridge reserve tax (25%) | 184 | - | - | 184 |
| 338.03 County wheel tax | 199 | - | - | 199 |
| Total intergovernmental revenue | 28,183 | - | - | 28,183 |
| 340 Charges for goods and services | | | | |
| 341 General government | 17,036 | - | - | 17,036 |
| 344 Sanitation | 1,244 | - | - | 1,244 |
| 346 Culture and recreation | 972 | - | - | 972 |
| 349 Other | 32,122 | - | - | 32,122 |
| Total charges for good and services | 51,374 | - | - | 51,374 |
| 360 Miscellaneous revenue | | | | |
| 361 Investment earnings | 173 | 280 | 79 | 532 |
| 362 Rentals | 1,200 | - | - | 1,200 |
| 367 Contributions and donations from private sources | 4,519 | - | 1,023 | 5,542 |
| 368 Liquor operating agreement income | 9,487 | - | - | 9,487 |
| 369 Other | 6,832 | 1,670 | - | 8,502 |
| Total miscellaneous revenue | 22,211 | 1,950 | 1,102 | 25,263 |
| Total revenues | 280,876 | 1,950 | 1,102 | 283,928 |

City of Doland

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2015

| | General Fund | Revolving Loan Fund | Library Fund | Total Governmental Funds |
|---|-----------------|---------------------------|-----------------|--------------------------------|
| Expenditures | | | | |
| 410 General government | | | | |
| 412 Executive | 6,642 | - | - | 6,642 |
| 414 Financial administration | 49,620 | - | - | 49,620 |
| 419 Other | 25,592 | - | - | 25,592 |
| Total general government | 81,854 | - | - | 81,854 |
| 420 Public safety | | | | |
| 422 Fire | 2,000 | - | - | 2,000 |
| Total public safety | 2,000 | - | - | 2,000 |
| 430 Public works | | | | |
| 431 Highways and streets | 34,058 | - | - | 34,058 |
| 432 Sanitation | 18,916 | - | - | 18,916 |
| Total public works | 52,974 | - | - | 52,974 |
| 450 Culture and recreation | | | | |
| 452 Parks | 5,393 | - | - | 5,393 |
| 455 Libraries | 8,651 | - | - | 8,651 |
| Total culture and recreation | 14,044 | - | - | 14,044 |
| 460 Conservation and development | | | | |
| 465 Economic development and assistance (industrial development) | 107,290 | - | - | 107,290 |
| Total conservation and development | 107,290 | - | - | 107,290 |
| 485 Capital outlay | 16,931 | - | - | 16,931 |
| Total expenditures | 275,093 | - | - | 275,093 |
| Excess (Deficiency) of revenue over expenditures | 5,783 | 1,950 | 1,102 | 8,835 |
| Net Change in Fund Balance | 5,783 | 1,950 | 1,102 | 8,835 |
| Fund Balance - Beginning | 209,920 | 46,937 | 36,880 | 293,737 |
| Fund Balance - Ending | \$ 215,703 | \$ 48,887 | \$ 37,982 | \$ 302,572 |

City of Doland
Statement of Net Position--Modified Cash Basis--Proprietary Funds
December 31, 2015

| | Enterprise Funds | | |
|---------------------------|------------------|------------------|------------------|
| | Water Fund | Sewer Fund | Totals |
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 4,391 | \$ 26,352 | \$ 30,743 |
| | <u>\$ 4,391</u> | <u>\$ 26,352</u> | <u>\$ 30,743</u> |
| Net Position | | | |
| Unrestricted | \$ 4,391 | \$ 26,352 | \$ 30,743 |
| | <u>\$ 4,391</u> | <u>\$ 26,352</u> | <u>\$ 30,743</u> |

City of Doland

Statement of Revenues, Expenses and Changes in Fund Net Position –Modified Cash Basis–Proprietary Funds
Year Ended December 31, 2015

| | Enterprise Funds | | |
|-------------------------------------|------------------|-------------|-------------|
| | Water Fund | Sewer Fund | Totals |
| Operating Revenue | | | |
| 369 Miscellaneous | \$ 2,290 | \$ - | \$ 2,290 |
| 369.01 Other (deposits collected) | 900 | - | 900 |
| 380 Charges for goods and services | 39,729 | 38,685 | 78,414 |
| Revenue dedicated to servicing debt | 17,953 | 23,928 | 41,881 |
| Total operating revenue | 60,872 | 62,613 | 123,485 |
| Operating Expenses | | | |
| 410 Personal services | 6,640 | 10,669 | 17,309 |
| 420 Other current expense | 93,464 | 419,015 | 512,479 |
| 426.2 Materials | 25,923 | 18,809 | 44,732 |
| 430 Capital assets | - | 1,205,485 | 1,205,485 |
| Total operating expenses | 126,027 | 1,653,978 | 1,780,005 |
| Operating Loss | (65,155) | (1,591,365) | (1,656,520) |
| Nonoperating Revenue (Expense) | | | |
| 330 Federal grants | - | 738,523 | 738,523 |
| 330.1 State grants | 62,421 | - | 62,421 |
| 361 Investment earnings | - | - | - |
| 391.20 Long-term debt issued | 10,950 | 873,995 | 884,945 |
| 440 Debt service (principal) | (8,864) | (33,210) | (42,074) |
| 441 Interest expense | (8,573) | (15,567) | (24,140) |
| Total nonoperating revenue | 55,934 | 1,563,741 | 1,619,675 |
| Change in Net Position | (9,221) | (27,624) | (36,845) |
| Net Position - Beginning | 13,612 | 53,976 | 67,588 |
| Net Position - Ending | \$ 4,391 | \$ 26,352 | \$ 30,743 |

City of Doland
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2015

| | Enterprise Funds | | |
|--|------------------|----------------|----------------|
| | Water Fund | Sewer Fund | Totals |
| Cash Flows from Operating Activities | | | |
| Receipt from customers | \$ 60,872 | \$ 62,613 | \$ 123,485 |
| Payments to suppliers | (119,387) | (437,824) | (557,211) |
| Payments to employees | (6,640) | (10,669) | (17,309) |
| Other receipts | 62,421 | 738,523 | 800,944 |
| Net Cash used for (from) Operating Activities | (2,734) | 352,643 | 349,909 |
| Cash Flows used for Capital and Related Financing Activities | | | |
| Proceeds from capital debt | 10,950 | 873,995 | 884,945 |
| Purchase of capital assets | - | (1,205,485) | (1,205,485) |
| Principal paid on capital debt | (8,864) | (33,210) | (42,074) |
| Interest paid on capital debt | (8,573) | (15,567) | (24,140) |
| Net Cash used for Capital and Related Financing Activity | (6,487) | (380,267) | (386,754) |
| Net Change in Cash and Cash Equivalents | (9,221) | (27,624) | (36,845) |
| Cash and Cash Equivalents - Beginning | 13,612 | 53,976 | 67,588 |
| Cash and Cash Equivalents - Ending | \$ 4,391 | \$ 26,352 | \$ 30,743 |
| Reconciliation of Operating Loss to Net Cash used for Operating Activities | | | |
| Operating loss | \$ (65,155) | \$ (1,591,365) | \$ (1,656,520) |
| Adjustments to reconcile operating loss to net cash from operating activities: | | | |
| Operating grant | 62,421 | 738,523 | 800,944 |
| Purchase of capital assets | - | 1,205,485 | 1,205,485 |
| Net Cash used for (from) Operating Activities | \$ (2,734) | \$ 352,643 | \$ 349,909 |

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

The reporting entity of the City of Doland (the City), 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 City's financial statements to be misleading or incomplete.

The reporting entity is comprised of the primary government, City of Doland.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City 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 City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

Based upon the application of these criteria, the City does not have any component units.

B. Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

The funds of the City are described below:

Governmental Funds

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

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

- **Revolving Loan Fund** – To account for resources loaned to businesses to be repaid over a period of time and, resources used to collateralize business loans. This is a major fund.
- **Library Fund** – To account for library related fines, similar charges, and donations to be used for library purposes. This is a major fund.

Proprietary Funds

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

The City reports the following enterprise funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

The City's basis of accounting is the modified cash basis, which is a basis of accounting other than U.S. generally accepted accounting principles (USGAAP). Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus

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

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

Basis of Accounting

In the government-wide statement of net position and statement of activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of net position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The only modification to the cash basis of accounting implemented by the City in these financial statements is the recording of long-term investments in certificates of deposit (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost and inter-fund advances and borrowings arising from the use of a pooled cash account.

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

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

D. Deposits and Investments

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

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

E. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

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

- The City did not have any interfund receivables and payables that needed to be eliminated as of December 31, 2015.
- The City did not have internal service fund activity which required elimination as of December 31, 2015.

F. Capital Assets

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

G. Long-Term Liabilities

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

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

H. Program Revenues

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

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

I. Proprietary Funds Revenue and Expense Classifications

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

J. Cash and Cash Equivalents

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

K. Equity Classifications

Government-Wide Statements

Equity is classified as net position and is comprised of three components, invested in capital assets, net of related debt; restricted net position; and unrestricted net position. Because capital assets are not reported by the City under the modified cash basis of accounting, only the following components are displayed:

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

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between nonspendable, restricted, committed, assigned and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

L. Application of Net Position

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

M. Fund Balance Classification Policies and Procedures

The City has defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

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

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

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

N. Rounding

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

Note 2 - Deposits and Investments

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

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of 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.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2015, the City's deposits in financial institutions were exposed to custodial credit risk as follows:

| Depository name | % Under collateralized | At risk amount |
|---|---------------------------|----------------------|
| Turton Farmers State Bank | 0.37% | <u>\$ 447</u> |
| Total deposits exposed to custodial credit risk | | <u><u>\$ 447</u></u> |

The actual bank balances at December 31, 2015 are as follows:

| | <u>Bank Balance</u> |
|---|--------------------------|
| Insured (FDIC/NCUA) | \$ 392,701 |
| Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution | <u>120,793</u> |
| | <u><u>\$ 513,494</u></u> |

The City's carrying amount of deposits at December 31, 2015 is as follows:

| | |
|---------------------------|--------------------------|
| Cash and cash equivalents | <u><u>\$ 333,315</u></u> |
|---------------------------|--------------------------|

Investments

In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building and depreciation reserve funds, such securities shall either mature within 18 months from the date of purchase or be redeemable at the option of the holder within 18 months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the 100 largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

As of December 31, 2015, the City does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

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

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

Note 3 - Property Taxes

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

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

Note 4 - Risk Management

The City 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 City managed its risks as follows:

Employee Health Insurance

The City does not offer health insurance as an employee benefit.

Liability Insurance

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

| <u>Coverage</u> | <u>Deductible</u> |
|----------------------|-------------------|
| General liability | \$ 500 |
| Officials liability | 500 |
| Automobile liability | 500 |
| Light pole liability | 250 |

The agreement with the South Dakota Public Assurance Alliance provides that the above coverages will be provided to a \$1,500,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

| | |
|--------------------------------|------|
| First Full Year | 50% |
| Second Full Year | 60% |
| Third Full Year | 70% |
| Fourth Full Year | 80% |
| Fifth Full Year | 90% |
| Sixth Full Year and Thereafter | 100% |

As of December 31, 2015, the Municipality has vested balance in the cumulative reserve fund of \$6,673

Worker's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

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

Unemployment Benefits

The City 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 5 - Significant Contingencies - Litigation

At December 31, 2015, the City was not involved in any litigation that would be material to the financial statements.



Supplementary Information
December 31, 2015
City of Doland

City of Doland
Schedule of Changes in Notes and Bonds Payable
Year Ended December 31, 2015

| <u>Notes and Bonds Payable</u> | <u>Notes and Bonds Payable 1/1/2015</u> | <u>Add New Debt</u> | <u>Less Debt Retired</u> | <u>Notes and Bonds Payable 12/31/2015</u> |
|------------------------------------|---|-------------------------|------------------------------|---|
| Enterprise Notes and Bonds Payable | | | | |
| 231.02 Revenue bonds | | | | |
| Water - SRF | \$ 348,838 | \$ 10,950 | \$ 8,864 | \$ 350,924 |
| Wasterwater - RD #1 | 117,579 | - | 2,875 | 114,704 |
| Wasterwater - RD #2 | <u>97,503</u> | <u>873,995</u> | <u>30,336</u> | <u>941,162</u> |
| | <u>\$ 563,921</u> | <u>\$ 884,945</u> | <u>\$ 42,075</u> | <u>\$ 1,406,791</u> |

City of Doland
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2015

| | Budgeted Amounts | | Actual | Variance with |
|---|------------------|-----------|-----------|--|
| | Original | Final | Amounts | Final Budget Positive (Negative) |
| Revenues | | | | |
| 310 Taxes | | | | |
| 311 General property taxes | \$ 91,140 | \$ 91,140 | \$ 87,539 | \$ (3,601) |
| 313 General sales and use taxes | 70,000 | 70,000 | 91,019 | 21,019 |
| 315 Amusement taxes | 24 | 24 | - | (24) |
| 319 Penalties and interest on delinquent taxes | 750 | 750 | - | (750) |
| Total taxes | 161,914 | 161,914 | 178,558 | 16,644 |
| 320 Licenses and permits | 550 | 550 | 550 | - |
| 330 Intergovernmental revenue | | | | |
| 331 Federal grants | 3,000 | 3,000 | 4,416 | 1,416 |
| 335 State shared revenue | | | | |
| 335.01 Bank franchise tax | 700 | 700 | 914 | 214 |
| 335.02 Motor vehicle commercial prorated | 1,350 | 1,350 | 1,522 | 172 |
| 335.03 Liquor tax reversion | 1,700 | 1,700 | 1,119 | (581) |
| 335.04 Motor vehicle licenses (5%) | 5,000 | 5,000 | 6,347 | 1,347 |
| 335.08 Local government highway and bridge fund | 11,000 | 11,000 | 13,042 | 2,042 |
| 338 County shared revenue | | | | |
| 338.01 County road tax (25%) | 500 | 500 | 440 | (60) |
| 338.02 County highway and bridge reserve tax (25%) | 200 | 200 | 184 | (16) |
| 338.03 County wheel tax | 150 | 150 | 199 | 49 |
| Total intergovernmental revenue | 23,600 | 23,600 | 28,183 | 4,583 |
| 340 Charges for goods and services | | | | |
| 341 General government | 17,816 | 17,816 | 17,036 | (780) |
| 344 Sanitation | 1,300 | 1,300 | 1,244 | (56) |
| 346 Culture and recreation | 1,000 | 1,000 | 972 | (28) |
| 349 Other | 48,480 | 48,480 | 32,122 | (16,358) |
| Total charges for goods and services | 68,596 | 68,596 | 51,374 | (17,222) |
| 360 Miscellaneous revenue | | | | |
| 361 Investment earnings | 125 | 125 | 173 | 48 |
| 362 Rentals | 1,200 | 1,200 | 1,200 | - |
| 367 Contributions and donations from private sources | - | - | 4,519 | 4,519 |
| 368 Liquor operating agreement income | 10,000 | 10,000 | 9,487 | (513) |
| 369 Other | 4,875 | 4,875 | 6,832 | 1,957 |
| Total miscellaneous revenue | 16,200 | 16,200 | 22,211 | 6,011 |
| Total revenues | 270,860 | 270,860 | 280,876 | 10,016 |

City of Doland
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2015

| | Budgeted Amounts | | Actual | Variance with |
|---|------------------|------------|------------|--|
| | Original | Final | Amounts | Final Budget Positive (Negative) |
| Expenditures | | | | |
| 410 General government | | | | |
| 412 Executive | 7,000 | 7,000 | 6,642 | 358 |
| 412.5 Contingency | 35,988 | 35,988 | - | 35,988 |
| Amount transferred | - | (35,988) | - | (35,988) |
| 413 Elections | 230 | 230 | - | 230 |
| 414 Financial administration | 54,104 | 54,104 | 49,620 | 4,484 |
| 419 Other | 31,400 | 31,400 | 25,592 | 5,808 |
| Total general government | 128,722 | 92,734 | 81,854 | 10,880 |
| 420 Public safety | | | | |
| 422 Fire | 2,000 | 2,000 | 2,000 | - |
| Total public safety | 2,000 | 2,000 | 2,000 | - |
| 430 Public works | | | | |
| 431 Highways and streets | 53,624 | 53,624 | 45,308 | 8,316 |
| 432 Sanitation | 19,786 | 19,786 | 18,916 | 870 |
| Total public works | 73,410 | 73,410 | 64,224 | 9,186 |
| 450 Culture and recreation | | | | |
| 452 Parks | 13,130 | 13,130 | 11,074 | 2,056 |
| 455 Libraries | 9,015 | 9,015 | 8,651 | 364 |
| Total culture and recreation | 22,145 | 22,145 | 19,725 | 2,420 |
| 460 Conservation and development | | | | |
| 465 Economic development and assistance (industrial development) | 44,583 | 107,290 | 107,290 | - |
| Total expenditures | 270,860 | 297,579 | 275,093 | 22,486 |
| Excess of Revenue over (under) Expenditures | - | (26,719) | 5,783 | 32,502 |
| Fund Balance - Beginning | 209,920 | 209,920 | 209,920 | - |
| Fund Balance - Ending | \$ 209,920 | \$ 183,201 | \$ 215,703 | \$ 32,502 |

City of Doland
 Budgetary Comparison Schedule—Revolving Loan Fund
 Year Ended December 31, 2015

| | Budgeted Amounts | | Actual | Variance with |
|-------------------------------------|------------------|-----------|-----------|--|
| | Original | Final | Amounts | Final Budget Positive (Negative) |
| Revenues | | | | |
| 360 Miscellaneous revenue | | | | |
| 361 Investment earnings | \$ 1,000 | \$ 1,000 | \$ 280 | \$ (720) |
| 369 Other | 2,720 | 2,720 | 1,670 | (1,050) |
| Total miscellaneous revenue | 3,720 | 3,720 | 1,950 | (1,770) |
| Total revenue | 3,720 | 3,720 | 1,950 | (1,770) |
| Expenditures | | | | |
| 490 Miscellaneous | | | | |
| 492 Other expenditures | 3,720 | 3,720 | - | 3,720 |
| Total expenditures | 3,720 | 3,720 | - | 3,720 |
| Excess of Revenue over Expenditures | - | - | 1,950 | 1,950 |
| Fund Balance - Beginning | 46,937 | 46,937 | 46,937 | - |
| Fund Balance - Ending | \$ 46,937 | \$ 46,937 | \$ 48,887 | \$ 1,950 |

City of Doland
Budgetary Comparison Schedule—Library Fund
Year Ended December 31, 2015

| | Budgeted Amounts | | Actual | Variance with |
|---|------------------|------------------|------------------|--|
| | Original | Final | Amounts | Final Budget Positive (Negative) |
| Revenues | | | | |
| 360 Miscellaneous revenue | | | | |
| 361 Investment earnings | \$ - | \$ - | \$ 79 | \$ 79 |
| 367 Contributions and donations from private sources | - | - | 1,023 | 1,023 |
| Total miscellaneous revenue | - | - | 1,102 | 1,102 |
| Total revenue | - | - | 1,102 | 1,102 |
| Excess of Revenue over Expenditures | - | - | 1,102 | 1,102 |
| Fund Balance - Beginning | 36,880 | 36,880 | 36,880 | - |
| Fund Balance - Ending | <u>\$ 36,880</u> | <u>\$ 36,880</u> | <u>\$ 37,982</u> | <u>\$ 1,102</u> |

Note 1 - Budgets and Budgetary Accounting

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

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

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, special revenue funds and capital projects funds.

The City did not encumber any amounts at December 31, 2015.

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

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

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



**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***

The City Commission
City of Doland
Doland, 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 the governmental activities, the business-type activities, and each major fund of the City of Doland as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 10, 2016. The statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2015-A and 2015-B to be material weaknesses.

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.

Compliance and Other Matters

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

City of Doland's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of audit findings and questioned costs. The City's response were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
August 10, 2016



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the City Council
City of Doland
Doland, South Dakota

Report on Compliance for the Major Federal Program

We have audited the City of Doland's (the City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the City's major federal program for the year ended December 31, 2015. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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 the compliance for each of the City's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 City'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 the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended December 31, 2015.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the 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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City'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 compliance requirement 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 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 Uniform Guidance. Accordingly, this report 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities, and each major fund of City of Doland as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated August 10, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
August 10, 2016

City of Doland
Schedule of Expenditures of Federal Awards
December 31, 2015

| Federal Grantor/Pass-Through Grantor Program Title | Pass-Through Identification Number | Federal CFDA Number | Expenditures | Amounts Passed Through to Subrecipients |
|--|--|---------------------------|--------------|---|
| U.S. Department of Agriculture | | | | |
| Direct Federal Funding: | | | | |
| Water and Waste Disposal Systems for Rural Communities | ***** | 10.760 | \$ 1,097,518 | \$ - |
| Total Direct Federal Funding | | | 1,097,518 | - |
| In-Direct Federal Funding: | | | | |
| Passed through the State of South Dakota | | | | |
| Child and Adult Care Food Program | ***** | 10.558 | 5,131 | - |
| Total In-Direct Federal Funding | | | 5,131 | - |
| Total U.S. Department of Agriculture | | | 1,102,649 | - |
| Department of Housing and Urban Development | | | | |
| Direct Federal Funding: | | | | |
| Community Development Block Grants | ***** | 14.228 | 515,000 | - |
| Total Department of Housing and Urban Development | | | 515,000 | - |
| Total Federal Financial Assistance | | | \$ 1,617,649 | \$ - |

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

See Notes to Schedule of Expenditures of Federal Awards

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City, and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. The City received federal awards directly from federal agencies. If federal financial assistance is provided to a subrecipient, it is treated as an expenditure when it is paid to the subrecipient.

Note B – Significant Accounting Policies

Governmental and business type fund types account for the City's federal grant activity. Expenditures in the schedule of expenditures of federal awards are recognized on the modified cash basis of accounting – transactions are recorded when cash is received or disbursed. The City's summary of significant accounting policies is presented in Note 1 in the City's basic financial statements. The City has not elected to use the 10% de minimus cost rate.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

| | |
|--|---------------|
| Type of auditor's report issued | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified | Yes |
| Significant deficiencies identified not considered to be material weaknesses | None reported |
| Noncompliance material to financial statements noted? | No |

FEDERAL AWARDS

| | |
|--|---------------|
| Internal control over major program: | |
| Material weaknesses identified | No |
| Significant deficiencies identified not considered to be material weaknesses | 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 Uniform Guidance 2 CFR 200.516: | No |

Identification of major programs:

| | |
|--|-------------|
| <u>Name of Federal Program</u> | CFDA Number |
| Community Facilities Loans and Grants | 10.760 |
| Dollar threshold used to distinguish between type A and type B programs: | \$ 750,000 |
| Auditee qualified as low-risk auditee? | No |

Section II – Findings Related to the Financial Statements

Finding 2015-A – Preparation of Financial Statements, Footnotes and Material Journal Entries

Material Weakness

Criteria: The City'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 City of Doland requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2015. 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 City's existing internal controls and; therefore, could result in a misstatement of the City's financial statements.

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

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

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

Views of Responsible Officials: Management agrees with the finding

Finding 2015-B - Lack of Segregation of Duties

Material Weakness

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

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

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

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

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

Views of Responsible Officials: Management agrees with the finding

Section III – Federal Award Findings and Questioned Costs

No findings reported in the current year

Financial Statement Findings

2013-A - Preparation of Financial Statements, Footnotes and Material Journal Entries

Initial Fiscal Year Finding Occurred: 2013

Finding Summary: The City does not have an internal control system designed to provide for the preparation of the financial statements including required footnotes and disclosures. We requested our auditors to draft the financial statements and accompanying notes to those financial statements. In addition to their drafting of the financial statements and the accompanying notes to the financial statements, at times our auditors propose material journal entries to record to the City's account balances.

Status: Not corrected. Our auditors were requested to draft the financial statements and accompanying notes to the financial statements, and they proposed material audit adjustments to the City's recorded account balances.

2013-B – Lack of Segregation of Duties

Initial Fiscal Year Finding Occurred: 2013

Finding Summary: The City of Doland has a limited number of office personnel, and accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

Status: Not corrected. This situation has remained unchanged from the prior fiscal year within these accounting functions.

Findings Related to Federal Awards

No findings reporting in the prior year.

CITY OF DOLAND
106 North 2nd Street East
PO Box 326
Doland SD 57436

City of Doland respectfully submits the following corrective action plan for its audit findings for the year ended December 31, 2015.

Independent Public Accounting Firm: Eide Bailly, LLP
PO Box 430
Aberdeen, SD 57402-0430

Audit Period: January 1, 2015 – December 31, 2015

Finding 2015-A – Preparation of Financial Statements, Footnotes and Material Journal Entries

Planned Action: Management and the City Council will perform a thorough review of the transactions and balances in each fund prior to the beginning of the audit to ensure that the generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence. Due to the City's size, we will accept the risk associated with the condition based on cost and other considerations.

Contact Person: Kam Deslauriers, Finance Officer

Anticipated Completion Date: Ongoing

Finding 2015-B – Lack of Segregation of Duties

Planned Action: Management acknowledges the facts and circumstances concerning limited office personnel prohibiting adequate segregation of duties. Both management and those charged with governance are aware of the condition and accept the risk associated with that condition.

Contact Person: Kam Deslauriers, Finance Officer

Anticipated Completion Date: Ongoing