

CITY OF COLMAN
COLMAN, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE ONE YEAR ENDING DECEMBER 31, 2014
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
P.O. Box 262
Madison, South Dakota 57042

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FOR THE ONE YEAR ENDING DECEMBER 31, 2014

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NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, PC

Benjamin Elliott, CPA
P.O. Box 262
Madison, South Dakota 57042
605.483.3225

To the Honorable Mayor and
Members of the Colman City Council
Colman, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of governmental activities, business-type activities, and each major fund of the City of Colman (City), Moody County, South Dakota, as of December 31, 2014 and for the year then ended, and 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 judgement, including the assessment of the risk 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 City'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 City's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified audit opinions on governmental activities, business-type activities, and on each major fund.

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the City of Colman, South Dakota, as of December 31, 2014, and the respective changes in its financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

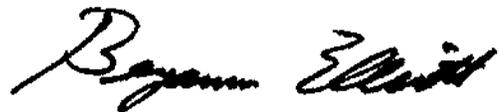
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (page 3 to 9) and the budgetary comparison schedule (page 37 to 38) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 39) dated November 20, 2015 on my tests of City of Colman's compliance with certain provisions of laws, regulations, and contracts, and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

November 20, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the City of Colman's (City) annual financial report presents our discussion and analysis of the City's financial performance for the year ending December 31, 2014. Please read it in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS	2014
Revenue:	
Charges for goods and services	1,469,209
Operating grants	4,167
Capital grants, contributions	1,877,342
General revenue	331,042

Total	3,681,760

Expenses:	
Governmental	358,098
Business-type	1,285,031

Total	1,643,129

Increase in Net Position	2,038,631
Net Position:	
December 31, 2013	3,395,951

December 31, 2014	5,434,582
	=====
Governmental Funds:	
General	154,106
TIF #1	(12,682)
Capital Assets	1,240,899
Long-term Debt	(561,768)
Business-Type Funds:	
Liquor	92,075
Water	1,349,366
Electric	553,411
Sewer	2,583,108
Solid waste	19,640
Recreation (golf)	16,427

Total	5,434,582
	=====

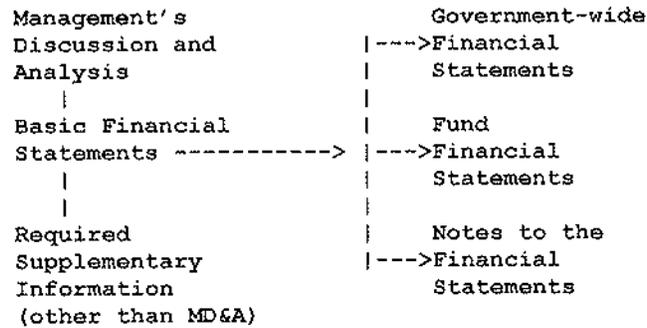
During the year ending December 31, 2014, the City:

- * Contracted for water system improvements of which \$1,927,509 had been completed by the end of 2014. Drew down the remainder of a \$434,528 loan and a new \$370,273 loan to help finance this project.
- * Contracted for sewer system improvements of which \$3,225,907 had been completed by the end of 2014. Drew down the remainder of a \$1,217,748 loan and a new \$229,569 loan to help finance this project.
- * Received a Homeland Security grant of \$38,300 to purchase a backup generator for sewer operations.
- * Made improvements to the ball field of \$11,259.
- * Paid-off early a 2000 Wastewater Utility Revenue Bond of \$63,134.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This financial report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement-34.

Here is an overview of the City's financial statements.



The financial report consists of three parts: (1) management's discussion and analysis (page 3 to 9), (2) the basic financial statements (page 10 to 36) and (3) required supplementary information (page 37 to 38). The basic financial statements include two types of statements that present the City from two different financial points of view.

Government-wide financial statements (View #1):

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

Fund financial statements (View #2):

The remaining financial statements are fund financial statements that focus on significant operations of the governmental, enterprise, and fiduciary (if any) activities of the City.

The governmental fund financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. Governmental funds operated by the City are the general fund and TIF #1 debt service fund.

The enterprise fund financial statements offer short-term and long-term financial information about the activities of the City that operate like a business. Enterprise funds operated by the City are the liquor, water, electric, sewer, solid waste and recreation funds.

The fiduciary fund financial statements provide information about the financial status of activities (like a Sec. 125 Cafeteria Plan) in which the City acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. In 2014 the City did not maintain any fiduciary funds.

The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of required supplementary information that presents a budgetary analysis for the general fund.

Required Supplementary Information:

This Management's Discussion and Analysis (page 3 to 9) and the Budgetary Comparison Schedules (page 37 to 38) are financial information required to be presented by GASB. Such information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

This is a summary of the major features of these financial statement.

	Government-wide	-----Fund Statements-----		
	Statements	Governmental	Enterprise	Fiduciary
		Funds	Funds	Funds
				(if any)
Scope	Entire City (except fiduciary funds)	City activities except Enterprise (ie: water) and Fiduciary	Activities operated like a private business (ie: water)	City's custody of money that belongs to others
Required Financial Statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Net Position Statement of Revenues, Expenses and Changes in Net Position Statement of Cash Flows	Statement of Fiduciary Net position
Basis of Accounting	Accrual	Modified accrual	Accrual	Accrual
Measurement Focus	Economic resources	Current financial resources	Economic resources	Economic resources
Types of Assets & Liabilities	All - financial and capital, short- and long-term	Only current financial assets and liabilities No capital assets	All - financial and capital, short- and long-term	All - financial and capital (if any), short- and long-term
Types of Revenue and Expenditures or Expense	All - regardless of when cash is received	Revenues when cash is received during year or within 30 days of year-end Expenditures when goods or services are received and payment is due during year or soon after year-end	All - regardless of when cash is received	All - regardless of when cash is received

GOVERNMENT-WIDE STATEMENTS
(Reporting the City as a whole)

The government-wide statements (page 10 and 11) report information about the City as a whole using accounting methods similar to those used for private companies. There are two government-wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position includes all of the government's assets and liabilities. Net position is the difference between assets and liabilities. Changes in these accounts is one way to measure the City's financial health.

Increases or decreases in net position measures improvements or declines in the City's financial health. To assess the City's overall financial health you also need to consider other factors such as changes in the, property tax base and sales tax revenue, sales tax revenue and/or grant activity.

The Statement of Activities includes all of the year's revenues and expenses. You will notice that expenses are listed in the first column by program. Revenues related each program are reported to the right of the expense. The result is a net revenue/expense for each program. After listing program activity, general receipts of the City are listed, which include all taxes and interest earned.

The government-wide financial statements have two broad categories of information: governmental activity and business-type activity.

The governmental activities include operation of the government such and City Council, public safety, streets and highway, snow removal, debt service, and recreational programs. Property taxes, sales taxes, revenue from the state, user fees and interest earnings finance most of these activities.

Business-type activities account for the City's liquor, water, electric, sewer, solid waste and recreation operations. These operations are financed by user fees and grants for certain capital projects.

FUND FINANCIAL STATEMENTS

(Reporting the City's most significant funds)

The fund financial statements (page 12 to 16) provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting tools used to keep track of the receipt and disbursement of City's resources. State law requires the use of some funds and the City Council establishes other funds to manage money for a specific purpose, like a capital project fund for infrastructure improvements.

The fund financial statements show information in three broad categories: governmental, enterprise (business-type), and fiduciary (if any).

Governmental funds: Most of the City's basic services are included in the governmental funds, which focus on (1) how cash, and other financial assets which can readily be converted into cash, flow in and out of that fund, and (2) the balances left at year-end that are available for spending in the next year. Consequently, governmental funds statements provide you a detailed short-term view to help you determine whether there are more or fewer financial resources available for spending in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements to reconcile the differences between the governmental fund statements and the government-wide statements.

Enterprise fund: Services for which the City charges the customer a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both short-term and a long-term financial information. Liquor, water, electric, sewer, solid waste and recreation funds are the enterprise funds maintained by the City.

Fiduciary funds: The City can be the agent (or fiduciary) for various internal and external parties. As such, the City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position. Fiduciary funds are excluded from the City's government-wide financial statements because the City can not use these assets to finance City operations. In 2014 the City did not have any fiduciary funds.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

Year Ending December 31, 2014

(Material changes for governmental activities = changes greater than \$ 25,000)
(Material changes for business-type activities = changes greater than \$150,000)

	Increase (Decrease)	Principal Reason
Governmental Activities:		
Capital assets	67,000	Recreational improvements less depreciation.
Other assets	(50,000)	Recognized CARI note receivable as a culture and recreation expenditure.
Public works	(40,000)	Fewer street projects in 2014.

	Increase (Decrease)	Principal Reason
Business-type Activities:		
Current assets	(586,000)	Decrease in grants receivable.
Capital assets	3,285,000	Water/sewer project improvements.
Current liabilities	(381,000)	Decrease in accounts payable to contractors.
Long-term debt	1,081,000	New financing to pay for water/sewer project.
Capital grant	1,488,000	New grants and debt forgiveness.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

The City's 2014 general fund budget of \$395,267 is an increase of \$66,226 or 20.13% from 2013. The increase was primarily in other governmental expenditures and parks and recreation. There was one supplemental budget. See page 37 for more information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

At December 31, 2014, the City had invested \$8,033,605 in a broad range of capital assets, including land, buildings, improvements, and equipment. This amount represents a net increase (including additions and deductions) of \$3,352,211 or 71.61% from December 31, 2013.

Significant capital asset activity is reported above. See page 33 for more information.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

Significant long-term debt activity is reported above. The City is current on all long-term debt. See page 34 to 36 for more information.

CURRENTLY KNOWN FACTS

Funding in 2013, 2014 and 2015 of water and sewer improvements is:

	2013	2014	2015	Total
WATER FUND				
2013 Drinking water loan -01	\$ 165,440	\$ 0	\$ 0	\$ 165,440
Amount forgiven	(165,440)	(0)	(0)	(165,440)
2013 Drinking water loan -02	317,049	117,479	0	434,528
2014 Drinking water loan -03		937,399	662,601	1,600,000
Amount forgiven		(567,126)	(400,874)	(968,000)
SEWER FUND				
2013 Clean water loan -01	985,863	588,385	0	1,574,248
Amount forgiven	(223,790)	(132,710)	(0)	(356,500)
2014 Clean water loan -02		612,184	187,816	800,000
Amount forgiven		(382,615)	(117,385)	(500,000)
2014 Consolidated Water Facility		756,591	243,409	1,000,000
Construction Project grant (CWFCP)		(756,591)	(243,409)	(1,000,000)
	-----	-----	-----	-----
Net new loans	\$1,079,122	\$1,172,996	\$ 332,158	\$2,584,276

The City will be installing 200 electrical radio-read meters in 2015.

In November 2014 the City awarded a low bid of \$767,990 to Maguire Iron to build a new water tower in 2015.

In 2015 the City submitted an application to the Department of Environment and Natural Resources for funding related to its Highway 34 Water Main Replacement project (Phase 3). The project is expected to cost \$525,000 with financing from a State Revolving Fund Loan (SRF).

In April 2014 the Council passed a motion to have First District and Power Systems Engineering start a pre-mitigation grant application process to bury and update overhead electrical lines, which is expected to be done in 2016.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Colman's business office at 112 Main Street, Colman, SD 57017 or call 605.534.3611.

CITY OF COLMAN

TABLE 1 - NET POSITION (condensed and in thousands)
 FULL ACCRUAL - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 AS OF DECEMBER 31, 2014 AND DECEMBER 31, 2013

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Assets:						
Current assets	178	170	537	1,123	715	1,293
Capital assets	1,241	1,174	6,793	3,508	8,034	4,682
Other assets	20	70			20	70
Total	1,439	1,414	7,330	4,631	8,769	6,045
Liabilities:						
Current liabilities	56	61	398	779	454	840
Long-term debt	562	573	2,318	1,237	2,880	1,810
Total	618	634	2,716	2,016	3,334	2,650
Net position:						
Net invested in capital assets	681	602	4,468	2,275	5,149	2,877
Restricted	20	70	132	12	152	82
Unrestricted	120	108	14	328	134	436
Total	821	780	4,614	2,615	5,435	3,395

TABLE 2 - CHANGES IN NET POSITION (condensed and in thousands)
 FULL ACCRUAL - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 FOR THE YEAR ENDING DECEMBER 31, 2014 AND DECEMBER 31, 2013

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	24	27	1,445	1,457	1,469	1,484
Operating grants and contributions	2		3		5	0
Capital grants and contributions			1,877	389	1,877	389
General revenues:						
Property taxes	83	80			83	80
Sales taxes	176	166			176	166
State shared revenue	35	32			35	32
County shared revenue	2	2			2	2
Interest earnings	1	3			1	3
Rents and franchise fees	34	22			34	22
Miscellaneous	1				1	0
Total revenues	358	332	3,325	1,846	3,683	2,178
Expenses:						
General government	107	111			107	111
Public safety	64	56			64	56
Public works	65	105			65	105
Health and welfare	9	10			9	10
Culture and recreation	86	78			86	78
Economic development		7			0	7
Interest expense and fees	27	26			27	26
Liquor			28	36	28	36
Water			126	104	126	104
Electric			866	838	866	838
Sewer			78	62	78	62
Solid waste			43	37	43	37
Recreation (golf)			144	164	144	164
Total expenses	358	393	1,285	1,241	1,643	1,634
Revenues over (under) expenses	0	(61)	2,040	605	2,040	544
Transfers	41	24	(41)	(24)	0	0
Change in net position	41	(37)	1,999	581	2,040	544
Net position:						
December 31, 2012		817		2,034		2,851
December 31, 2013	780	780	2,615	2,615	3,395	3,395
December 31, 2014	821		4,614		5,435	

CITY OF COLMAN

GOVERNMENT-WIDE - STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2014

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	169,411	88,918	258,329
Taxes receivable - delinquent	970		970
Due from other governments	5,039	281,672	286,711
Accounts receivable	2,527	166,444	168,971
Internal balances	0	0	0
Capital assets:			
Land	292,386	10,770	303,156
Other capital assets, net of accumulated depreciation	948,513	6,781,936	7,730,449
Other assets:			
Insurance deposit	19,942		19,942
Total assets	1,438,788	7,329,740	8,768,528
LIABILITIES:			
Current liabilities:			
Accounts payable	16,238	363,355	379,593
Payroll deductions payable	10,644		10,644
Customer deposits	5,012	22,964	27,976
Matured interest payable	24,571	11,990	36,561
Noncurrent liabilities:			
Leave liability	1,604	4,350	5,954
Due within one year	31,602	54,294	85,896
Due in more than one year	528,562	2,258,760	2,787,322
Total liabilities	618,233	2,715,713	3,333,946
NET POSITION:			
Net invested in capital assets	680,735	4,467,662	5,148,397
Restricted for:			
Debt service		131,911	131,911
Insurance deposit	19,942		19,942
Unrestricted	119,878	14,454	134,332
Total net position	820,555	4,614,027	5,434,582

See accompanying notes.

CITY OF COLMAN

BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2014

	General Fund	TIF #1 Debt Service Fund	Total Governmental Funds
	-----	-----	-----
ASSETS:			
Cash and cash equivalents	157,522	11,889	169,411
Property taxes receivable	970		970
Due from other governments	5,039		5,039
Accounts receivable	2,527		2,527
Insurance deposit	19,942		19,942
	-----	-----	-----
Total assets	186,000	11,889	197,889
DEFERRED OUTFLOWS OF RESOURCES			
None			0
	-----	-----	-----
Total deferred outflows of resources	0	0	0
	-----	-----	-----
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	186,000	11,889	197,889
	=====	=====	=====
LIABILITIES:			
Accounts payable	16,238		16,238
Payroll deductions payable	10,644		10,644
Customer deposits	5,012		5,012
Matured interest payable		24,571	24,571
	-----	-----	-----
Total liabilities	31,894	24,571	56,465
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	970		970
	-----	-----	-----
Total deferred inflows of resources	970	0	970
FUND BALANCES (DEFICIT):			
Nonspendable	19,942		19,942
Restricted			0
Committed			0
Assigned			0
Unassigned	133,194	(12,682)	120,512
	-----	-----	-----
Total fund balance	153,136	(12,682)	140,454
	-----	-----	-----
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	186,000	11,889	197,889
	=====	=====	=====
Reconciliation of the above balance sheet - governmental funds to the government-wide statement of net position			
Total fund balance - governmental funds (above)			140,454
Amounts reported in the government-wide statement of net assets are different because:			
Capital assets and other assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			
Capital assets are:			2,260,261
Less: accumulated depreciation			(1,019,362)
Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds.			
			970
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.			
Long term liabilities at year end consist of:			
2007 South Dakota Housing loan			(390,000)
2009 Sales Tax Revenue Bonds			(165,000)
2013 Bobcat loan			(5,164)
Accrued leave payable			(1,604)

Total net position on government-wide statement of net position			820,555
			=====

See accompanying notes.

CITY OF COLMAN

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2014

	General Fund	TIF #1 Debt Service Fund	Total Governmental Funds
	-----	-----	-----
Revenue:			
Revenue from local sources:			
Taxes: Ad valorem taxes	52,296	31,136	83,432
General sales and use taxes	175,988		175,988
Amusement taxes	120		120
Licenses and permits:	1,432		1,432
Intergovernmental revenue:			
State shared revenue:			
Grant - tobacco prevention	1,667		1,667
Bank franchise tax	504		504
Commercial prorate	1,621		1,621
Liquor tax reversion	3,716		3,716
Motor vehicle licenses (5%)	8,104		8,104
Highway and bridge	20,648		20,648
County shared revenue:			
Road taxes	1,811		1,811
Charges for goods and services:			
West Nile	10,136		10,136
Swimming pool	6,231		6,231
Camping	5,211		5,211
Events	850		850
Fines and forfeits:	86		86
Miscellaneous revenue:			
Interest earned	484		484
Rental and franchise	33,839		33,839
Other	1,615		1,615
	-----	-----	-----
Total revenues	326,359	31,136	357,495
	-----	-----	-----
Expenditures:			
General government:			
Mayor and Council	18,895		18,895
Elections	241		241
Financial administration	12,438		12,438
Other	70,322		70,322
Public safety:			
Police	27,917		27,917
Fire	28,854		28,854
Public works:			
Highways and streets	54,490		54,490
Health and welfare:			
West Nile	8,902		8,902
Culture and recreation:			
Swimming pool	31,485		31,485
Parks and recreation	28,646		28,646
Debt service:			
Principal	11,595		11,595
Interest	8,666	18,213	26,879
Capital outlay	116,163		116,163
	-----	-----	-----
Total expenditures	418,614	18,213	436,827
	-----	-----	-----
Excess of revenues over (under) expenditures	(92,255)	12,923	(79,332)
Other financing sources (uses): Transfers in	41,512		41,512
	-----	-----	-----
Net change in fund balance	(50,743)	12,923	(37,820)
Fund balance (deficit):			
January 1, 2014	203,879	(25,605)	178,274
December 31, 2014	153,136	(12,682)	140,454
	=====	=====	=====
Reconciliation of the above statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities.			
Amounts reported in the government-wide statement of net position are different because:			
Net change in fund balances - total governmental funds (above)			(37,820)
Governmental funds report capitalized cost as expenditures.			
However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation.			
2014 capitalized cost are			116,163
2014 depreciation is			(48,993)
Long-term debt proceeds are reported as other financing sources in governmental funds statement. However, in the statement of net position, issuing debt increases long-term liabilities and does not effect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position.			
Therefore: Add: 2009 sales tax revenue bond principal payments			8,000
Add: 2013 Bobcat loan payments			3,595
Some property taxes will not be collected for several months after the City's year-end. Therefore, they are not considered "available" revenues and are deferred in the governmental funds statement.			(919)
Governmental funds do not reflect the change in "accrued leave", but the statement of activities reflects the change in "accrued leave" through expenditures.			(35)

Change in net position on government-wide statement of activities			39,991
See accompanying notes.			=====

CITY OF COLMAN

STATEMENT OF NET POSITION - ENTERPRISE FUNDS
AS OF DECEMBER 31, 2014

	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	Solid Waste Fund	Recreation Fund	Total Enterprise Funds
ASSETS:							
Current assets:							
Cash and cash equivalents	30,284	0	27,196	0	16,936	14,502	88,918
Due from other governments		105,028		176,644			281,672
Accounts receivable		18,242	124,137	18,441	5,624		166,444
Due from other funds			226,531				226,531
Total current assets	30,284	123,270	377,864	195,085	22,560	14,502	763,565
Noncurrent assets:							
Capital assets:							
Land				10,770			10,770
Buildings	126,506	10,353		6,746			143,605
Improvements		710,350	523,059	1,005,139			2,238,548
Equipment	8,540			38,300		47,178	94,018
Accumulated depreciation	(71,793)	(318,153)	(222,685)	(211,431)		(23,589)	(847,651)
Construction-in-progress		1,927,509		3,225,907			5,153,416
Total noncurrent assets	63,253	2,330,059	300,374	4,075,431	0	23,589	6,792,706
Total assets	93,537	2,453,329	678,238	4,270,516	22,560	38,091	7,556,271
LIABILITIES:							
Current liabilities:							
Accounts payable	1,280	108,264	71,890	178,604	2,920	397	363,355
Due to other funds		166,144		60,387			226,531
Customer deposits		11,482	11,482				22,964
Accrued interest payable		11,990					11,990
Current portion of:							
Long-term debt		6,857	21,914	18,238		7,285	54,294
Total current liabilities	1,280	304,737	105,286	257,229	2,920	7,682	679,134
Noncurrent liabilities:							
Leave liability	182	1,282	1,786	1,100			4,350
Noncurrent portion of long-term debt		797,944	17,755	1,429,079		13,982	2,258,760
Total noncurrent liabilities	182	799,226	19,541	1,430,179	0	13,982	2,263,110
Total liabilities	1,462	1,103,963	124,827	1,687,408	2,920	21,664	2,942,244
NET POSITION (DEFICIT)							
Net invested in capital asset	63,253	1,513,268	260,705	2,628,114		2,322	4,467,662
Restricted:							
Debt service		78,337		53,574			131,911
Unrestricted	28,822	(242,239)	292,706	(98,580)	19,640	14,105	14,454
Total net position	92,075	1,349,366	553,411	2,583,108	19,640	16,427	4,614,027

See accompanying notes.

CITY OF COLMAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN NET POSITION - ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2014

	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	Solid Waste Fund	Recreation Fund	Total Enterprise Funds
Operating revenue:							
Charges for goods and services	8,215	135,780	973,228	133,369	36,844	133,466	1,420,902
Lottery sales	24,361						24,361
Total operating revenue	32,576	135,780	973,228	133,369	36,844	133,466	1,445,263
Operating expenses:							
Personal services	5,397	19,702	26,595	15,758		69,150	136,602
Other current services	3,698	34,079	124,752	27,664	8,309	39,496	237,998
Cost of goods sold	16,280	34,814	700,157		35,152	25,583	811,986
Depreciation	2,530	21,407	12,024	24,021		7,863	67,845
Total operating expenses	27,905	110,002	863,528	67,443	43,461	142,092	1,254,431
Total operating income (loss)	4,671	25,778	109,700	65,926	(6,617)	(8,626)	190,832
Nonoperating revenue (expense):							
Interest earnings	8		36			34	78
Interest expense and fees			(2,388)	(2,735)		(1,477)	(6,600)
Operating grant			2,500				2,500
Debt issue cost - bond counsel		(16,000)		(8,000)			(24,000)
Total nonoperating revenue (expense)	8	(16,000)	148	(10,735)	0	(1,443)	(28,022)
Income (loss) before transfer	4,679	9,778	109,848	55,191	(6,617)	(10,069)	162,810
Transfers in				61,613		25,000	86,613
Transfers (out)	(10,234)		(117,891)				(128,125)
SRF loan forgiven		567,126		515,325			1,082,451
State grant (CWFCP)				756,591			756,591
Homeland security grant				38,300			38,300
Change in net position	(5,555)	576,904	(8,043)	1,427,020	(6,617)	14,931	1,998,640
Net position:							
January 1, 2014	97,630	772,462	561,454	1,156,088	26,257	1,496	2,615,387
December 31, 2014	92,075	1,349,366	553,411	2,583,108	19,640	16,427	4,614,027

See accompanying notes.

CITY OF COLMAN

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2014

	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	Solid Waste Fund	Recreation Fund	Total Enterprise Funds
Cash flows from:							
Operating activities:							
Receipts from customers	32,748	131,986	949,102	133,301	35,702	133,466	1,416,305
Estimated rec. from other funds		3,500	30,000	3,000	1,500		38,000
Payments to employees	(5,373)	(19,650)	(26,536)	(15,730)		(69,150)	(136,439)
Payments to suppliers	(20,338)	(64,151)	(836,994)	(24,764)	(43,437)	(60,034)	(1,049,718)
Estimated pymts. to other funds		(2,000)		(1,000)		(5,000)	(8,000)
Net cash provided (used) by operating activities	7,037	49,685	115,572	94,807	(6,235)	(718)	260,148
Noncapital financing activities:							
Due from other funds		89,600	(68,943)				20,657
Due to other funds		166,144		(186,800)			(20,656)
Operation grant			2,500				2,500
Transfers in				61,613		25,000	86,613
Transfers (out)	(10,234)		(117,891)				(128,125)
Capital financing activities:							
SRF loans forgiven (capital contri.)		567,126		515,325			1,082,451
SRF loans proceeds		487,752		685,244			1,172,996
Capital grants		189,169		618,247			807,416
Cash paid for equipment				(38,300)			(38,300)
Cash paid for construction		(1,533,476)		(1,676,267)			(3,209,743)
Principal paid on debt			(21,312)	(63,134)		(8,337)	(92,783)
Interest paid on debt			(2,388)	(2,735)		(1,477)	(6,600)
Debt issue cost - bond counsel		(16,000)		(8,000)			(24,000)
Investing activities:							
Interest received	8		36			34	78
Investments redeemed			101,936				101,936
Net increase (decrease) in cash	(3,189)	0	9,510	0	(6,235)	14,502	14,588
Cash:							
January 1, 2014	33,473	0	17,686	0	23,171	0	74,330
December 31, 2014	30,284	0	27,196	0	16,936	14,502	88,918
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	4,671	25,778	109,700	65,926	(6,617)	(8,626)	190,832
Depreciation	2,530	21,407	12,024	24,021		7,863	67,845
(Increase) decrease in:							
Receivables	172	(294)	5,874	2,932	358		9,042
Increase (decrease) in:							
Accounts payable	(360)	2,742	(12,085)	1,900	24	45	(7,734)
Leave liability	24	52	59	28			163
Net cash provided (used) by operating activities	7,037	49,685	115,572	94,807	(6,235)	(718)	260,148
Noncash investing, capital and financing activities:							
Accrued interest		11,990					

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Colman conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Reporting Entity:

The funds and account groups included in this report are controlled by or dependent upon the City of Colman's (City) Governing Board.

The City's officials at December 31, 2014 are:

Mayor:	Finance Officer:
Gloria Van Duyn	Michael Hauglid
Governing Board:	Attorney:
Mike Uhing, President	Jay Leibel
Roger Broghammer	
Ben Elhoff	
Russ May	
Brad Schroeder	
David Voelker	

The City's financial reporting entity is composed of the following:

Financial Reporting Entity:
Primary Government: - The City of Colman
Component Units: - None

To determine the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The reporting entity of the City of Colman consists of (1) 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; (2) those organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The 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 (the primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City unless that organization can, without the approval of the City: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

Based upon the application of these criteria the City of Colman has no component units.

b. Basis of Presentation:

Government-wide Financial Statements:

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

The Statement of Net Position reports all financial and capital resources, in a net position form (assets minus liabilities equal net position). Net position is displayed in three components, as applicable: net invested in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each segment of City's business-type activities. Direct expenses are associated with a specific program or function and are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the program 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 and interest, are presented as general revenues.

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its assets, liabilities, net position, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, enterprise, and fiduciary. An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the City or if it meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues, or expenditures/expenses) for all funds of that category (that is, total governmental or total enterprise), and
- b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
- c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

The City has elected to classify all of its funds as major funds.

Funds of the City are described below within their respective fund type:

Governmental Funds

General Fund - a fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the City except those required to be accounted for in another fund. The general fund is always a major fund.

Debt Service Fund Type - debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The City has the following debt service funds:

Tax Increment Financing (TIF) District funds - Funds allowed by SDCL 11-9-24 to account for the proceeds of incremental property taxes, restricted to the payment of principal and interest on debt issued to finance a public improvement. The City accounts for 1 legally separate TIF debt fund. This TIF debt service fund is a major fund.

*Enterprise Funds
(Business-Type)*

Enterprise Funds - Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The City has the following enterprise funds:

Liquor fund - A fund established by SDCL 35-3-21 to provide liquor services to customers in the City of Colman. The liquor fund is a major fund.

Water fund - A fund established by SDCL 9-47-1 to provide water to customers within the City of Colman. The water fund is a major fund.

Electric fund - A fund established by SDCL 9-39-1 and 9-39-26 to provide electrical service to customers within the City of Colman. The electric fund is a major fund.

Sewer fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the City of Colman. The sewer fund is a major fund.

Solid Waste fund - A fund established by SDCL 9-32-11 and 34A-6 to provide collection and disposal of solid waste from the City of Colman. The solid waste fund is a major fund.

Recreation fund - A fund established by SDCL 35-3-21, 9-38-60 and 9-38-69 to provide clubhouse (liquor), golf and swimming pool activities from the City of Colman. The recreation fund is a major fund.

Fiduciary Funds

Fiduciary are never considered to be major funds.

In 2014 the City did not have any fiduciary funds.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "what" 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.

Measurement Focus

Government-wide Financial Statements:

Both governmental and business-type activities are presented using the "economic resources" measurement focus, applied on the accrual basis of accounting.

The "economic resources" measurement focus includes all assets and liabilities (whether current or noncurrent, financial, or nonfinancial) on the balance sheet. Operating statements use the flow of all economic resources to present operating income, changes in net position, and cash flows during the accounting period. This measurement focus uses the term "net position" to describe its equity at the end of the accounting period.

Fund Financial Statements:

All governmental funds are presented using the "current financial resources" measurement focus and the modified accrual basis of accounting.

The "current financial resources" measurement focus includes only current financial assets and liabilities on the balance sheet. Operating statements present sources and uses of available spendable financial resources during the accounting period. This measurement focus uses the term "fund balance" to describe its equity at the end of the accounting period. It is a measure of available spendable financial resources.

Enterprise and fiduciary funds are presented using the "economic resources" measurement focus (described above) and the accrual basis of accounting.

Basis of Accounting

Government-wide Financial Statements:

In the government-wide financial statements, the accrual basis of accounting is used for both governmental and business-type activities in the Statement of Net Position and Statement of Activities. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

In the fund financial statements, all governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, which for the City is 30 days. Revenue which is accrued at December 31, 2014 are amounts due from other governments and other accounts receivable.

Under the modified accrual basis of accounting, receivables may be measurable but "not available". Not available means not collectible within the current period or soon enough thereafter (30 days) to be used to pay liabilities of the current period. Reported "deferred inflow of resources" are those where the asset recognition criteria has been met but for which the revenue recognition criteria has not been met because the receivable is not available.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due. However, the City of Colman budgets for, and makes payment of, debt obligations due on January 1st as of December 31st, the end of the City's fiscal year.

All enterprise funds and fiduciary funds (if any) are accounted for using the accrual basis of accounting, the same as in the government-wide financial statements. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. 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:

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net residual amounts due between governmental and business-type activities, which are presented as "Internal Balances" (if any).

Fund Financial Statements:

In the fund financial statements, noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" since they are not a component of net position. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

e. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed. All other interfund transactions are reported as transfers.

f. Cash and Cash Equivalents:

In the enterprise funds' statement of cash flows, the City considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents. Those portions of the enterprise funds' cash resources that are included in the City's internal cash management pool are considered to be cash and cash equivalents, regardless of the form in which they are held, because use of the pool provides each enterprise fund with access to its cash resources essentially on demand.

g. Capital Assets and Infrastructure assets:

Capital assets include land, buildings, improvements, and equipment, and all other tangible or intangible assets that are used in operations, which have initial useful lives extending beyond a single reporting period. *Infrastructure assets* are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets. Infrastructure assets, if any, are classified as "Improvements Other than Buildings."

Government-wide Financial Statements:

In the government-wide financial statements, capital assets are accounted for on the accrual basis of accounting. Capital asset purchases are capitalized and not expensed. Instead, capital purchases are expensed over the life of the asset as depreciation or amortization.

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. After an item has been capitalized, subsequent improvements or betterments that are significant, and which extend the useful life of the item, are also capitalized.

The total December 31, 2014 balance of capital assets for governmental activities include approximately 10% for which the costs were determined by estimates of the original costs. The total December 31, 2014 balance of capital assets for business-type activities includes approximately 10% for which the costs were determined by estimates of the original costs. Estimated original costs were established by basing the estimates on a comparison to historical costs of similar items.

Interest cost incurred during construction of general capital assets are not capitalized with other capital asset cost. Interest cost incurred during construction of enterprise capital assets are capitalized with other capital asset cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities and the enterprise fund statement of revenue, expenses and changes in fund net position. Accumulated depreciation is reported on the government-wide statement of net position and on the enterprise fund's statement of net position. See also page 33.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation method, and estimated useful lives of capital assets reported in the government-wide statements and enterprise funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Life in Years
	-----	-----	-----
Land	All		NA
Buildings and structures	All	Straight-line	33-50
Improvements	5,000	Straight-line	20-25
Equipment	5,000	Straight-line	5-10

Land is an inexhaustible capital asset and is not depreciated.

There is construction-in-progress at December 31, 2014 for water and sewer line improvements. See page 33 for more information.

Fund Financial Statements:

Capital assets and related depreciation expenses are not recorded in governmental funds of the fund financial statements because these funds have a "current financial resources" measurement focus. Instead, these funds report capital asset acquisitions as capital outlay expenditures.

Capital assets and related depreciation expenses are recorded on the accrual basis of accounting in the enterprise funds of the fund financial statements, the same as in the government-wide statements.

h. Long-term Liabilities:

Government-wide Financial Statements:

In the government-wide financial statement, all long-term liabilities to be repaid from governmental or business-type resources are reported as liabilities. Long-term liabilities primarily consist of revenue bonds and accrued leave payable.

Fund Financial Statements:

In the fund financial statements, governmental debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. Enterprise fund long-term debt is reported as a liability, the same as in the government-wide statements.

i. Program Revenues and General Revenues and Deferred Inflows and Deferred Outflows of Resources:

Program Revenue

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 contribution - 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 contribution - 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.

General Revenue

General revenues include all revenues not specifically earmarked for a specific program. General revenues include all taxes, interest earnings, unrestricted receipts from federal, state, or county governments, and miscellaneous revenues not related to a program. These revenues are not restricted and can be used for the regular operation of the City.

Deferred Outflows and Deferred Inflows of Resources

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

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

j. Enterprise Fund Revenue and Expense Classifications:

In the government-wide and fund financial statements, enterprise 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.

k. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as "Net Position" and is displayed in three components:

1. Net Invested in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds payable, capitalized leases payable, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position - Consists of net position with constraints placed on its use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position - Other net position that does not meet the criteria of 1 or 2 above.

Fund Financial Statements:

Governmental fund equity is classified as "Fund Balance", and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Enterprise fund equity is classified as "Net Position", the same as in the government-wide financial statements. Fiduciary fund equity (except for agency funds, which have no fund equity) is reported as "Net Position" held in trust for a purpose.

l. Fund Balance Classification Policies and Procedures:

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

- * Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- * Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.
- * Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed (or modified or rescinded) by the government through formal action at the highest level of decision making authority and does not lapse at year-end.
- * Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Council or Finance Officer.
- * Unassigned - includes positive fund balance within the general fund which has not been classified within the above categories and negative fund balances in other governmental funds.

The City of Colman fund balance classifications are made up of:

<u>Fund Balance Classifications</u>	<u>Account or Fund</u>	<u>Authority or Action</u>	<u>Amount</u>
Nonspendable	General - Insurance deposit	SDPAA Contract	19,942
Restricted	None		0
Committed	None		0
Assigned	None		0
Unassigned	General		133,194
Unassigned	TIF #1		(12,682)

			140,454

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

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

The City does not have any special revenue funds.

m. Application of Net Position:

It is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred which can be charged to either restricted or unrestricted net position.

n. Allowance for Doubtful Accounts:

Because write-off of uncollected taxes and/or utility billings is minimal, is it not considered necessary to establish an estimated allowance for doubtful accounts.

o. Accounting Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimates. Following are the estimates made by management during the year:

- * Allowance for doubtful accounts - estimated uncollectables
- * Inventory - estimated fair market value
- * Depreciation - estimated service lives

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund. The following are overdrafts of departmental expenditures compared to appropriations:

2014: General fund/general government/Mayor and Council	\$ 3,710
/public safety/fire	10,154
/culture and recreation/parks	75,312
/debt service	15,261

In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation.

3. DEPOSITS AND RELATED RISKS

The City follows the practice of aggregating deposits of its various funds for cash management efficiency and returns, except for restricted cash held by 3rd parties and certificates of deposits purchased for an individual fund.

The City's 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. Qualified depositories are required by SDCL 4-6A-3 to maintain, at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as 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.

Deposits are reported at cost, plus interest, if the account is the add-on type.

Actual bank balances at December 31, 2014 were as follows: Insured \$315,776, Collateralized ** \$346,867 for a total of \$662,643.

** Uninsured, collateral jointly held by state's/municipality's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits, including cash on hand of \$7,793, at December 31, 2014 was \$258,329.

Reconciliation of deposits to government-wide statement of net position is:

Statement of Net Position:	
Bank Cash	\$ 250,536
Cash on hand	7,793

	\$ 258,329

Certificates of deposit, with a term to maturity of greater than 90 days when purchased, are insured or collateralized and are considered deposits.

Deposit Credit Risk - State law limits eligible deposits for the City, as discussed above. The City has no deposit policy that would further limit its deposit choices.

Deposit Custodial Risk - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. At December 31, 2014, the City's deposits in financial institutions were not exposed to custodial deposit risk.

Concentration of Credit Risk - The City places no limit on the amount that may be deposited in any one institution. All of the City's deposits are with Home Federal Bank.

4. INVESTMENTS AND RELATED RISKS

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

At December 31, 2014, the City had no investments.

Investment Custodial Risk - The risk that, in the event of a default by the counterparty to a transaction, the City will not be able to recover the value of an investment or collateral securities held by the counterparty.

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

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

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The City's policy is to credit all income from deposits and investments to the fund with the investment.

5. RECEIVABLES AND PAYABLES:

Receivables and payables are not aggregated in the financial statements. The City expects all receivables to be collected within one year. Allowances for estimated uncollectible accounts are not material to these financial statements.

6. DUE FROM OTHER GOVERNMENTS

At December 31, 2014, amounts due from other governments were:

	Governmental	Enterprise
Liquor tax reversion	\$ 941	
Highway and bridge receipts	4,098	
Water project expense reimbursements		\$ 105,028
Sewer project expense reimbursements		176,644
	-----	-----
	\$ 5,039	\$ 281,672

7. CARI NOTE RECEIVABLE AND DEPOSIT TO PURCHASE REAL ESTATE

In 2008 the City leased the Clubhouse and golf course from Colman Area Recreation, Inc. (CARI) for the 2008 year with automatic one year renewals subject to certain conditions. The City's lease payment is based on the City's payment of CARI's existing loan obligations plus insurance and property taxes related to the real estate. CARI is also obligated to repay the City for other payments made on its behalf, which the City secured with a mortgage on CARI's Clubhouse and golf course real estate.

By 2012 it became apparent that CARI would not be able to pay its existing loan obligations and other amounts owed to the City. Consequently, the following adjustments were made: (1) The City's initial 2008 note receivable from CARI for payments made on CARI's behalf plus accrued interest was reclassified from the recreation fund to the general fund. (2) City payments made on behalf of CARI after 2008 have been recognized as an economic development expense in the general fund. (3) Recreation fund profit and losses since the City took over operations in 2008 are now fully recognized in that fund.

In 2013 the name Colman Area Recreation, Inc. (CARI) was changed to Sunrise Ridge Golf Course, Inc.

In 2014 City's initial 2008 note receivable from CARI was reclassified as a culture and recreation capital outlay expenditure.

8. INVENTORY OF SUPPLIES AND SMALL TOOLS

Government-wide Statements: (consumption method)

In the government-wide financial statements inventories of supplies and small tools are recorded as assets when purchased and charged to expense when they are consumed. Inventories of supplies and small tools are recorded at cost. Donated items are valued at estimated market value at the date of receipt. The cost valuation method is first-in first-out.

Fund Financial Statements: (consumption method)

In the fund financial statements inventories of supplies and small tools are recorded as assets when purchased and charged to expenditure/expense when they are consumed. Reported governmental inventories are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Inventory of supplies and small tools is recorded at cost. Donated items are valued at estimated market value at the date of receipt. The cost valuation method is first-in first-out.

There are no material amounts of governmental inventory items to report at December 31, 2014.

Inventory of enterprise funds consist of liquor and food held for resale and expendable supplies at the Clubhouse and golf course. These inventory items are initially recorded as assets and charged to cost of goods sold when they are sold or used. Inventory is stated at the lower of cost or market and the cost valuation method used is first-in first-out.

Because Clubhouse and golf course activities stop in October, inventory is immaterial at year end and is not taken. No amounts are reported in these financial statements for Clubhouse and golf course inventory.

9. INTERFUND BALANCES

At December 31, 2014 the water fund owed the electric fund \$166,144 and the sewer fund owed the electric fund \$60,387 to cover overdrafts.

10. INTERFUND TRANSFERS

Net transfers "in" and "(out)" between funds are:

For operations:	Governmental	Enterprise
General	\$ 41,512	
Liquor		\$ (10,234)
Electric		(117,891)
Sewer		61,613
Recreation		25,000
	-----	-----
	\$ 41,512	\$ (41,512)

11. CAPITAL ASSETS AND DEPRECIATION

A summary of the changes in capital assets is presented in schedule one at the end of these notes. There is construction-in-progress at December 31, 2014 for water and sewer line improvements. See page 33 for more information.

12. LONG-TERM DEBT

A summary of changes in long-term liabilities is presented in schedule two at the end of these notes. The City did not have any short-term or conduit debt during 2014. See page 34 to 36 for more information.

13. FUTURE REVENUES PLEDGED TO SECURE DEBT

All water fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure drinking water borrower bonds which have a remaining balance of \$804,801. The bonds were incurred to cover the cost of water improvements as described on page 35. The bonds will mature in 2045 and 2046. In 2014 the bond had pledged revenue of \$47,185 before depreciation and total payments of zero because the first payment on these loans is in 2015 and 2016.

All electric fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure a electric capital lease which has a remaining balance of \$39,669. The lease was incurred to cover the cost of electrical improvements as described on page 35. The lease will mature in 2016. In 2014 the lease had pledged revenue of \$121,724 before depreciation and total lease payments of \$23,700.

All sewer fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure two revenue bonds loan which have a remaining balance of \$1,447,317. The bonds were incurred to cover the cost of sewer improvements as described on page 35. The bonds will mature in 2045 and 2046. In 2014 the bonds had pledged revenue of \$89,947 before depreciation and principal payments of zero and capitalized interest payments of \$27,789.

14. RESTRICTED NET POSITION

The following table shows the net position restricted for specific purposes as shown on the statement of net position:

Purpose:	Restricted By:	Governmental Activities	Business-Type Activities
Insurance deposit	Contract	\$ 19,942	
Debt service	Covenants		\$ 131,911

15. RETIREMENT PLAN

All regular full and part time employees participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the years ending December 31, 2014, 2013, and 2012 were \$6,342, \$6,501, and \$6,174 respectively (employer's share), equal to the required contribution each year.

The City does not owe any deferred contributions to the retirement plan.

16. PROPERTY TAX

Taxes are levied on or before October 1, attach as an enforceable lien on property, become due and payable on the following January 1, and are payable in two installment on or before the following April 30 and October 31. The county bills and collects the City's taxes and remits them to the City.

Property taxes are recognized to the extent they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is intended to be used to finance the current year's appropriations, but which will not be collected during the current fiscal year or within the "availability period" of 30 days has been deferred in the fund financial statements. Property tax revenues intended to finance the current year's appropriations, and therefore susceptible to accrual, has been reported as revenue in the government-wide financial statements, even though collection will occur in a future year.

Delinquent property taxes, from prior year tax levies, are included in "net position" in the government-wide statement of activities but are deferred in the fund financial statements. See reconciliations on page 12 and 13.

17. RISK MANAGEMENT

The City is exposed to various risks of loss related to injuries to employees; torts; theft of or damage to property; errors and omissions of public officials; and natural disasters. During the year ending December 31, 2014, the City managed its risks as follows:

Employee Health Insurance:

None. Two employees get \$200 a month as a premium reimbursement for their private plans.

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 City pays an annual premium to the pool to provide coverage for law enforcement liability, general liability, officials liability, automobile, and property insurance.

The agreement with the SDPAA provides that the above coverage's will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The City carries a \$2,000 deductible for the law enforcement liability coverage and a \$500 deductible for wrongful acts. The remaining coverages are \$0 deductible.

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 cost 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 above, under a claims-made policy and the premiums are accrued on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage.

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 on the following formula:

End of the City's:

First Full Year (50%), Second Full Year (60%), Third Full Year (70%)
Fourth Full Year (80%), Fifth Full Year (90%), Sixth Full Year (100%)

As of December 31, 2014, the City has a vested balance in the cumulative reserve fund of \$19,942.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The City joined the South Dakota Municipal League Workers' Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City 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 \$250,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,750,000 per individual per incident.

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 retrospective rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The City may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The City has elected to reimburse the state of South Dakota for unemployment payments made on its behalf. No unemployment benefits were paid or incurred during 2014 and none are expected to be paid in 2015.

18. TAX INCREMENT FINANCING DISTRICT -- DEFICIT FUND BALANCE

The City established Tax Increment Financing (TIF) District #1 for \$390,000 of water and sewer infrastructure improvements to a new subdivision. The City received approval for a \$390,000 loan from South Dakota Housing Development Authority (SDHDA) to pay for these improvements. At December 31, 2014 South Dakota Housing had advanced the full \$390,000 on this loan. The loan and infrastructure improvements are accounted for in the TIF #1 debt service fund.

At December 31, 2014, TIF #1 debt service fund had a deficit fund balance of \$12,682 from unpaid interest accrued on the SDHDA loan. In time, incremental property tax revenues are expected to be sufficient to pay the past due interest and eliminate the deficit fund balance.

19. SEWER FUND LOAN AGREEMENT WITH THE SOUTH DAKOTA DEPT OF ENVIRONMENT AND NATURAL RESOURCES

Because of statutory debt limitations, the City entered into the following agreements with the South Dakota Department of Environment and Natural Resources by Resolution 327-14.

The City of Colman designates \$26.17 of the established monthly sewer rates collected in accordance with City Ordinance #313-12 as captured and committed. Said Commitment is subject to adjustment from time to time by ordinance as necessary to repay two (2) Clean Water State Revolving Fund loans (SRF) over a period of no more than thirty (30) years at an

interest rate of three and one-quarter percent (3.25%), in accordance with the loan agreement to be entered into by the City of Colman and the SD Department of Environment and Natural Resources, the proceeds of which loan are to be used for the Phase 1 sewer line replacement/repair project and Phase 2 sewer line replacement/repair projects.

C462144-01 (Clean Water) \$1,217,748 3.25% 30 Years Surcharge \$21.00
 C462144-02 (Clean Water) \$ 300,000 3.25% 30 Years Surcharge \$ 5.17

Such surcharge shall be segregated from all other funds of the City of Colman, shall be and hereby pledged to secure such loan, and shall be used for no purposes other than for repayment thereof. Said surcharge will be implemented and reflected with first utility billing on February 2014.

In 2014 a total surcharge of \$81,363 was collected and \$27,789 was used for a remaining balance of \$53,574.

20. WATER FUND LOAN AGREEMENT WITH THE SOUTH DAKOTA DEPT OF ENVIRONMENT AND NATURAL RESOURCES

Because of statutory debt limitations, the City entered into the following agreements with the South Dakota Department of Environment and Natural Resources by Resolution 328-14.

The City of Colman designates \$16.81 of the established monthly water rates collected in accordance with City Ordinance #313-12 as captured and committed. Said Commitment is subject to adjustment from time to time by ordinance as necessary to repay two (2) Drinking Water State Revolving Fund loans (SRF) over a period of no more than thirty (30) years at an interest rate of three percent (3.00%), in accordance with the loan agreements to be entered into by the City of Colman and the SD Department of Environment and Natural Resources, the proceeds of which loans are to be used for the Phases 1, 2, and 3 drinking water system repair and replacements projects.

C462144-02 (Drinking Water) \$439,008 3.00% 30 Years Surcharge \$6.89
 C462144-03 (Drinking Water) \$632,008 3.00% 30 Years Surcharge \$9.92

Such surcharges shall be segregated from all other funds of the City of Colman, shall be and hereby pledged to secure such loan, and shall be used for no purposes other than for repayment thereof. Said surcharges will be implemented and reflected with first utility billing on February 2014.

In 2014 a total surcharge of \$78,337 was collected and none was used.

21. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The City does not offer any "Other Post Employment Benefits."

Funding in 2013, 2014 and 2015 of water and sewer improvements is:

	2013	2014	2015	Total
WATER FUND				
2013 Drinking water loan -01	\$ 165,440	\$ 0	\$ 0	\$ 165,440
Amount forgiven	(165,440)	(0)	(0)	(165,440)
2013 Drinking water loan -02	317,049	117,479	0	434,528
2014 Drinking water loan -03		937,399	662,601	1,600,000
Amount forgiven		(567,126)	(400,874)	(968,000)
SEWER FUND				
2013 Clean water loan -01	985,863	588,385	0	1,574,248
Amount forgiven	(223,790)	(132,710)	(0)	(356,500)
2014 Clean water loan -02		612,184	187,816	800,000
Amount forgiven		(382,615)	(117,385)	(500,000)
2014 Consolidated Water Facility		756,591	243,409	1,000,000
Construction Project grant (CWFCP)		(756,591)	(243,409)	(1,000,000)
	-----	-----	-----	-----
Net new loans	\$1,079,122	\$1,172,996	\$ 332,158	\$2,584,276

Federal funding in 2014 related to the above projects is:

		Federal	State/Other
2013 Drinking water loan	-02	\$	\$ 117,479
2014 Drinking water loan/grant	-03		937,399
2013 Clean water loan/grant	-01	78,104	510,281
2014 Clean water loan/grant	-02		612,184
2014 CWFCP			756,591
		-----	-----
		\$ 78,104	\$ 2,933,934

The City will be installing 200 electrical radio-read meters in 2015.

In November 2014 the City awarded a low bid of \$767,990 to Maguire Iron to build a new water tower in 2015.

In 2015 the City submitted an application to the Department of Environment and Natural Resources for funding related to its Highway 34 Water Main Replacement project (Phase 3). The project is expected to cost \$525,000 with financing from a State Revolving Fund loan (SRF).

In April 2014 the Council passed a motion to have First District and Power Systems Engineering start a pre-mitigation grant application process to bury and update overhead electrical lines, which is expected to be done in 2016.

CITY OF COLMAN

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
 CHANGES IN CAPITAL ASSETS
 FOR THE YEAR ENDING DECEMBER 31, 2014

	Beginning 12-31-13	Book Adjustments	Additions	Deletions	Ending 12-31-14	Accumulated Depreciation 12-31-13	Book Adjustments	Depreciation (Additions)	Depreciation Deletions	Accumulated Depreciation 12-31-14	Remaining Cost 12-31-14
General capital assets:											
Land	292,386				292,386						292,386
Buildings	1,221,866		104,904	(1)	1,326,770	(544,428)	(1)	(29,063)		(573,492)	753,278
Improvements	348,484		11,259		359,743	(166,967)	1	(16,282)		(183,248)	176,495
Equipment	281,362				281,362	(258,974)		(3,648)		(262,622)	18,740
Construction-in-progress	0				0	0				0	0
Totals	2,144,098	0	116,163	0	2,260,261	(970,369)	0	(48,993)	0	(1,019,362)	1,240,899

Allocation of Depreciation:

(1) Reclassification of CARI note receivable	50,436
Payments on Colman Economic Development Corp loan	48,687
Payments on T&R Electric loan	5,781
	104,904 (1)

General government	5,126
Public safety	6,769
Public works	10,615
Health and welfare	294
Culture and recreation	26,189
Economic development	0
	48,993

Business-type activity:

Enterprise funds:

Land	10,770				10,770						10,770
Buildings	143,605				143,605	(73,157)	(2)	(3,048)		(76,207)	67,398
Improvements	2,238,549	(1)			2,238,548	(682,383)		(53,102)		(735,485)	1,503,063
Improvements - leasehold	0				0	0				0	0
Equipment	64,218		38,300	(8,500)	94,018	(32,766)		(11,693)	8,500	(35,959)	58,059
Construction-in-progress	1,838,829		3,314,588		5,153,417	0				0	5,153,417
Totals	4,295,971	(1)	3,352,888	(8,500)	7,640,358	(788,306)	(2)	(67,843)	8,500	(847,651)	6,792,707

CITY OF COLMAN

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO
 CHANGES IN LONG-TERM DEBT
 FOR THE ONE YEAR ENDING DECEMBER 31, 2014

	Beginning 12-31-13	2014 Additions	2014 (Deletions)	Governmental Ending 12-31-14	Business-Type Ending 12-31-14	Principal Due in 2015
GOVERNMENTAL						
2007 South Dakota Housing Loan:						
Actual draws to total \$390,000						
First payment due 6-1-2009						
Financing for Tax Increment Financing District #1						
Maturing on 6-1-2022						
Interest at 4.67%						
Required payments equals TIF revenue						
Paid by TIF #1 debt service fun	390,000			390,000		21,058
2009 Sales Tax Revenue Bonds, Series 2009A:						
Original bond amount: \$200,000						
Maturing on 12-1-2029						
Interest at 4.00% first 10 years						
Interest at 5.00% second 10 years						
Annual payments of principal						
Semi-annual payment of interest						
Secured by "...so much of the Sales Tax						
as is necessary..." to make bond payments						
Callable at option of City after 12-1-2014						
Paid by general fund	173,000		(8,000)	165,000		8,000
2013 Bobcat Loan:						
Original amount: \$11,416						
Imputed interest at 6.0% is \$1,430						
Calculated original amount: \$9,986						
Maturing on August 2017						
Monthly payments of \$237.84						
Callable at any time						
Paid by general fund	8,759		(3,595)	5,164		2,544
Accrued leave payable: general fu	1,569	1,604	(1,569)	1,604		1,604
Totals	573,328	1,604	(13,164)	561,768		33,206

SCHEDULE OF PAYMENTS FOR LONG-TERM DEBT
 AT DECEMBER 31, 2014

	Total Payment	Principal	Interest	Balance
2007 South Dakota Housing Loan: 2				
2016	39,271	21,058	18,213	368,942
2017	39,271	22,042	17,229	346,900
2018	39,271	23,071	16,200	323,829
2019	39,271	24,148	15,123	299,681
2020-2024	39,271	25,276	13,995	274,405
2025-2026	196,356	145,228	51,128	129,177
	139,690	129,177	10,513	0
Totals	532,401	390,000	142,401	
2009 Sales Tax Revenue Bonds, Series 2009A:				
2015	15,820	8,000	7,820	157,000
2016	15,500	8,000	7,500	149,000
2017	16,180	9,000	7,180	140,000
2018	15,820	9,000	6,820	131,000
2019	15,460	9,000	6,460	122,000
2020-2024	79,350	54,000	25,350	68,000
2025-2029	78,550	68,000	10,550	0
Totals	236,680	165,000	71,680	
2013 Bobcat Loan:				
2	2,854	2,544	310	2,620
2016	2,777	2,620	157	0
Totals	5,631	5,164	467	

CITY OF COLMAN

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO (continued)
 CHANGES IN LONG-TERM DEBT
 FOR THE ONE YEAR ENDING DECEMBER 31, 2014

	Beginning 12-31-13	2014 Additions	2014 (Deletions)	Governmental Ending 12-31-14	Business-Type Ending 12-31-14	Principal Due in 2015
BUSINESS-TYPE						
2000 Wastewater Utility Revenue Bonds:						
Original issue of \$200,000						
Maturing on 11-27-2040						
Interest at 5.5%						
Callable at option of City						
Monthly payments of \$1,040						
Paid by sewer fund	63,134		(63,134)		0	0
2006 Electric Utility Improvement Lease/Purchase:						
Original lease/purchase of \$190,000						
Maturing on 10-1-2016						
Interest at 4.5%						
Callable at option of City						
Quarterly payments of \$5,925						
Paid by electric fund	60,981		(21,312)		39,669	21,914
2012 Golf Cart Lease/Purchase:						
Original amount: \$47,178						
Down payment of \$4,800						
Six monthly payment per year of \$1,391.10						
Maturing October 2017						
Paid by recreation fund	29,604		(8,337)		21,267	7,285
2013 Drinking Water Borrower Bond (DW-2):						
Original amount of \$439,008						
Interest at 3.0%						
First payment February 15, 2015						
Last payment February 15, 2045						
Water line replacement						
Paid by water fund	317,049	117,479			434,528	6,857
2014 Drinking Water Borrower Bond (DW-3):						
Original amount of \$1,600,000						
Forgiven at closing: \$968,000						
Interest at 3.0%						
First payment May 15, 2016						
Last payment February 15, 2046						
Water line and water tower replacement						
Paid by water fund	0	370,273			370,273	0
2013 Clean Water Borrower Bond (CW-1):						
Original amount of \$1,574,248						
Forgiven at closing: \$356,500						
Interest at 3.25%						
First payment February 15, 2015						
Last payment February 15, 2045						
Sewer line replacement						
Paid by sewer fund	762,073	455,675			1,217,748	18,238
2014 Clean Water Borrower Bond (CW-2):						
Original amount of \$800,000						
Forgiven at closing: \$500,000						
Interest at 3.25%						
First payment February 15, 2016						
Last payment February 15, 2046						
Sewer line replacement						
Paid by sewer fund	0	229,569			229,569	0
Accrued leave payable:						
Paid by the enterprise funds	4,187	4,350	(4,187)		4,350	4,350
Totals	1,237,028	1,177,346	(96,970)		2,317,404	58,644

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO (continued)
 CHANGES IN LONG-TERM DEBT
 FOR THE ONE YEAR ENDING DECEMBER 31, 2014

SCHEDULE OF PAYMENTS FOR LONG-TERM DEBT
 AT DECEMBER 31, 2014

	Total Payment	Principal	Interest	Balance
2006 Electric Utility Improvement Lease/Purchase:				
2015	23,699	21,914	1,785	17,755
2016	18,554	17,755	799	0
Totals	42,253	39,669	2,584	
2012 Golf Cart Lease/Purchase:				
2015	8,347	7,285	1,062	13,982
2016	8,347	7,649	698	6,333
2017	6,648	6,333	315	0
Totals	23,342	21,267	2,075	
2013 Drinking Water Borrower Bond (DW-2):				
2015	28,674	6,857	21,817	427,671
2016	22,245	9,385	12,860	418,286
2017	22,245	9,670	12,575	408,616
2018	22,245	9,963	12,282	398,653
2019	22,245	10,266	11,979	388,387
2020-2024	111,224	56,192	55,032	332,195
2025-2029	111,223	65,250	45,973	266,945
2030-2034	111,224	75,767	35,457	191,178
2035-2039	111,223	87,980	23,243	103,198
2040-2044	111,224	102,160	9,064	1,038
2045	1,079	1,038	41	0
Totals	674,851	434,528	240,323	
2014 Drinking Water Borrower Bond (DW-3):				
2015		(261,727)		632,000
2016	24,018	9,871	14,147	622,129
2017	32,024	13,511	18,513	608,618
2018	32,024	13,921	18,103	594,697
2019	32,023	14,343	17,680	580,354
2020-2024	160,118	78,513	81,605	501,841
2025-2029	160,118	91,168	68,950	410,673
2030-2034	160,119	105,863	54,256	304,810
2035-2039	160,118	122,926	37,192	181,884
2040-2044	160,118	142,740	17,378	39,144
2045-2046	40,028	39,144	884	0
Totals	960,708	370,273	328,708	
2013 Clean Water Borrower Bond (CW-1):				
2015	47,774	18,238	29,536	1,199,510
2016	63,698	25,017	38,681	1,174,493
2017	63,698	25,840	37,858	1,148,653
2018	63,698	26,690	37,008	1,121,963
2019	63,698	27,568	36,130	1,094,395
2020-2024	318,491	152,056	166,435	942,339
2025-2029	318,491	178,769	139,722	763,570
2030-2034	318,491	210,174	108,317	553,396
2035-2039	318,491	247,096	71,395	306,300
2040-2044	318,490	290,505	27,985	15,795
2045	15,923	15,795	128	0
Totals	1,910,943	1,217,748	693,195	
2014 Clean Water Borrower Bond (CW-2):				
2015	0	(70,431)		300,000
2016	11,769	4,493	7,276	295,507
2017	15,692	6,163	9,529	289,344
2018	15,693	6,366	9,327	282,978
2019	15,693	6,575	9,118	276,403
2020-2024	78,462	36,267	42,195	240,136
2025-2029	78,463	42,638	35,825	197,498
2030-2034	78,462	50,129	28,333	147,369
2035-2039	78,463	58,935	19,528	88,434
2040-2044	78,462	69,289	9,173	19,145
2045-2046	19,614	19,145	469	0
Totals	470,773	229,569	170,773	

CITY OF COLMAN

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2014

GENERAL FUND	Budgeted Amounts				Actual	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental	Final		
Revenue:						
Revenue from local sources:						
Taxes:						
Ad valorem taxes	56,400			56,400	52,296	(4,104)
Sales and use tax	186,000			186,000	175,988	(10,012)
Amusement tax					120	120
Licenses and permits:	720			720	1,432	712
Intergovernmental revenue:	30,685			30,685		(30,685)
State shared revenue:						
Grant					1,667	1,667
Bank franchise tax					504	504
Motor vehicle - commercial					1,621	1,621
Liquor tax reversion					3,716	3,716
Motor vehicle licenses (5%)					8,104	8,104
Highway and bridge					20,648	20,648
County shared revenue:					1,811	1,811
Charges for goods and services	5,250			5,250		(5,250)
Health and welfare (West Nile)					10,136	10,136
Swimming pool					6,231	6,231
Camping					5,211	5,211
Events					850	850
Fines and forfeits:					86	86
Miscellaneous revenue:	44,700			44,700		(44,700)
Interest earned					484	484
Rentals and franchise fees					33,839	33,839
Other					1,615	1,615
Total revenues	323,755	0	0	323,755	326,359	2,604
Expenditures:						
General government:						
Mayor and Council	15,185			15,185	18,895	(3,710)
Contingency	10,000			10,000		10,000
Amount transferred		(3,000)		(3,000)		(3,000)
Elections	630			630	241	389
Financial administration	13,955			13,955	12,438	1,517
Other	73,490	3,000		76,490	70,322	6,168
Public safety:						
Police	32,455			32,455	27,917	4,538
Fire	18,700			18,700	28,854	(10,154)
Public works:						
Highways and streets	111,260			111,260	54,490	56,770
Health and welfare:						
West Nile	12,800			12,800	8,902	3,898
Culture and recreation:						
Swimming pool	32,295			32,295	31,485	810
Parks and recreation	27,985		41,512	69,497	144,809	(75,312)
Debt service	5,000			5,000	20,261	(15,261)
Total expenditures	353,755	0	41,512	395,267	418,614	(23,347)
Excess of revenues over (under) expenditures	(30,000)	0	(41,512)	(71,512)	(92,255)	(20,743)
Other financing sources (uses):						
Transfers in	30,000			30,000	41,512	11,512
Net change in fund balance	0	0	(41,512)	(41,512)	(50,743)	(9,231)
Fund balance:						
January 1, 2014	203,879			203,879	203,879	0
December 31, 2014	203,879	0	(41,512)	162,367	153,136	(9,231)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF BUDGETARY COMPARISON FOR THE
GENERAL FUND FOR THE TWO YEARS ENDING DECEMBER 31, 2014

1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the required supplementary information:

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental appropriations. During 2014 there was one supplemental appropriation to increase the general fund's budget. See page 37.
- e. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board. There were no appropriations encumbered at December 31, 2014.

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.

- f. Formal budgetary integration is employed as a management control device for the general fund.
- g. The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

2. GAAP and Budgetary Accounting Basis Difference:

The financial statements prepared in conformity with U.S.GAAP 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 road grader would be reported as a capital expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances. However, in the budgetary RSI schedule, the purchase of a road grader would be reported as an expenditure in the public works function of general fund, along with all other current public works expenditures.

REPORT ON
COMPLIANCE AND OTHER MATTERS AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the Colman City Council
Colman, South Dakota

INDEPENDENT AUDITOR'S REPORT

I 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 governmental activities, business-type activities, and each major fund, of the City of Colman (City), Moody County, South Dakota, as of December 31, 2014 and for year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated November 20, 2015 which was unmodified.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether City of Colman's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described as finding 2014-01 in the attached schedule of current audit findings and responses.

However, I did note other minor matters involving compliance that I reported to the governing body and management of the City of Colman in a separate Letter of Comments dated November 20, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exist 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City of Colman's financial statements will not be prevented, or detected and corrected on a timely basis.

OA *significant deficiency*, is a deficiency, or 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

I did identify a deficiencies in internal control, that I consider to be a significant deficiencies. I consider the deficiencies described in the accompanying schedule of current audit findings and responses as findings 2014-01 and 2014-02 to be significant deficiencies.

I did note other matters involving internal control that I reported to the governing body and management of the City of Colman in a separate Letter of Comments dated November 20, 2015.

Management responses to the findings identified in my audit are described in the accompanying schedule of current audit findings and responses. I did not audit the management responses and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on the effectiveness of the City's compliance or internal control over financial reporting. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting. Accordingly this communication is not suitable for any other purpose.

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

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

November 20, 2015



SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Other Audit Findings:

2006-01: Budget Overdrafts -- Repeated below

2008-04: Preparation of Financial Statements - Repeated Below

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Summary of the Independent Auditor's Results:

Financial Statements

Type of auditor's report issued:

Unqualified on:

Governmental Activities
Business-Type Activities
All Funds

Noncompliance noted:

Finding: 2014-1

Internal control over financial reporting:

* Significant deficiency(ies) identified
that are not considered to be material
weaknesses?

Findings: 2014-01 and 2014-02

* Material weakness(es) identified?

None Reported

Finding 2014-01: General Fund Budget Overdraft
(compliance and internal control)

Criteria:

SDCL 9-21 requires governmental expenditures to be authorized in an annual appropriation ordinance, or by a supplemental appropriation ordinance, by the governing body before the end of year. The City is prohibited from spending in excess of appropriated amounts at the sub-function level.

Condition:

City expenditures exceeded their appropriation in the following areas:

2014: General fund/general government/Mayor and Council	\$ 3,710
/public safety/fire	10,154
/culture and recreation/parks	75,312
/debt service	15,261

Possible Effect:

Expenditures in excess of a budget can lead to unnecessary expenditures and unnecessary taxation. Also, joint and several liability may attach to any official who approves an expenditure in excess of the amount budgeted for any purpose or department. SDCL 9-21-9 and 9-21-10

Recommendation:

I recommend the City stay within its budget, using contingency transfers and supplemental appropriations to adjust budget line items when necessary.

Management Response:

In the future, the City expects to make contingency transfers or adopt sufficient supplemental appropriations to cover expenditures that will exceed their original appropriation.

Finding 2014-02: Preparation of Financial Statements
(internal control)

Criteria:

A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements. Also, South Dakota Codified Law (SDCL) 9-14-17 and 9-14-18 requires the finance officer to keep regular books of account.

Condition:

The City has elected not to have an internal control system designed to provide for the preparation of the financial statement being audited. As the auditor, I was requested to draft these financial statements and accompanying notes to the financial statements.

Effect:

This control deficiency could result in a misstatement of the financial statements that would not be prevented or detected.

Recommendation:

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.

Management Response:

Due to cost constraints, the City will continue to have the auditor draft the financial statements and accompanying notes to the financial statements.