



Financial Statements
December 31, 2015
Town of Peever

Board of Trustees President..... Joel Hortness

TrusteesAlpha Behrns
Mervin Erickson

Treasurer..... James Kranhold

Clerk Harold Fryer

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Independent Auditor's Report

The Board of Trustees
Town of Peever
Peever, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Peever as of December 31, 2015, and for the fiscal year then ended and the related notes to the financial statements, which collectively comprise the Town'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 Town of Peever 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 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 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 compromise the Town's financial statements. The listing of municipal officers 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 schedule of changes in long-term debt 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. 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 June 15, 2016 on our consideration of the Town of Peever'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 *Government Auditing Standards* in considering the Town of Peever's internal control over financial reporting and compliance.



Aberdeen, South Dakota
June 15, 2016

Town of Peever
Statement of Net Position—Modified Cash Basis
December 31, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 85,407	\$ 47,588	\$ 132,995
Internal balance	1,389	(1,389)	-
Restricted assets:			
Cash and cash equivalents	-	951	951
	<u>\$ 86,796</u>	<u>\$ 47,150</u>	<u>\$ 133,946</u>
Net Position			
Restricted for:			
Debt service and short-lived asset replacement	-	951	951
Unrestricted	<u>86,796</u>	<u>46,199</u>	<u>132,995</u>
Total net position	<u>86,796</u>	<u>47,150</u>	<u>133,946</u>
	<u>\$ 86,796</u>	<u>\$ 47,150</u>	<u>\$ 133,946</u>

Town of Peever
Statement of Activities—Modified Cash Basis
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Loan Proceeds	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 6,082	\$ 12,900	\$ -	\$ -	\$ 6,818	\$ -	\$ 6,818
Public works	15,954	2,530	15,262	-	1,838	-	1,838
Miscellaneous expenditures	36,420	-	-	-	(36,420)	-	(36,420)
Total governmental activities	58,456	15,430	15,262	-	(27,764)	-	(27,764)
Business-type activities:							
Water	1,007,342	26,940	-	985,936	-	5,534	5,534
Sewer	12,634	7,671	-	-	-	(4,963)	(4,963)
Total business-type activities	1,019,976	34,611	-	985,936	-	571	571
	<u>\$ 1,078,432</u>	<u>\$ 50,041</u>	<u>\$ 15,262</u>	<u>\$ 985,936</u>	<u>(27,764)</u>	<u>571</u>	<u>(27,193)</u>
General Revenues							
Taxes:							
Property taxes					17,843	-	17,843
Sales taxes					24,193	-	24,193
State shared revenues					569	-	569
Unrestricted investment earnings					61	52	113
Miscellaneous revenue					2,586	-	2,586
Total general revenues					45,252	52	45,304
Change in Net Position					17,488	623	18,111
Net Position - Beginning					69,308	46,527	115,835
Net Position - Ending					\$ 86,796	\$ 47,150	\$ 133,946

Town of Peever
Balance Sheet--Modified Cash Basis--Governmental Funds
December 31, 2015

	General Fund	Total Governmental Funds
Assets		
Cash and cash equivalents	\$ 85,407	\$ 85,407
131 Due from enterprise funds	1,389	1,389
	<u>\$ 86,796</u>	<u>\$ 86,796</u>
Fund Balances		
267 Unassigned	\$ 86,796	\$ 86,796
	<u>\$ 86,796</u>	<u>\$ 86,796</u>

Town of Peever

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

	General Fund	Total Governmental Funds
Revenues		
310 Taxes		
311 General property taxes	\$ 17,791	\$ 17,791
313 General sales and use taxes	24,193	24,193
319 Penalties and interest on delinquent taxes	52	52
Total taxes	<u>42,036</u>	<u>42,036</u>
330 Intergovernmental revenue		
335 State shared revenue		
335.01 Bank franchise tax	569	569
335.02 Motor vehicle commercial prorate	831	831
335.04 Motor vehicle licenses (5%)	3,159	3,159
335.06 Fire insurance premiums reversion	393	393
335.08 Local government highway and bridge fund	<u>10,879</u>	<u>10,879</u>
Total intergovernmental revenue	<u>15,831</u>	<u>15,831</u>
340 Charges for goods and services		
344 Sanitation	<u>2,530</u>	<u>2,530</u>
Total charges for goods and services	<u>2,530</u>	<u>2,530</u>
360 Miscellaneous revenue		
361 Investment earnings	61	61
362 Rentals	12,900	12,900
369 Other	<u>2,586</u>	<u>2,586</u>
Total miscellaneous revenue	<u>15,547</u>	<u>15,547</u>
Total revenues	<u>75,944</u>	<u>75,944</u>

Town of Peever

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

	General Fund	Total Governmental Funds
Expenditures		
410 General government		
411 Legislative	6,082	6,082
Total general government	6,082	6,082
430 Public works		
431 Highways and streets	7,690	7,690
432 Sanitation	8,264	8,264
Total public works	15,954	15,954
490 Miscellaneous		
492 Other expenditures	36,420	36,420
Total miscellaneous	36,420	36,420
Total expenditures	58,456	58,456
Net Change in Fund Balance	17,488	17,488
Fund Balance - Beginning	69,308	69,308
Fund Balance - Ending	\$ 86,796	\$ 86,796

Town of Peever
Balance Sheet-Modified Cash Basis-Proprietary Funds
December 31, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ 27,791	\$ 19,797	\$ 47,588
Noncurrent Assets			
107.1 Restricted deposits for:			
Debt repayment	817	-	817
Short-lived asset replacement	134	-	134
Total noncurrent assets	951	-	951
	<u>\$ 28,742</u>	<u>\$ 19,797</u>	<u>\$ 48,539</u>
Liabilities			
208 Due to general fund	\$ 1,374	\$ 15	\$ 1,389
Net Position			
253.20 Restricted net position for:			
Debt service and short-lived asset replacement	951	-	951
Unrestricted net position	26,417	19,782	46,199
Total net position	27,368	19,782	47,150
	<u>\$ 28,742</u>	<u>\$ 19,797</u>	<u>\$ 48,539</u>

Town of Peever

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			
380 Charges for goods and services	\$ 26,940	\$ 7,671	\$ 34,611
Total operating revenue	26,940	7,671	34,611
Operating Expenses			
420 Other current expense	36,246	12,634	48,880
430 Capital assets	965,936	-	965,936
Total operating expenses	1,002,182	12,634	1,014,816
Operating Loss	(975,242)	(4,963)	(980,205)
Nonoperating Revenue (Expense)			
331 Federal grants	947,959	-	947,959
361 Investment earnings	29	23	52
391.02 Debt issued	37,977	-	37,977
441 Debt service	(2,252)	-	(2,252)
442 Interest expense	(2,908)	-	(2,908)
Total nonoperating revenue	980,805	23	980,828
Change in Net Position	5,563	(4,940)	623
Net Position - Beginning	21,805	24,722	46,527
Net Position - Ending	<u>\$ 27,368</u>	<u>\$ 19,782</u>	<u>\$ 47,150</u>

Town of Peever
Statement of Cash Flows-Modified Cash Basis-Proprietary Funds
Year Ended December 31, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from (used for) Operating Activities			
Receipt from customers	\$ 26,940	\$ 7,671	\$ 34,611
Payments to suppliers	(36,246)	(12,634)	(48,880)
Net Cash used for Operating Activities	(9,306)	(4,963)	(14,269)
Cash Flows from Noncapital Financing Activities			
Advances from General Fund	1,374	15	1,389
Net Cash from Noncapital Financing Activities	1,374	15	1,389
Cash Flows from Capital and Related Financing Activities			
Capital grants	947,959	-	947,959
Purchase of capital assets	(965,936)	-	(965,936)
Proceeds from long-term debt	37,977	-	37,977
Principal paid on capital debt	(2,252)	-	(2,252)
Interest paid on capital debt	(2,908)	-	(2,908)
Net Cash from Capital and Related Financing Activities	14,840	-	14,840
Cash Flows from Investing Activities			
Interest earnings	29	23	52
Net Cash from Investing Activities	29	23	52
Net Change in Cash and Cash Equivalents	6,937	(4,925)	2,012
Cash and Cash Equivalents - Beginning	21,805	24,722	46,527
Cash and Cash Equivalents - Ending	\$ 28,742	\$ 19,797	\$ 48,539

Town of Peever
Statement of Cash Flows-Modified Cash Basis-Proprietary Funds
Year Ended December 31, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	\$ 27,791	\$ 19,797	\$ 47,588
Restricted deposits	951	-	951
	<u>\$ 28,742</u>	<u>\$ 19,797</u>	<u>\$ 48,539</u>
Reconciliation of Operating Income (Loss) to			
Net Cash from (used for) Operating Activities			
Operating loss	\$ (975,242)	\$ (4,963)	\$ (980,205)
Adjustments to reconcile operating income (loss)			
to net cash from operating activities:			
Purchase of capital assets	965,936	-	965,936
Net Cash used for Operating Activities	<u>\$ (9,306)</u>	<u>\$ (4,963)</u>	<u>\$ (14,269)</u>

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

The reporting entity is comprised of the primary government, Town of Peever.

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

Based upon the application of these criteria, the Town 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 Town as a whole. They include all funds of the Town except for fiduciary. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

Fund Financial Statements

Fund financial statements of the Town are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into 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 Town or it meets the following criteria:

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

The funds of the Town of Peever are described below:

Governmental Funds

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

Proprietary Funds

Enterprise Funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses) 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.

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

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

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

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 presented or reclassified, as follows:

1. The Town’s interfund balances are properly presented and net to \$0 as of December 31, 2015.
2. The Town 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 is recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category.

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

H. Program Revenues

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

1. Charges for Services – These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided or are otherwise directly affected by the services.

2. Program-Specific Operating Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-Specific Capital Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

I. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's 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 Town 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, net investment in capital assets; restricted net position; and unrestricted net position. Because capital assets are not reported by the Town under the modified cash basis of accounting, only the following components are displayed:

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

M. Fund Balance Classification Policies and Procedures

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

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

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

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

N. Rounding

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

Note 2 - Deposits and Investments

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

Deposits

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

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of 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 Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of December 31, 2015, the Town maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

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

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 145,343
Uninsured, collateral jointly held by State's/Town's agent in the name of the State and the pledging financial institution	-
	<u>\$ 145,343</u>

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

Cash and cash equivalents	<u>\$ 133,946</u>
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Investments

In general, SDCL 4-5-6 permits Town funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds and other obligations issued or directly or indirectly guaranteed by the United States Government, or otherwise directly or indirectly backed by the full faith and credit of the United States Government; provided that, for other than permanent, trust, retirement, building and depreciation reserve funds, such securities shall either mature within 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 Town did not hold any investments as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. The Town also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

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

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

Note 3 - Property Taxes

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

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

Note 4 - Significant Contingencies - Litigation

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

Note 5 - Restricted Net Position

Restricted net position for the year ended December 31, 2015 is as follows:

Fund	Restricted By	Amount
Water - Loan Reserves	Contractual Agreement	\$ 951

Note 6 - Risk Management

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

Employee Health Insurance

The Town does not provide a group health insurance plan for Town employees. Each employee is responsible to obtain individual health insurance.

Liability Insurance

The Town joined the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Town pays an annual premium to the pool to provide coverage for general liability, official's liability, automobile liability, automotive damage and property damage.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverages will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. The Town carries the following deductibles for the coverages listed above:

<u>Coverage</u>	<u>Deductible</u>
General liability	\$ -
Officials liability	-
Automobile liability	-
Automotive damage	150
Property damage	250

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

Worker's Compensation

The Town joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Town pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

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

Unemployment Benefits

The Town 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
December 31, 2015
Town of Peever

Town of Peever
Schedule of Changes in Long-Term Debt
Year Ended December 31, 2015

<u>Indebtedness</u>	<u>Long-Term Debt 1/1/15</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 12/31/15</u>
Enterprise Long-Term Debt				
USDA Rural Development				
Loan - Water	<u>\$ 84,522</u>	<u>\$ 37,977</u>	<u>\$ 2,252</u>	<u>\$ 120,247</u>
Total	<u><u>\$ 84,522</u></u>	<u><u>\$ 37,977</u></u>	<u><u>\$ 2,252</u></u>	<u><u>\$ 120,247</u></u>

**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 Board of Trustees
Town of Peever
Peever, 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 Town of Peever as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 15, 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 Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 and significant deficiencies.

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

Compliance and Other Matters

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

Town of Peever's Response to Findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Town's responses 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
June 15, 2016



Independent Auditor's Report on Compliance for Each 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 Town Trustees
Town of Peever
Peever, South Dakota

Report on Compliance for Major Federal Program

We have audited the Town of Peever's (the Town) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Town's major federal program for the year ended December 31, 2015. The Town'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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for the Town'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 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 Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Major Federal Program

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

Report on Internal Control over Compliance

Management of the Town 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 Town's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 Town'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 the Town of Peever 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 June 15, 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
June 15, 2016

Town of Peever
Schedule of Expenditures of Federal Awards
Year Ended 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	\$ 621,812	\$ -
Total U.S. Department of Agriculture			621,812	-
U.S. Department of Housing and Urban Development				
Passed through State				
Community Development Block Grants/Entitlement Grants	*****	14.218	364,124	-
Total U.S. Department of Housing and Urban Development			364,124	-
Total Federal Financial Assistance			\$ 985,936	\$ -

***** 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 Town, 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. Town of Peever received federal awards directly from federal agencies and indirectly through pass-through entities. 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 Town'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 Town's summary of significant accounting policies is presented in Note 1 in the Town's basic financial statements. The Town 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	Yes
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
Water Waste Disposal Systems for Rural Communities	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 – Financial Statement Findings

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

Material Weakness

Criteria: The Town'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: Town of Peever 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 Town's existing internal controls and; therefore, could result in a misstatement of the Town's financial statements.

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

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

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

Views of Responsible Officials: Management agrees with the finding.

Finding 2015-B - Lack of Segregation of Duties

Significant Deficiency

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 Town of Peever 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 Town has an insufficient number of staff to adequately separate duties.

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

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

Views of Responsible Officials: Management agrees with the finding.

Finding 2015-C – Violations of SDCL

Significant Deficiency

Criteria: In accordance with SDCL 9-21-2 and 9-21-6, the Town's budgeting control structure should be designed to provide for the preparation of a separate budget for the general fund of the Town of Peever, which should be prepared in accordance with the prescribed format and specify the function and subfunction and amounts appropriated for each. This budget in this prescribed detail should also be published in its entirety.

Condition: The 2015 approved budget was not prepared in the specified format as prescribed specifying the function and subfunction of expenditures and the single budget included all major funds of the Town of Peever. This budget is supposed to be prepared in the prescribed format by fund. Also the approved budget was not published in the official newspaper in the prescribed detail.

Cause: A lack of oversight in the budgeting process and unfamiliarity with the applicable SDCL's relating to the annual appropriation ordinance could result in the approved ordinance not being compliant with those applicable SDCL's.

Effect: This condition may affect the Town's ability to monitor budget to actual spending within the general fund of the Town to ensure compliance with SDCL.

Recommendation: We recommend the Town officials review the applicable SDCL's regarding the annual appropriation ordinance to become familiar with the statutory requirements and implement budgeting controls to ensure the annual appropriation ordinance is prepared as prescribed by fund and published in its entirety in the official newspaper.

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

No audit performed in prior year.

Findings Related to Federal Awards

Single audit did not apply in prior year.

TOWN OF PEEVER

PO Box 23

Peever, SD 57257

Town of Peever 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 Propensity for Material Journal Entries

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

Contact Person: Harold Fryer, Clerk

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: Harold Fryer, Clerk

Anticipated Completion Date: Ongoing

Finding 2015-C – Violation of SDCL

Planned Action: Management acknowledges the deficiencies in the budgeting preparation process to ensure the budget is prepared in accordance with the prescribed format and published as required under SDCL. Management going forward will revise the budget process to ensure compliance with required format and SDCL.

Contact Person: Harold Fryer, Clerk

Anticipated Completion Date: Ongoing