

CITY OF ELK POINT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2014

**CITY OF ELK POINT
MUNICIPAL OFFICIALS
DECEMBER 31, 2014**

Mayor:

Isabel Trobaugh

Governing Board:

Brad Zevenbergen

Myra Honomichl

Jim Verros

Deborah McCreary

Neil Leitru

Katie Bumm

Finance Officer:

Erika Hammitt

Municipal Attorney:

Craig K. Thompson

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QUAM & BERGLIN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Elk Point, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elk Point, South Dakota, as of and for the year ended December 31, 2014, and the related notes to the financial statements. We were not engaged to audit the financial statements of the discretely presented component unit. These financial statements collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion on the Discretely Presented Component Unit" paragraph we do not express an audit opinion on the discretely presented component unit.

The financial statements of the Elk Point Housing and Redevelopment Commission (HRC) have not been audited, and we were not engaged to audit the Elk Point HRC's financial statements as part of our audit of the City's financial statements. The Elk Point HRC's financial activities are included in the City's financial statements as a discretely presented component unit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Disclaimer of Opinion on the Discretely Presented Component Unit

The financial statements of the Housing and Redevelopment Commission (HRC) have not been audited, and we were not engaged to audit the HRC financial statements as part of the City's basic financial statements. HRC's financial activities are included in the City's basic financial statements as a discretely presented component unit and represent the assets, net position, and revenues of the City's discretely presented component unit.

Disclaimer of Opinion

Because of the matter described in the "Basis for Disclaimer of Opinion on the Discretely Presented Component Unit" paragraph we did not obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit of the City of Elk Point. Accordingly, we do not express an opinion on those financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Elk Point, South Dakota as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows for the year then ended in conformity 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 and Budgetary Comparison Schedules listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Nonmajor Fund Financial Statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements

and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2015, on our consideration of the City of Elk Point's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elk Point's internal control over financial reporting and compliance.

Quam & Berglin, P.C.

Quam and Berglin, P.C.
Certified Public Accountants
Elk Point, SD

September 4, 2015

CITY OF ELK POINT 2014 MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Elk Point's annual financial report presents discussion and analysis of the City's financial performance during the fiscal year ended on December 31, 2014. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- A 3% cost of living raise was given to full time salaried employees and full-time hourly employees in the Public Works Department, Administrative Department and Head Librarian.
- A 3% cost of living raise was given to full-time hourly police officers.
- The City Council approved a bid from Pedersen Machine, Inc. for \$10,575.00 for a 2014 Zero Turn Commercial Riding Mower.
- The City Council approved a bid from Bri-ley Sales Company, Inc. for \$34,900.00 for a 1999 International 4700 Digger Derrick.
- Resolution 2014-2 was adopted to increase the electric rates for the Elk Point Jefferson School effective July 1, 2014. The rates will increase an additional \$.025 per kilowatt hour for the cost of the city's operation of the electric utility system, \$.076 per kilowatt hour for heating and cooling costs and \$.095 per kilowatt hour for all other costs.
- Resolution 2014-5 was adopted approving the sale and execution and delivery of a gratuitous transfer of property agreement via a quit claim deed between the Elk Point United Parish, acting on behalf of the Elk Point Food Pantry and the City of Elk Point for \$1.00.
- The City Council accepted a bid from Smith & Smith Construction, Inc. for \$101,213.50 for the Sioux to Pearl Street North Water Project.
- A transfer was approved for \$5,000.00 from the General Fund to the General Fund Restricted for Park Scoreboard.
- Council approved a transfer of \$7,000.00 from the General Fund to the General Fund Restricted for a Future Police Car.
- A transfer was approved for \$20,000.00 from the General Fund to the General Fund Restricted for Rose Street.
- A transfer was approved for \$20,000.00 from the Water Fund to the Water Fund Restricted for Rose Street.
- Council approved a \$20,000.00 transfer from the Sewer Fund to the Sewer Fund Restricted for Rose Street.
- Resolutions 2013-10 and 2013-11 were adopted to decrease the Water System Surcharge Rate from \$2.31/month to \$2.28/month and to increase the Wastewater System Surcharge from \$3.75/month to \$3.72/month to produce sufficient revenues to pay the annual debt obligations and to assume a 110% debt requirement required by the SD DENR.
- Resolution 2013-12 was adopted to increase revenues in the water, sewer, electric and garbage utility accounts. A 1% rate increase was approved on the water, sewer, electric and garbage rates.
- The City Council approved Resolution 2014-9 a \$10,000.00 transfer from the General Fund Contingency to the General Fund Police Department for Salaries and Wages.
- Supplemental Budget Ordinance No. 374 was approved by the City Council in December, 2014 thereby appropriating \$33,000.00 of the General Fund Unassigned Fund Balance to the Machinery & Equipment to purchase a snow blower.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- 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.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has four proprietary funds – the Water Fund, Sewer Fund, Electric Fund and Garbage Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in a single column in the basic financial statements.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

Major Features of Elk Point City's Government-wide and Fund Financial Statements

	Government-wide Statements	Governmental Funds	Fund Statements Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water and sewer systems	Instances in which the City is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses and Changes in Net Assets *Statement of Cash Flows	* Statement of Fiduciary Net Position * Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities both short-term and long-term; the City's funds do not currently contain capital assets although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health or position.

- Increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

- **Governmental Activities** -- This category includes most of the City's basic services, such as police, swimming pool, cemetery, library, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
- **Business-type Activities** -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water, sewer, electric and garbage systems are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds:

- **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 that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent 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, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- **Fiduciary Funds** - The Municipality is the trustee, or fiduciary, for various external and internal parties. The Municipality is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Municipality's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary we exclude these activities from the Municipality's government-wide financial statements because the Municipality cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position shows a small decrease of -.26% between fiscal year 2013 and 2014 – decreasing by \$31,060.00. (See Table A-1)

**TABLE A-1
CITY OF ELK POINT
STATEMENT OF NET POSITION**

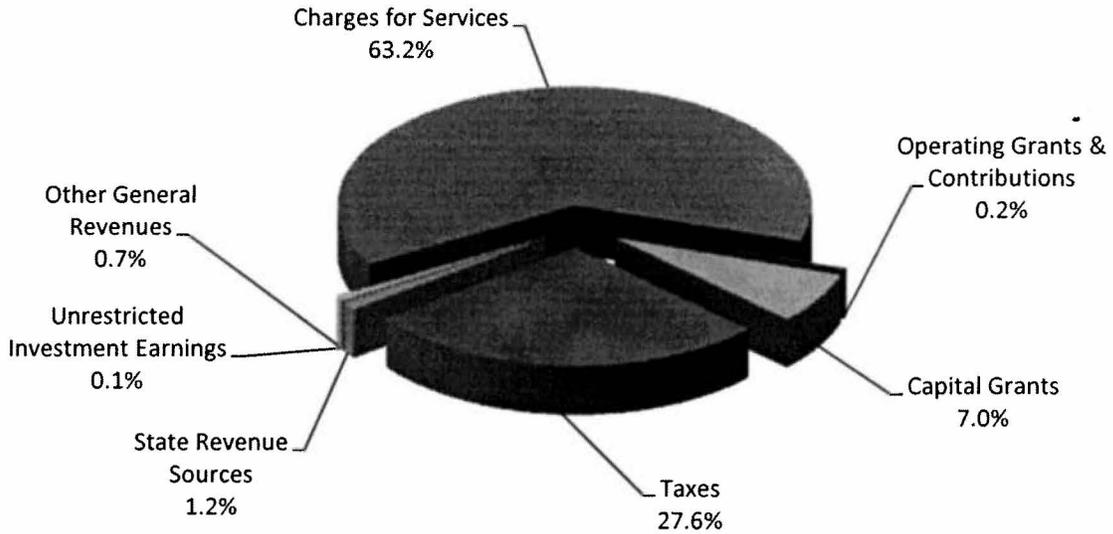
	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Current and Other Assets	\$ 709,419	\$ 854,957	\$ 2,104,319	\$ 2,211,192	\$ 2,813,738	\$ 3,066,149
Capital Assets	3,681,777	3,376,854	9,043,874	8,775,850	12,725,651	12,152,704
Total Assets	4,391,196	4,231,811	11,148,193	10,987,042	15,539,389	15,218,853
Long-Term Debt Outstanding	424,180	384,415	3,261,751	2,963,224	3,685,931	3,347,639
Other Liabilities	26,206	27,291	73,793	73,399	99,999	100,690
Total Liabilities	450,386	411,706	3,335,544	3,036,623	3,785,930	3,448,329
Net Position:						
Net Investment in Capital Assets	3,281,138	3,044,112	5,792,767	5,775,893	9,073,905	8,820,005
Restricted	175,427	175,364	244,416	280,428	419,843	455,792
Unrestricted	484,245	600,629	1,775,466	1,845,973	2,259,711	2,446,602
Total Net Position	\$ 3,940,810	\$ 3,820,105	\$ 7,812,649	\$ 7,902,294	\$ 11,753,459	\$ 11,722,399
Increase (Decrease) in Net Position	131,200	(120,705)	208,363	89,645	339,563	(31,060)
Beginning Net Position	3,685,172	3,940,810	7,604,286	7,812,649	11,289,458	11,753,459
Prior Period Adjustment	124,438				124,438	
Adjusted Beginning Net Position	3,809,610	3,940,810	7,604,286	7,812,649	11,413,896	11,753,459
Ending Net Position	\$ 3,940,810	\$ 3,820,105	\$ 7,812,649	\$ 7,902,294	\$ 11,753,459	\$ 11,722,399
Percentage of Increase (Decrease) in Net Position	3.44%	-3.06%	2.74%	1.15%	2.98%	-0.26%

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the city, consisting of compensated absences payable, sales tax revenue bonds payable and water and wastewater revenue bonds payable, have been reported in this manner on the Statement of Net Position. The difference between the city's assets and liabilities is its net position.

Changes in Net Position

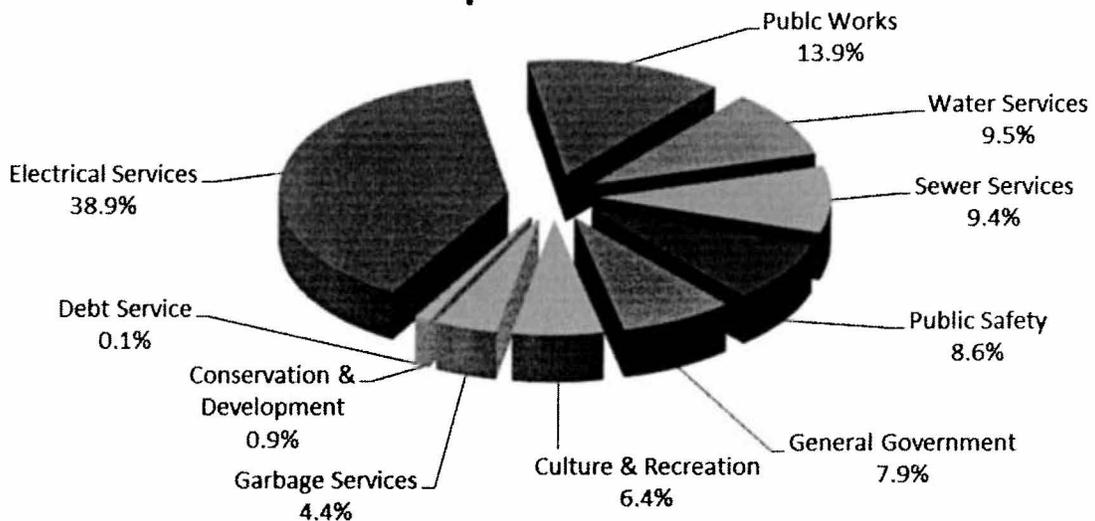
The City's total revenues totaled \$3,943,878 (See Table A-2.) About 91% of the City's revenue comes from charges for services and taxes; with 63 cents of every dollar raised coming from charges for services (primarily water, sewer, electric and garbage operations) and 28 cents of every dollar raised comes from some type of tax. (See Figure A-3). The 2014 remaining revenues came from grants and other contributions, intergovernmental revenues and other miscellaneous sources.

**Figure A-3
City of Elk Point
Sources of Revenues for 2014**



The City's expenses cover a range of services, with 85% related to public safety and public work services (street maintenance, water, sewer, electrical and garbage services). (See Figure A-4)

**Figure A-4
City of Elk Point
Functional Expenses for 2014**



Governmental Activities

Table A-2 and the narrative that follows consider the operations of the governmental activities.

Total governmental revenues for the City decreased by \$203,135 or 13%. Tax revenues increased 2% or \$24,055. Sales tax revenues increased \$9,907 or 3% while property taxes revenues increased \$18,800 or 3%. The Gross Receipts or Bed, Board and Booze tax decreased, \$4,463 or 14%. Total expenses in the Governmental Activities decreased \$17,479 or 1.2%.

City of Elk Point Changes in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Revenues						
Program Revenues						
Charges for Services	\$ 80,604	\$ 65,599	\$ 2,607,875	\$ 2,590,400	\$ 2,688,479	\$ 2,655,999
Operating Grants and Contributions	9,617	1,804			9,617	1,804
Capital Grants and Contributions	207,099	5,058	90,035		297,134	5,058
General Revenues						
Taxes	1,174,597	1,198,652			1,174,597	1,198,652
Revenue State Sources	53,344	55,276			53,344	55,276
Other General Revenue	27,944	21,977		344	27,944	22,321
Unrestricted Investment Earnings	775	2,479	2,935	2,289	3,710	4,768
Total Revenues	1,553,980	1,350,845	2,700,845	2,593,033	4,254,825	3,943,878
Expenses						
General Government	305,379	306,896			305,379	306,896
Public Safety	329,886	318,612			329,886	318,612
Public Works	534,774	522,906			534,774	522,906
Health and Welfare	1,322	1,830			1,322	1,830
Culture and Recreation	247,845	247,850			247,845	247,850
Conservation and Development	34,732	23,290			34,732	23,290
Debt Services	2,266	17,341			2,266	17,341
Water Services			365,079	381,813	365,079	381,813
Sewer Services			360,241	340,098	360,241	340,098
Electric Services			1,498,576	1,603,134	1,498,576	1,603,134
Garbage Services			169,753	150,537	169,753	150,537
Total Expenses	1,456,204	1,438,725	2,393,649	2,475,582	3,849,853	3,914,307
Excess (Deficiency) Before						
Special Items and Transfers	97,776	(87,880)	307,196	117,451	404,972	29,571
Gain/Loss on Capital Assets	640	(32,825)	(66,049)	(27,806)	(65,409)	(60,631)
Transfers In	32,784				32,784	
Transfers Out			(32,784)		(32,784)	
Increase (Decrease) in Net Position	131,200	(120,705)	208,363	89,645	339,563	(31,060)
Net Position-Beginning	3,685,172	3,940,810	7,604,286	7,812,649	11,289,458	11,753,459
Prior Period Adjustment	124,438				124,438	
Net Position-Adjusted Beginning	3,809,610	3,940,810	7,604,286	7,812,649	11,413,896	11,753,459
NET POSITION - ENDING	\$ 3,940,810	\$ 3,820,105	\$ 7,812,649	\$ 7,902,294	\$ 11,753,459	\$ 11,722,399

Business-type Activities

Operating revenues of the City's business-type activities decreased \$107,812 or 4%. Expenses in the City's business type activities increased 3.4% from \$2,393,649 to \$2,475,582.

Factors contributing to these results included:

- Operating revenues decreased mainly due to \$90,035 in capital grant funds in 2013 and no capital grant funds in 2014.
- The decrease in Business Type Activities expenses increased due to the cost of electricity the city purchases from East River Electric.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains three major governmental funds - General, UDAG Fund and Safe Routes to School Fund, two nonmajor governmental funds-public library and liquor, lodging, and dining sales tax fund, three trust and agency funds, Housing and Redevelopment, Summer Recreation Program and East River loan program and four business type funds – Water, Sewer, Electric and Garbage Funds.

General Fund Budgetary Highlights

Over the course of the year, the City Council may revise the City budget several times. These amendments fall into two categories:

- Supplemental appropriations approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriations, by contingency transfers, to prevent budget overruns.

Ordinance No. 374, "An Ordinance Providing for the Supplemental Appropriations for the City of Elk Point, South Dakota during the Fiscal Year 2014" was approved on December 22, 2014. This ordinance provided the additional revenues and expenses to purchase a snow blower with the city's unassigned fund balance for \$33,000.

Of the \$30,000 General Fund Contingency Budget \$10,000 went to the Police Department for salaries & wages.

A transfer from the General Fund Budget of \$5,000 went to the General Fund Restricted for a Park Scoreboard, \$7,000 went to the General Fund Restricted for a Future Police Car and \$20,000 in each of the general, water and sewer funds was moved to Restricted Accounts for Rose Street.

CAPITAL ASSET ADMINISTRATION

At the end of 2014, the City had invested (net of depreciation) \$12,182,705 in a broad range of capital assets, including, land, buildings, infrastructure and various machinery and equipment. (See Table A-3 below.) This amount represents a net decrease (including additions and deductions) of \$542,944 or 4 percent, over the last year.

**TABLE A-3
CITY OF ELK POINT
CAPITAL ASSETS (NET OF DEPRECIATION)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>	<u>2013-2014</u>
Land	\$ 40,986	\$ 33,336	\$ 153,487	\$ 153,487	\$ 7,650	4.09%
Buildings	993,594	904,229	34,217	28,127	95,455	10.24%
Improvements other than Buildin	2,299,242	2,125,778	7,359,556	7,228,203	304,817	3.26%
Machinery and Equipment	291,362	291,642	1,496,613	1,366,033	130,300	7.86%
Library Books	56,592	51,870			4,722	9.10%
Total Capital Assets	\$ 3,681,776	\$ 3,406,855	\$ 9,043,873	\$ 8,775,850	\$ 542,944	4.46%

This year's major capital asset additions included:

- A Fair 842 SI snow blower was purchased for \$71,500.
- The City purchased a 2014 997 JD mower with a 72" deck for the park department. This will replace the 2007 Toro Groundmaster mower. The purchase price was \$21,400 with a trade in value of the 2007 mower for \$10,825 making the total price \$10,575.
- The Electric Department purchased a 1999 International model #4700 Digger Derrick truck for \$34,900.
- The park department also purchased a Reelmaster 3100-D mower. The total purchase price was \$26,175 and the 2003 Jacobsen Tri-king mower was traded in for \$3,500. The city paid \$21,000 and Todd Larsen with the Baseball/Softball Association will pay the remaining amount.
- A street lighting conversion project which consisted of fifteen new street lights was completed on the east end of Main Street for \$66,753.

Highlights of the 2015 budget include:

- The city has budgeted \$67,200 in the street fund, \$20,400 in the water fund and \$32,400 in the sewer fund for professional fees and services. They will begin engineering work on the Rose Street Project.
- In the Swimming Pool Fund, the city approved a \$10,000 budget to sandblast and paints the pool. The Public Works Department will be doing the work.
- The 2015 Machinery and Equipment budget includes \$20,000 for a new pickup. This purchase is split up by four different departments including the Cemetery, Park, Street and Garbage.
- A reserve was set up for a future police vehicle in the Police Fund for \$7,000 and a future scoreboard in the Park Fund for \$5,000.
- \$30,000 in the Water Fund and \$10,000 in the Sewer Fund were budgeted to put in a Reserve for Rose Street construction.
- The City also budgeted \$35,000 to purchase a new loader. This purchase is split into seven different departments, which include the Street, Cemetery, Park, Electric, Water, Sewer and Garbage Departments.
- The City budgeted \$35,000 in the Water Fund to repaint the older water tower.

- The City intends to continue the Water Valve Replacement Program in 2015. The water fund budget includes \$10,000 to purchase and install additional valves.
- In the Sewer Fund, the City budgeted \$12,000 to expand the existing lagoon shed.
- The 2015 Electric Budget includes \$21,240 to extend the lighting on Main Street near the Dollar General Store and \$9,995 to add lighting to the Hike and Bike Trail along the Golf Course.

LONG-TERM DEBT

The City shows an increase of 7.38% in Outstanding Obligations at the end of 2014.

**TABLE A-4
CITY OF ELK POINT
OUTSTANDING DEBT AND OBLIGATIONS**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>	<u>2013-2014</u>
Compensated Absences	\$ 23,542	\$ 21,672	\$ 10,644	\$ 11,392	\$ 1,122	3.39%
Notes/Leases Payable	400,638	362,743	120,000	96,019	61,876	13.49%
Certificates of Participation			795,000	740,000	55,000	7.43%
Total Long-Term Liabilities	<u>\$ 424,180</u>	<u>\$ 384,415</u>	<u>\$ 3,261,751</u>	<u>\$ 3,048,224</u>	<u>\$ 253,292</u>	<u>7.38%</u>
Net Increase (Decrease)		10.34%		7.00%		

The City is liable for the accrued vacation leave payable to all full-time employees who have been employed for more than one year. There is an increased amount of leave totaling \$33,064.06 outstanding at the end of the 2014.

The City has outstanding \$239,162.79 in Sewer System Revenue Bonds; Series 2002 that were used to finance the sewer improvements on the Pearl Street Project and the balance not used on Pearl Street was used for work on the West Side Lift Station Project. These bonds are secured and paid from the Sewer Fund. Final payment on April, 2023

The City has outstanding \$109,521.78 in Water System Revenue Bonds, Series 2002 that were used to finance the water improvements on the Pearl Street Project. These bonds are secured and paid from the Water Fund. Final payment is in January, 2023.

The City has outstanding \$458,761.21 in Equipment Leases and Notes Payable. These leases/notes are paid from the General Government and Business Type Funds depending on the equipment.

The City has outstanding \$655,000 in Refunding Certificates of Participation, Series 2006. These certificates are secured and paid from the Electric Fund. They were purchased to finance the electrical conversion project. Final payment is in January, 2023.

The City has outstanding \$378,931.27 State Revolving Loans, Series 2004 used to finance the upgrade to the Water Treatment Plant and the West Side Lift Station and Water Improvement Project. Final payment scheduled for July, 2026.

Also outstanding is \$87,296.64 of Drinking Water State Revolving Fund Loans, Series 2006 for materials purchased for the West side Lift Station and Water Improvement Project. These bonds are paid from the Water Fund revenues. Final payment scheduled for August, 2026.

The City has outstanding \$76,268.56 of Clean Water State Revolving Fund Loans, Series 2006, for the West Side Lift Station and Water Improvement Project. These bonds are paid from the Sewer Fund. Final payment is in July, 2028.

The City has outstanding \$121,058.73 of Clean Water State Revolving Fund Loans, Series 2008, for the Clay and Washington Street reconstruction. These bonds are paid from the Sewer Fund. Final payment due in January 2030.

Also outstanding is \$457,552.37 of Drinking Water State Revolving Fund Loans, Series 2008, for the Clay and Washington Street reconstruction. These bonds are also paid from the Sewer Fund. Final payment due in January 2030.

The City has outstanding \$300,096.43 of Water System Revolving Fund Loans, Series 2009, for the Main Street Reconstruction Project. These bonds are secured and paid from a Water Surcharge implemented for this Project. Final payment due July, 2031.

The City has outstanding \$430,924.32 of Wastewater System Revolving Fund Loans, Series 2009, for the Main Street Reconstruction Project. These bonds are secured and paid from a Sewer Surcharge implements for this Project. Final payment due in July 2031.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City experienced a increase in total property valuation of \$3,023,698 (an increase of \$1,261,731 due to reappraisal and \$1,761,967 due to additions, improvements or changes in use). The adjusted property value for 2014 was \$86,9,572,772. The City Council voted to increase the property tax request for 2015. The 2015 mill levy decreased from 8.742 from 8.582.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The city experienced a 2% increase (\$9,906.63) in taxable sales from the previous year. 2013 sales tax revenues were \$437,770.99 compared to \$447,677.62 in 2014.

A tax implemented in 2009 is the Gross Receipts Tax (Bed, Board and Booze). Revenues in 2013 totaled \$32,272.78, a decrease of \$4,463.10 with 2014 revenues totaling \$27,809.68. These dollars have been allocated for a new community center.

The City's adopted General Fund expense budget decreased 6% to \$1,266,632. There is a significant decrease from the 2013 budget, which included the purchase of a police car and more street repairs.

The City's business-type activities (water, sewer, electric and garbage operations) expect that the results for 2015 will improve slightly due to the growth. When approving the 2015 budget the City Council made the following rate changes:

- Increased the electric energy charge 5% for all categories effective January 1, 2015. Increased the Garbage rate 5% for all categories of accounts effective January 1, 2015. The Water and Sewer Departments both received a 5% increase for all categories of accounts effective January 1, 2015.
- The Water and Sewer Surcharges implemented to repay the debt incurred for the Main Street Reconstruction Project were recalculated after project completion and a principal prepayment was made. On January 1, 2015 the surcharge amounts for the Water Fund surcharge were decreased from \$2.28 to \$2.26 and the Sewer Fund surcharge were decreased from \$3.72 to \$3.68. Effective July 1, 2015, the Water Fund surcharge was increased slightly from \$2.26 to \$2.41 and the Sewer Fund Surcharge was increased from \$3.68 to \$3.99. The surcharges will be reviewed on an annual basis and may be adjusted

as necessary to repay the Drinking Water and Clean Water State Revolving Fund Bonds and maintain the required 110% debt requirement of the SD DENR.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and 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 Elk Point's Finance Office, 106 W. Pleasant Street, PO Box 280, Elk Point, SD 57025.

**CITY OF ELK POINT
STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	Primary Government			Unaudited Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	\$ 711,017.26	\$ 807,388.17	\$ 1,518,405.43	\$ 97,287.45
Investments		544,763.78	544,763.78	
Taxes Receivable	11,371.96		11,371.96	
Accounts Receivable, Net	19,421.22	374,239.68	393,660.90	
Due From Government	16,575.21	517.23	17,092.44	
Inventories	10,174.12	197,768.13	207,942.25	
Special Assessments	30,323.05		30,323.05	
Loans Receivable	8,137.91		8,137.91	
Prepaid Expenses	17,936.15		17,936.15	2,324.00
Restricted Assets:				
Cash and Cash Equivalents		211,918.33	211,918.33	
Investments		74,597.33	74,597.33	
Capital Assets:				
Land	33,336.00	153,486.74	186,822.74	213,669.66
Other Capital Assets, Net of Depreciation	<u>3,373,518.37</u>	<u>8,622,362.67</u>	<u>11,995,881.04</u>	<u>1,572,844.22</u>
TOTAL ASSETS	<u>4,231,811.25</u>	<u>10,987,042.06</u>	<u>15,218,853.31</u>	<u>1,886,125.33</u>
LIABILITIES :				
Accounts Payable	11,033.01	9,438.27	20,471.28	
Accrued Wages Payable	16,211.57	9,806.69	26,018.26	
Accrued Taxes Payable	46.92	8,760.86	8,807.78	
Customer Deposits		45,393.70	45,393.70	17,501.61
Noncurrent Liabilities:				
Due Within One Year	34,869.63	249,256.91	284,126.54	36,488.01
Due in More than One Year	<u>349,545.10</u>	<u>2,713,966.52</u>	<u>3,063,511.62</u>	<u>1,996,667.37</u>
TOTAL LIABILITIES	<u>411,706.23</u>	<u>3,036,622.95</u>	<u>3,448,329.18</u>	<u>2,050,656.99</u>
DEFERRED INFLOWS OF RESOURCES:				
Other Deferred Inflows of Resources		<u>48,125.00</u>	<u>48,125.00</u>	
NET POSITION:				
Net Investment in Capital Assets	3,044,111.87	5,775,892.81	8,820,004.68	(246,641.50)
Restricted for:				
UDAG	143,996.15		143,996.15	
Liquor, Lodging, & Sales Tax	21,829.55		21,829.55	
Debt Service		195,428.23	195,428.23	
Other Purposes	9,538.81	85,000.00	94,538.81	
Unrestricted	<u>600,628.64</u>	<u>1,845,973.07</u>	<u>2,446,601.71</u>	<u>82,109.84</u>
TOTAL NET POSITION	<u>\$ 3,820,105.02</u>	<u>\$ 7,902,294.11</u>	<u>\$ 11,722,399.13</u>	<u>\$ (164,531.66)</u>

The attached notes are an integral part of these financial statements.

CITY OF ELK POINT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Unaudited Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General Government	\$ 306,895.76	\$ 4,763.13	\$	\$	\$ (302,132.63)	\$	\$ (302,132.63)	\$
Public Safety	318,612.25	12,482.16			(306,130.09)		(306,130.09)	
Public Works	522,905.67	15,296.95	1,804.00		(505,804.72)		(505,804.72)	
Health and Welfare	1,830.00	520.00			(1,310.00)		(1,310.00)	
Culture & Recreation	247,850.43	24,911.85			(222,938.58)		(222,938.58)	
Conservation & Development	23,289.75				(23,289.75)		(23,289.75)	
Miscellaneous		7,625.00		5,057.96	12,682.96		12,682.96	
*Interest on Long-term Debt	17,340.83				(17,340.83)		(17,340.83)	
Total Governmental Activities	1,438,724.69	65,599.09	1,804.00	5,057.96	(1,366,263.64)		(1,366,263.64)	
Business-type Activities:								
Water	381,812.63	414,441.77				32,629.14	32,629.14	
Sewer	340,097.87	314,986.70				(25,111.17)	(25,111.17)	
Electric	1,603,133.68	1,688,112.37				84,978.69	84,978.69	
Garbage	150,537.93	172,858.87				22,320.94	22,320.94	
Total Business-type Activities	2,475,582.11	2,590,399.71				114,817.60	114,817.60	
Total Primary Government	\$ 3,914,306.80	\$ 2,655,998.80	\$ 1,804.00	\$ 5,057.96	(1,366,263.64)	114,817.60	(1,251,446.04)	
Component Unit: Housing and Redevelopment	\$ 175,872.24	\$ 158,478.00						\$ (17,394.24)

*The Municipality does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

	Net (Expense) Revenue and Changes in Net Position			Unaudited Component Unit
	Primary Government		Total	
	Governmental Activities	Business-Type Activities		
Total Primary Government	(1,366,263.64)	114,817.60	(1,251,446.04)	
General Revenues:				
Taxes:				
Property Taxes	723,151.53		723,151.53	
Sales and Use Taxes	447,677.62		447,677.62	
Business Taxes	27,809.68		27,809.68	
Amusement Taxes	12.00		12.00	
State Shared Revenues	55,275.86		55,275.86	
Unrestricted Investment Earnings	2,479.54	2,289.44	4,768.98	216.99
Miscellaneous Revenue	21,977.04	343.60	22,320.64	
Gain/(Loss) on Sale of Fixed Assets	<u>(32,825.00)</u>	<u>(27,805.54)</u>	<u>(60,630.54)</u>	
Total General Revenues and Special Items	<u>1,245,558.27</u>	<u>(25,172.50)</u>	<u>1,220,385.77</u>	<u>216.99</u>
Change in Net Position	(120,705.37)	89,645.10	(31,060.27)	(17,177.25)
Net Position-Beginning	<u>3,940,810.39</u>	<u>7,812,649.01</u>	<u>11,753,459.40</u>	<u>(147,354.41)</u>
NET POSITION - ENDING	<u>\$ 3,820,105.02</u>	<u>\$ 7,902,294.11</u>	<u>\$ 11,722,399.13</u>	<u>\$ (164,531.66)</u>

**CITY OF ELK POINT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	<u>Major Funds</u>			<u>Nonmajor</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>UDAG Fund</u>	<u>Liquor/Lodging Dining Sales Tax Fund</u>	<u>Other Governmental Funds</u>	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:					
Assets					
Cash and Cash Equivalents	\$ 543,965.35	\$ 135,858.24	\$ 21,654.86	\$ 9,538.81	\$ 711,017.26
Taxes Receivable--Current	11,371.96				11,371.96
Accounts Receivable, Net	19,421.22				19,421.22
Special Assessments Receivable--Current	3,947.13				3,947.13
Special Assessments Receivable--Deferred	26,375.92				26,375.92
Loans Receivable		8,137.91			8,137.91
Due From Safe Routes to School Fund	8,668.49				8,668.49
Due From Government	10,892.05		174.69	5,508.47	16,575.21
Inventory of Supplies	10,174.12				10,174.12
Prepaid Expenses	17,936.15				17,936.15
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>652,752.39</u>	<u>143,996.15</u>	<u>21,829.55</u>	<u>15,047.28</u>	<u>833,625.37</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:					
Liabilities:					
Accounts Payable	10,685.73			347.28	11,033.01
Due To General Fund				8,668.49	8,668.49
Accrued Wages Payable	16,211.57				16,211.57
Sales Tax Liability	46.92				46.92
Total Liabilities	<u>26,944.22</u>			<u>9,015.77</u>	<u>35,959.99</u>

**CITY OF ELK POINT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

Deferred Inflows of Resources:					
Unavailable Revenue - Property Taxes	11,371.96				11,371.96
Unavailable Revenue - Special Assessments	30,323.05				30,323.05
Total Deferred Inflows of Resources	<u>41,695.01</u>				<u>41,695.01</u>
Fund Balances:					
Nonspendable	28,110.27				28,110.27
Restricted		143,996.15	21,829.55	9,538.81	175,364.51
Assigned	35,000.00				35,000.00
Unassigned	521,002.89			(3,507.30)	517,495.59
Total Fund Balances	<u>584,113.16</u>	<u>143,996.15</u>	<u>21,829.55</u>	<u>6,031.51</u>	<u>755,970.37</u>
6 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 652,752.39</u>	<u>\$ 143,996.15</u>	<u>\$ 21,829.55</u>	<u>\$ 15,047.28</u>	<u>\$ 833,625.37</u>

The attached notes are an integral part of these financial statements.

**CITY OF ELK POINT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014**

Total Fund Balances - Governmental Funds		\$ 755,970.37
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,406,854.37
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Leave	\$ (21,672.23)	
Lease Payable	<u>(362,742.50)</u>	(384,414.73)
Assets, such as taxes receivable (delinquent) and special assessment receivables (current, delinquent and deferred), are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property Taxes	11,371.96	
Special Assessments	<u>30,323.05</u>	<u>41,695.01</u>
Net Position - Governmental Funds		<u>\$3,820,105.02</u>

The attached notes are an integral part of these financial statements.

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CITY OF ELK POINT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Major Funds			Nonmajor	Total Governmental Funds
	General Fund	UDAG Fund	Liquor/Lodging Dining Sales Tax Fund	Other Governmental Funds	
Revenues:					
Taxes:					
General Property Taxes	\$ 724,016.37	\$	\$	\$	\$ 724,016.37
General Sales and Use Taxes	447,677.62				447,677.62
Utility Taxes			27,809.68		27,809.68
Amusement Taxes	12.00				12.00
Penalties and Interest on Delinquent Taxes	1,096.68				1,096.68
Licenses and Permits	7,625.00				7,625.00
Video and Lottery	1,400.00				1,400.00
Intergovernmental Revenue:					
State Grants	1,804.00				1,804.00
State Shared Revenue:					
Bank Franchise Tax	2,881.34				2,881.34
Liquor Tax Reversion	11,848.55				11,848.55
Motor Vehicle Licenses (5%)	19,200.06				19,200.06
Local Government Highway and Bridge Fund	15,942.83				15,942.83
Other	5,403.08				5,403.08
County Shared Revenue:					
County Wheel Tax	6,290.34				6,290.34
Charges for Goods and Services:					
General Government	4,763.13				4,763.13
Public Safety	1,917.00				1,917.00
Health	520.00				520.00
Culture and Recreation	24,911.85				24,911.85
Fines and Forfeits:					
Court Fines and Costs	3,754.01			6,811.15	10,565.16

Miscellaneous Revenue:					
Investment Earnings	1,109.73	1,354.61		15.20	2,479.54
Special Assessments	6,098.98				6,098.98
Cemetary	9,197.97				9,197.97
Contributions and Donations				5,057.96	5,057.96
Other	<u>16,846.45</u>				<u>16,846.45</u>
Total Revenue	<u>1,314,316.99</u>	<u>1,354.61</u>	<u>27,809.68</u>	<u>11,884.31</u>	<u>1,355,365.59</u>
Expenditures:					
General Government:					
Legislative	267,226.15				267,226.15
City Hall	22,670.12				22,670.12
Other				<u>6,919.72</u>	<u>6,919.72</u>
Total General Government	<u>289,896.27</u>			<u>6,919.72</u>	<u>296,815.99</u>
Public Safety:					
Police	296,852.56				296,852.56
Other Protection	<u>7,078.16</u>				<u>7,078.16</u>
Total Public Safety	<u>303,930.72</u>				<u>303,930.72</u>
Public Works:					
Highways and Streets	298,379.39				298,379.39
Cemeteries	<u>23,333.66</u>				<u>23,333.66</u>
Total Public Works	<u>321,713.05</u>				<u>321,713.05</u>
Health and Welfare:					
Health	1,719.00				1,719.00
Humane Society	<u>111.00</u>				<u>111.00</u>
Total Health and Welfare	<u>1,830.00</u>				<u>1,830.00</u>
Culture and Recreation:					
Recreation	72,387.56				72,387.56
Parks	44,526.29				44,526.29
Libraries	23,627.92			4,628.52	28,256.44
Museums	<u>1,750.00</u>				<u>1,750.00</u>
Total Culture and Recreation	<u>142,291.77</u>			<u>4,628.52</u>	<u>146,920.29</u>

CITY OF ELK POINT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(continued)

	Major Funds			Nonmajor	Total Governmental Funds
	General Fund	UDAG Fund	Liquor/Lodging Dining Sales Tax Fund	Other Governmental Funds	
Conservation and Development: Economic Development and Assistance(Industrial Development) Economic Opportunity	18,640.45		193.95		18,834.40
	<u>4,455.35</u>				<u>4,455.35</u>
Total Conservation and Development	<u>23,095.80</u>		<u>193.95</u>		<u>23,289.75</u>
Debt Service	25,758.43		29,478.15		55,236.58
Capital Outlay	<u>86,657.21</u>				<u>86,657.21</u>
Total Expenditures	<u>1,195,173.25</u>		<u>29,672.10</u>	<u>11,548.24</u>	<u>1,236,393.59</u>
Excess of Revenue Over (Under) Expenditures	119,143.74	1,354.61	(1,862.42)	336.07	118,972.00
Other Financing Sources (Uses): Sale of Municipal Property	<u>1.00</u>				<u>1.00</u>
Total Other Financing Sources (Uses)	<u>1.00</u>				<u>1.00</u>
Net Change in Fund Balances	119,144.74	1,354.61	(1,862.42)	336.07	118,973.00
Fund Balance - Beginning	<u>464,968.42</u>	<u>142,641.54</u>	<u>23,691.97</u>	<u>5,695.44</u>	<u>636,997.37</u>
FUND BALANCE- ENDING	<u>\$ 584,113.16</u>	<u>\$ 143,996.15</u>	<u>\$ 21,829.55</u>	<u>\$ 6,031.51</u>	<u>\$ 755,970.37</u>

The attached notes are an integral part of these financial statements.

**CITY OF ELK POINT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net Change in Fund Balances - Total Governmental Funds	\$ 118,973.00
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays.</p>	(242,096.74)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	
Notes Payable	37,895.75
<p>In the statement of activities, gains and losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a gain or loss is realized.</p>	(32,825.00)
<p>Governmental funds accruals differ from government wide statement accruals. Because some property taxes and special assessments will not be collected for several months after the city's calendar year ends, they are not considered "available".</p>	(4,522.27)
<p>Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenses.</p>	<u>1,869.89</u>
Change in Net Position of Governmental Activities	<u><u>\$ (120,705.37)</u></u>

The attached notes are an integral part of these financial statements.

**CITY OF ELK POINT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014**

	Enterprise Funds				
	Water Fund	Sewer Fund	Electric Fund	Garbage Fund	Totals
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	\$ 359,030.49	\$ 73,016.27	\$ 280,016.74	\$ 95,324.67	\$ 807,388.17
Investments	4,225.24	21.51	540,482.22	34.81	544,763.78
Utility Accounts Receivable, Net	21,630.60	16,327.79	88,321.55	8,995.84	135,275.78
Unbilled Accounts Receivable	29,240.42	25,995.93	168,282.37	15,445.18	238,963.90
Due from State Government	179.60	124.60	208.70	4.33	517.23
Inventory of Supplies	40,366.95	868.25	147,521.99		188,757.19
Inventory of Stores Purchased for Resale			8,386.94	624.00	9,010.94
Total Current Assets	<u>454,673.30</u>	<u>116,354.35</u>	<u>1,233,220.51</u>	<u>120,428.83</u>	<u>1,924,676.99</u>
Noncurrent Assets:					
Restricted Cash and Cash Equivalents	33,694.45	38,701.41	139,522.47		211,918.33
Restricted Investments			74,597.33		74,597.33
Capital Assets:					
Land	16,150.00	7,740.05	10,000.00	119,596.69	153,486.74
Buildings	193,708.04	16,083.04	56,490.00		266,281.08
Infrastructure	4,644,671.70	4,140,869.09	1,759,829.14	22,655.00	10,568,024.93
Machinery and Equipment	464,687.05	1,016,919.35	903,460.84	182,853.50	2,567,920.74
Less: Accumulated Depreciation	<u>(2,049,278.86)</u>	<u>(1,888,971.70)</u>	<u>(773,354.06)</u>	<u>(68,259.46)</u>	<u>(4,779,864.08)</u>
Total Noncurrent Assets	<u>3,303,632.38</u>	<u>3,331,341.24</u>	<u>2,170,545.72</u>	<u>256,845.73</u>	<u>9,062,365.07</u>
TOTAL ASSETS	<u>3,758,305.68</u>	<u>3,447,695.59</u>	<u>3,403,766.23</u>	<u>377,274.56</u>	<u>10,987,042.06</u>

LIABILITIES:

Current Liabilities:

Accounts Payable	4,554.75	1,632.34	1,410.47	1,840.71	9,438.27
Accrued Wages Payable	2,471.59	1,862.42	3,900.10	1,572.58	9,806.69
Accrued Taxes Payable			7,938.91	821.95	8,760.86
Customer Deposits			45,393.70		45,393.70
Bonds Payable-current	80,478.18	59,261.07	75,000.00		214,739.25
Accrued Leave Payable-current	1,038.03	783.31	9,296.64	273.85	11,391.83
Lease Payable-current				23,125.83	23,125.83
Total Current Liabilities	<u>88,542.55</u>	<u>63,539.14</u>	<u>142,939.82</u>	<u>27,634.92</u>	<u>322,656.43</u>

Noncurrent Liabilities:

Bonds Payable	1,252,920.31	808,153.33	580,000.00		2,641,073.64
Lease Payable				72,892.88	72,892.88
Total Noncurrent Liabilities	<u>1,252,920.31</u>	<u>808,153.33</u>	<u>580,000.00</u>	<u>72,892.88</u>	<u>2,713,966.52</u>

DEFERRED INFLOWS OF RESOURCES:

Other Deferred Inflows of Resources			48,125.00		48,125.00
TOTAL DEFERRED INFLOWS OF RESOURCES			<u>48,125.00</u>		<u>48,125.00</u>

NET POSITION:

Net Investment in Capital Assets	1,936,539.44	2,425,225.43	1,253,300.92	160,827.02	5,775,892.81
Restricted for:					
Revenue Bond Debt Service	10,895.64	15,806.49	168,726.10		195,428.23
Equipment Repair and Replacement	22,500.00	22,500.00			45,000.00
Rose St Project	20,000.00	20,000.00			40,000.00
Unrestricted	426,907.74	92,471.20	1,210,674.39	115,919.74	1,845,973.07
TOTAL NET POSITION	<u>\$ 2,416,842.82</u>	<u>\$ 2,576,003.12</u>	<u>\$ 2,632,701.41</u>	<u>\$ 276,746.76</u>	<u>\$ 7,902,294.11</u>

The attached notes are an integral part of these financial statements.

CITY OF ELK POINT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Electric Fund	Garbage Fund	
Operating Revenue:					
Charges for Goods and Services (Revenues Securing Debt Issues)	\$ 414,441.77	\$ 314,986.70	\$ 1,688,112.37	\$	\$ 2,417,540.84
Charges for Goods and Services				<u>172,858.87</u>	<u>172,858.87</u>
Total Operating Revenue	<u>414,441.77</u>	<u>314,986.70</u>	<u>1,688,112.37</u>	<u>172,858.87</u>	<u>2,590,399.71</u>
Operating Expenses:					
Personal Services	87,220.80	65,947.16	144,117.90	50,126.01	347,411.87
Other Current Expense	123,338.70	106,496.91	143,481.89	74,258.92	447,576.42
Materials (Cost of Goods Sold)			1,201,301.01		1,201,301.01
Amortization			18,028.32		18,028.32
Depreciation	<u>126,809.46</u>	<u>138,771.11</u>	<u>75,186.71</u>	<u>24,607.79</u>	<u>365,375.07</u>
Total Operating Expenses	<u>337,368.96</u>	<u>311,215.18</u>	<u>1,582,115.83</u>	<u>148,992.72</u>	<u>2,379,692.69</u>
Operating Income (Loss)	77,072.81	3,771.52	105,996.54	23,866.15	210,707.02
Nonoperating Revenue (Expense):					
Interest Income			2,289.44		2,289.44
Gain (Loss) on Disposition of Assets			(27,805.54)		(27,805.54)
Interest Expense and Fiscal Charges	<u>(44,443.67)</u>	<u>(28,882.69)</u>	<u>(21,017.85)</u>	<u>(1,545.21)</u>	<u>(95,889.42)</u>
Total Nonoperating Revenue (Expense)	<u>(44,380.07)</u>	<u>(28,882.69)</u>	<u>(46,253.95)</u>	<u>(1,545.21)</u>	<u>(121,061.92)</u>
Change in Net Position	32,692.74	(25,111.17)	59,742.59	22,320.94	89,645.10
Net Position - Beginning	<u>2,384,150.08</u>	<u>2,601,114.29</u>	<u>2,572,958.82</u>	<u>254,425.82</u>	<u>7,812,649.01</u>
NET POSITION - ENDING	<u>\$ 2,416,842.82</u>	<u>\$ 2,576,003.12</u>	<u>\$ 2,632,701.41</u>	<u>\$ 276,746.76</u>	<u>\$ 7,902,294.11</u>

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**CITY OF ELK POINT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Electric Fund	Garbage Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash Receipts from Customers	\$ 397,368.72	\$ 310,965.39	\$ 1,621,960.82	\$ 171,542.66	\$ 2,501,837.59
Cash Receipts from Interfund Services Provided	18,901.81	3,475.22	77,285.42	956.80	100,619.25
Cash Payments to Employees for Services	(86,235.07)	(65,230.54)	(143,769.31)	(49,675.38)	(344,910.30)
Cash Payments to Suppliers for Goods and Services	(161,083.72)	(120,972.25)	(1,353,800.69)	(76,327.27)	(1,712,183.93)
Cash Payments from Interfund Services Used	<u>39,967.53</u>	<u>10,817.79</u>	<u>5,964.90</u>	<u> </u>	<u>56,750.22</u>
Net Cash Provided (Used) by Operating Activities	<u>208,919.27</u>	<u>139,055.61</u>	<u>207,641.14</u>	<u>46,496.81</u>	<u>602,112.83</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Capital Contributions					
Purchase of Capital Assets	(22,403.58)		(102,753.00)		(125,156.58)
Principal Paid on Capital Debt	(77,922.01)	(57,371.87)	(85,000.00)	(23,981.29)	(244,275.17)
Interest Paid on Capital Debt	(44,443.67)	(28,882.69)	(27,892.85)	(1,545.21)	(102,764.42)
Other Receipts (Payments)	<u>63.60</u>	<u> </u>	<u>280.00</u>	<u> </u>	<u>343.60</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(144,705.66)</u>	<u>(86,254.56)</u>	<u>(215,365.85)</u>	<u>(25,526.50)</u>	<u>(471,852.57)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest Earnings			2,289.44		2,289.44
Net Cash Provided (Used) by Investing Activities			2,289.44		2,289.44
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 64,213.61</u>	<u>\$ 52,801.05</u>	<u>\$ (5,435.27)</u>	<u>\$ 20,970.31</u>	<u>\$ 132,549.70</u>
Cash and Cash Equivalents at Beginning of Year	\$ 332,736.57	\$ 58,938.14	\$ 1,040,054.03	\$ 74,389.17	\$ 1,506,117.91
Cash and Cash Equivalents at End of Year	<u>396,950.18</u>	<u>111,739.19</u>	<u>1,034,618.76</u>	<u>95,359.48</u>	<u>1,638,667.61</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 64,213.61</u>	<u>\$ 52,801.05</u>	<u>\$ (5,435.27)</u>	<u>\$ 20,970.31</u>	<u>\$ 132,549.70</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ 77,072.81	\$ 3,771.52	\$ 105,996.54	\$ 23,866.15	\$ 210,707.02
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	126,809.46	138,771.11	75,186.71	24,607.79	365,375.07
Amortization Expense			18,028.32		18,028.32
Change in Assets and Liabilities:					
Receivables	1,828.76	(546.09)	6,276.87	(359.41)	7,200.13
Inventories	2,636.83	114.12	(2,770.73)	468.00	448.22
Accounts and Other Payables	(414.32)	(3,771.67)	252.14	(2,562.74)	(6,496.59)
Accrued Wages Payable	474.33	348.48	562.37	369.03	1,754.21
Accrued Taxes Payable			(534.30)	26.39	(507.91)
Accrued Leave Payable	511.40	368.14	(213.78)	81.60	747.36
Customer Deposits			4,857.00		4,857.00
Net Cash Provided (Used) by Operating Activities	<u>\$ 208,919.27</u>	<u>\$ 139,055.61</u>	<u>\$ 207,641.14</u>	<u>\$ 46,496.81</u>	<u>\$ 602,112.83</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Loss on Disposal of Capital Assets Not Affecting Operating Income			\$ 27,805.54		\$ 27,805.54
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The attached notes are an integral part of these financial statements.

CITY OF ELK POINT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2014

	<u>Agency Funds</u>
ASSETS:	
Cash	\$ 2,283.34
 TOTAL ASSETS	 <u>2,283.34</u>
 LIABILITIES:	
 Amount Held for Others	 <u>2,283.34</u>
 Total Liabilities	 <u>2,283.34</u>
 NET POSITION	 <u>\$ 0.00</u>

The attached notes are an integral part of these financial statements.

CITY OF ELK POINT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the City of Elk Point consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

The Housing and Redevelopment Commission of the City of Elk Point, South Dakota (Commission) is a proprietary fund-type, discretely presented component unit. The five members of the Commission are appointed by the Mayor and hold office until their successors have been appointed and qualified. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct a low-income housing unit, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from the Elk Point Housing and Redevelopment Commission, P.O. Box 280, Elk Point, SD 57025.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria, as described in Note 1a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1a. above.

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

Fund Financial Statements:

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

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

The funds of the City financial reporting entity are described below:

Governmental Funds:

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

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

Urban Development Action Grant Fund (UDAG) - to account for the receipt and expenditure of resources received from the Urban Development Action Grant program. This is a major fund.

Liquor, Lodging and Dining Gross Receipts Tax Fund – to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing and operations of such facilities and the promotion and advertising of the city (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is a major fund.

Safe Routes to School Fund - to account for the receipt and expenditure of resources received in connection with the Safe Routes to School program. This is not a major fund.

The remaining Special Revenue Fund, the Public Library Fund, is not considered a major fund.

Proprietary Funds:

Enterprise Funds – enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if

any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principle revenue sources.

- a. *The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)*
- b. *Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.*
- c. *The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).*

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

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

Electric Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal electricity system and related facilities. This is a major fund.

Garbage Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal garbage system and related facilities. This is a major fund.

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and are never considered to be a major fund:

Agency funds - Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are used to account for the accumulation and distribution of property tax revenues and various pass through funds.

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type and component unit activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic

resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental, business-type, and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets 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:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, 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 for the City is 30 days. The revenues which are accrued at December 31, 2014, are amounts due from other governments and accounts receivable.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures are generally 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.

All proprietary and fiduciary funds are accounted for using the accrual basis of accounting. 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:

1. 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.
2. In order to minimize the doubling-up effect on internal service fund activity, certain “centralized expenses” including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only by the function to which they relate.

e. Deposits and Investments:

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

Investments classified in the financial statements consist primarily of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6.

f. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that 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.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. 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. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2014 balance of governmental activities capital assets includes approximately 10.4% for which the costs were determined by estimates of the original costs. The total December 31, 2014 balance of business-type, capital assets includes approximately 9.8% for which the costs were determined by estimations of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements Other than Buildings."

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, except for that portion related to common use assets for which allocation would be unduly complex, and which is reported as Unallocated Depreciation, with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land and land rights	All	NA	NA
Improvements other than buildings	5,000.00	Straight Line	10-50 yrs
Buildings	5,000.00	Straight Line	50 yrs
Machinery and Equipment	4,000.00	Straight Line	2-20 yrs
Furniture	2,000.00	Straight Line	12 yrs

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide financial statements.

g. Long-Term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of state revolving loans, certificates of participation, notes payable, financing (capital acquisition) leases, and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide financial statements.

h. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

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

i. Deferred Inflows and Deferred Outflows of Resources:

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

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

j. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses, and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

k. Cash and Cash Equivalents:

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

l. Equity Classifications:

Government-wide Statements:

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

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned" and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Agency Funds have no fund equity. The Net Position is reported as Net Position held in agency capacity.

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 for purposes for which both restricted and unrestricted net positions are available.

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

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

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

A schedule of fund balances is provided as follows:

**CITY OF ELK POINT
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	<u>General Fund</u>	<u>UDAG Fund</u>	<u>Liquor, Lodging, & Dining Fund</u>	<u>Other Non- Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:					
<i>Nonspendable:</i>					
Inventory	\$ 10,174.12	\$	\$	\$	\$ 10,174.12
Prepaid Expenses	17,936.15				17,936.15
<i>Restricted for:</i>					
Revolving Loans		143,996.15			143,996.15
Liquor/Lodging/Dining Sales			21,829.55		21,829.55
Library				9,538.81	9,538.81
<i>Assigned to:</i>					
Subsequent Year's Budget	35,000.00				35,000.00
<i>Unassigned</i>	<u>521,002.89</u>			<u>(3,507.30)</u>	<u>517,495.59</u>
Total Fund Balances	<u>\$ 584,113.16</u>	<u>\$ 143,996.15</u>	<u>\$ 21,829.55</u>	<u>\$ 6,031.51</u>	<u>\$ 755,970.37</u>

NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

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

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

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

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

As of December 31, 2014, the City had the following investments:

	<u>Credit Rating</u>	<u>Fair Value</u>
External Investment Pools:		
SDFIT- Government Cash Reserves	Unrated	\$ 562,081.93
TOTAL INVESTMENTS		<u><u>\$ 562,081.93</u></u>

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

Custodial Credit Risk—Deposits—The risk that, in the event of a depository failure, the Municipality's deposits may not be returned to it. The Municipality does not have a deposit policy for custodial credit risk. As of December 31, 2014, the Municipality did not have any deposits in financial institutions that were exposed to custodial credit risk.

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

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 making the investment.

NOTE 3 - RESTRICTED CASH AND INVESTMENTS:

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

<u>Purpose</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>
Customer Deposits	\$	\$	\$ 45,393.70
For Capital Asset Construction	22,500.00	22,500.00	
For Debt Service, By City Ordinance	10,895.64	15,806.49	
For Debt Service, By Debt Covenants			168,726.10
	<u>\$ 33,395.64</u>	<u>\$ 38,306.49</u>	<u>\$ 214,119.80</u>

NOTE 4 - RECEIVABLES AND PAYABLES:

Receivables and payables are not aggregated in the financial statements. The City expects all receivables to be collected within one year.

NOTE 5 - INVENTORY:

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory acquired for resale in the proprietary funds is recorded as an asset when acquired. The consumption of inventories held for resale is charged to an expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-wide Financial Statements:

In the government-wide financial statements and proprietary funds financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements:

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to an expense as it is consumed. Material supply inventories are off-set by a nonspendable fund balance, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

NOTE 6 - PROPERTY TAXES:

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

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

NOTE 7 - CHANGES IN GENERAL CAPITAL ASSETS:

A summary of changes in capital assets for the year ended December 31, 2014 is as follows:

	Balance 1/1/2014	Increases	Decreases	Balance 12/31/2014
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 40,986.00	\$	\$ (7,650.00)	\$ 33,336.00
Total not being depreciated	<u>40,986.00</u>		<u>(7,650.00)</u>	<u>33,336.00</u>
Capital Assets, being depreciated:				
Buildings	1,218,209.01		(45,000.00)	1,173,209.01
Improvements Other than Buildings	4,554,135.97			4,554,135.97
Machinery and Equipment	1,070,912.11	92,900.00	(14,925.20)	1,148,886.91
Library Books	88,465.67	4,582.21	(5,605.00)	87,442.88
Total being depreciated	<u>6,931,722.76</u>	<u>97,482.21</u>	<u>(65,530.20)</u>	<u>6,963,674.77</u>
Less Accumulated Depreciation for;				
Buildings	224,614.81	53,365.41	(9,000.00)	268,980.22
Improvements Other than Buildings	2,254,894.39	173,463.80		2,428,358.19
Machinery and Equipment	779,550.21	92,619.96	(14,925.20)	857,244.97
Library Books	31,873.24	9,304.78	(5,605.00)	35,573.02
Total accumulated depreciation	<u>3,290,932.65</u>	<u>328,753.95</u>	<u>(29,530.20)</u>	<u>3,590,156.40</u>
Total Governmental Activities Capital Assets, Being Depreciated, Net	<u>3,640,790.11</u>	<u>(231,271.74)</u>	<u>(43,650.00)</u>	<u>3,373,518.37</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,681,776.11</u>	<u>\$ (231,271.74)</u>	<u>\$ (43,650.00)</u>	<u>\$ 3,406,854.37</u>
Depreciation Expense was charged to functions as follows:				
General Government				\$ 10,079.77
Public Safety				14,681.53
Public Works				203,062.51
Culture and Recreation				100,930.14
Total Depreciation Expense - Governmental Activities				<u>\$ 328,753.95</u>
	Balance 1/1/2014	Increases	Decreases	Balance 12/31/2014
Business - Type Activities:				
Capital Assets, not being depreciated:				
Land	\$ 153,486.74	\$	\$	\$ 153,486.74
Total Capital Assets, not being depreciated	<u>153,486.74</u>			<u>153,486.74</u>
Capital Assets, being depreciated:				
Buildings	266,281.08			266,281.08
Improvements Other than Buildings	10,478,868.35	89,156.58		10,568,024.93
Machinery and Equipment	2,574,358.99	36,000.00	(42,438.25)	2,567,920.74
Total being depreciated	<u>13,319,508.42</u>	<u>125,156.58</u>	<u>(42,438.25)</u>	<u>13,402,226.75</u>
Less Accumulated Depreciation for;				
Buildings	232,063.95	6,089.79		238,153.74
Improvements Other than Buildings	3,119,311.85	220,510.55		3,339,822.40
Machinery and Equipment	1,077,745.92	139,728.67	(15,586.65)	1,201,887.94
Total accumulated depreciation	<u>4,429,121.72</u>	<u>366,329.01</u>	<u>(15,586.65)</u>	<u>4,779,864.08</u>
Total Business-Type Activities Capital Assets, Being Depreciated, Net	<u>8,890,386.70</u>	<u>(241,172.43)</u>	<u>(26,851.60)</u>	<u>8,622,362.67</u>
Business-Type Activities Capital Assets, Net	<u>\$ 9,043,873.44</u>	<u>\$ (241,172.43)</u>	<u>\$ (26,851.60)</u>	<u>\$ 8,775,849.41</u>

Depreciation expense was charged to functions as follows:

Water	\$ 126,809.46
Sewer	138,771.11
Electric	76,140.65
Garbage	24,607.79
Total Depreciation Expense- Business-type Activities	<u>\$ 366,329.01</u>

NOTE 8 - LONG - TERM LIABILITIES:

A summary of changes in long-term liabilities follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Primary Government:					
Governmental Activities:					
Notes Payable	\$ 24,638.25	\$	\$ (24,638.25)	\$	\$
Capital Lease Payable	376,000.00		(13,257.50)	362,742.50	13,197.40
Total Debt	<u>400,638.25</u>		<u>(37,895.75)</u>	<u>362,742.50</u>	<u>13,197.40</u>
Accrued Compensated Absences - Governmental Funds	23,542.12	28,172.06	(30,041.95)	21,672.23	21,672.23
Total Governmental Activities	<u>424,180.37</u>	<u>28,172.06</u>	<u>(67,937.70)</u>	<u>384,414.73</u>	<u>34,869.63</u>
Business-Type Activities:					
Certificates of Participation Financing (Capital Acquisition) Lease	795,000.00	740,000.00	(880,000.00)	655,000.00	75,000.00
State Revolving Funds	120,000.00		(23,981.29)	96,018.71	23,125.83
	2,336,106.77		(135,293.88)	2,200,812.89	139,739.25
Total Debt	<u>3,251,106.77</u>	<u>740,000.00</u>	<u>(1,039,275.17)</u>	<u>2,951,831.60</u>	<u>237,865.08</u>
Accrued Compensated Absences - Business-Type Funds	10,644.47	11,391.83	(10,644.47)	11,391.83	11,391.83
Total Business - Type Activities	<u>3,261,751.24</u>	<u>751,391.83</u>	<u>(1,049,919.64)</u>	<u>2,963,223.43</u>	<u>249,256.91</u>
Total Primary Government	<u>\$ 3,685,931.61</u>	<u>\$ 779,563.89</u>	<u>\$ (1,117,857.34)</u>	<u>\$ 3,347,638.16</u>	<u>\$ 284,126.54</u>

Debt payable at December 31, 2014 is comprised of the following:

Compensated Absences:

Vested vacation leave payable; payable as used or on termination;
payments made from the General and Enterprise Funds. \$ 33,064.06

State Revolving Loans:

State Revolving Fund Loan
3.5% Interest, Final Maturity Date of January 15, 2023
Retired by the Water Fund. 109,521.78

State Revolving Fund Loan
3.5% Interest, Final Maturity Date of April 15, 2023
Retired by the Sewer Fund. 239,162.79

State Revolving Fund Loan
3.25% Interest, Final Maturity Date of July 15, 2026
Retired by the Water Fund. 378,931.27

State Revolving Fund Loan
3.25% Interest, Final Maturity Date of August 27, 2026
Retired by the Water Fund. 87,296.64

State Revolving Fund Loan
3.25% Interest, Final Maturity Date of July 15, 2028
Retired by the Sewer Fund. 76,268.56

State Revolving Fund Loan
3.25% Interest, Final Maturity Date of January 15, 2030
Retired by the Sewer Fund. 121,058.73

State Revolving Fund Loan
3.25% Interest, Final Maturity Date of January 15, 2030
Retired by the Water Fund. 457,552.37

State Revolving Fund Loan
3% Interest, Final Maturity Date of July 15, 2031
Retired by the Sewer Fund. 430,924.32

State Revolving Fund Loan
3% Interest, Final Maturity Date of July 15, 2031
Retired by the Water Fund. 300,096.43

Certificates of Participation:

Refunding Certificates of Participation - Series 2014 1.0% to 3.7%,
depending on the term of maturity of the related principal payment. Final
Maturity Date of January 2023. Retired by the Electric Fund. 655,000.00

Garbage truck, interest at 2.5%	
Matures January 2018; Annual payments of \$25,526.50	
from the Garbage Fund	96,018.71
Community Center, financed through First Dakota	
National Bank at 3.875% interest, final maturity date of	
December 1, 2023. Retired by the Liquor, Lodging & Dining Gross	
Receipts Tax Fund	362,742.50

The annual requirements to amortize all debt outstanding as of December 31, 2014, except for compensated absences are as follows:

Annual Requirements to Amortize Long-term Debt
December 31, 2014

Year Ending Dec 31,	State Revolving Fund Loans	
	Principal	Interest
2015	\$ 139,739	\$ 68,881
2016	144,331	64,289
2017	149,074	59,546
2018	153,974	54,646
2019	159,035	49,585
2020-2024	799,511	167,755
2025-2029	590,686	54,407
2030-2034	64,463	1,374
Total	<u>\$ 2,200,813</u>	<u>\$ 520,483</u>

Year Ending Dec 31,	Certificates of Participation		Capital Financing Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 75,000	\$ 17,408	\$ 36,323	\$ 16,414	\$ 251,062	\$ 102,703
2016	80,000	16,658	37,391	15,347	261,722	96,294
2017	75,000	15,258	38,566	14,171	262,640	88,975
2018	80,000	13,945	39,740	12,990	273,714	81,581
2019	85,000	13,945	15,438	11,773	259,473	75,303
2020-2024	260,000	19,526	291,304	40,927	1,350,815	228,208
2025-2029					590,686	54,407
2030-2034					64,463	1,374
	<u>\$ 655,000</u>	<u>\$ 96,740</u>	<u>\$ 458,762</u>	<u>\$ 111,622</u>	<u>\$ 3,314,575</u>	<u>\$ 728,845</u>

The purchase price at the commencement of the financing (capital acquisition) leases was:

Principal	\$ 496,000.00
Interest	<u>128,418.77</u>
	<u>\$ 624,418.77</u>

The Community Center Financing Lease represents a joint venture between the City of Elk Point and the Elk Point Recreation Development Association. The City of Elk Point entered into an agreement with the Elk Point Recreation Development Association (RDA) for the purpose of

constructing a building for joint use between the City and RDA. The financing lease represents the amount of investment the city has in the joint venture.

NOTE 9 – OPERATING LEASE:

The City entered into an operating lease on June 15, 2012 for a copy machine. This lease is for a period of 48 months in the amount of \$162.47 per month. Payments are made from the General Fund in the amount of \$69.63, and also from the Water Fund, Electric Fund, Sewer Fund, and Garbage Fund in equal amounts of \$23.21.

The following are the minimum payments on the existing operating lease:

<u>Year</u>	<u>Amount</u>
2015	\$1,949.64
2016	812.35
Total	<u>\$2,761.99</u>

NOTE 10 - INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES:

Interfund receivable and payable balances at December 31, 2014 were:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 8,668.49	\$
Safe Routes to School Fund		8,668.49
Total	<u>\$ 8,668.49</u>	<u>\$ 8,668.49</u>

The General Fund loaned money to the Safe Routes to School Fund for the purpose of funding temporary cash shortages.

NOTE 11 - RESTRICTED NET POSITION:

Restricted Net Position for the year ended December 31, 2014 was as follows:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Major Purposes:			
UDAG	\$ 143,996.15	\$	\$ 143,996.15
Debt Service		195,428.23	195,428.23
Other Purposes:			
Equipment Repair and Replacement		45,000.00	45,000.00
Rose Street Project		40,000.00	40,000.00
Liquor, Lodging, & Dining	21,829.55		21,829.55
Public Library	9,538.81		9,538.81
Total Restricted Net Assets	<u>\$ 175,364.51</u>	<u>\$ 280,428.23</u>	<u>\$ 455,792.74</u>

These balances are restricted due to grant regulations, debt covenants, and statutory requirements.

NOTE 12 - RETIREMENT PLAN:

All employees, except for 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. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. 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 fiscal years ended December 31, 2014, 2013, and 2012 were \$48,201.34, \$47,465.03, and \$45,949.54, respectively, equal to the required contributions each year.

NOTE 13 – JOINT VENTURE

The Community Center Financing (Capital Acquisition) Lease represents a joint venture between the City of Elk Point and the Recreation Development Association (RDA). The City of Elk Point entered into an agreement with the RDA for the purpose of constructing a building for joint use between the City and RDA. The financing lease represents the amount of investment the city has in the joint venture.

NOTE 14 - RISK MANAGEMENT:

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

Employee Health Insurance:

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

Liability Insurance:

The City purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims 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 Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The

City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance, which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended December 31, 2014, no claims were filed for unemployment benefits. At December 31, 2014, no claims had been filed and were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

NOTE 15 – DEFICIT FUND BALANCES/NET POSITION OF INDIVIDUAL NONMAJOR FUNDS:

As of December 31, 2014, the Safe Routes to School Fund had a deficit fund balance/net position in the amount of \$3,507.30. The Governing Board plans to assess this deficit fund balance/net position and to fund this deficit when possible.

NOTE 16 - SIGNIFICANT CONTINGENCIES - LITIGATION:

At December 31, 2014, the city was not involved in any overtly threatening or pending litigation which would have a material impact upon the fair presentation of the City's financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION
CITY OF ELK POINT
BUDGETARY BASIS COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Property Taxes	\$ 725,720.00	\$ 725,720.00	\$ 724,016.37	\$ (1,703.63)
General Sales and Use Taxes	390,000.00	390,000.00	447,677.62	57,677.62
Amusement Taxes	300.00	300.00	12.00	(288.00)
Penalty and Interest on Delinquent Taxes	11,000.00	11,000.00	1,096.68	(9,903.32)
Licenses and Permits	8,000.00	8,000.00	7,625.00	(375.00)
Video and Lottery	2,000.00	2,000.00	1,400.00	(600.00)
Intergovernmental Revenue:				
State Grants			1,804.00	1,804.00
State Shared Revenue:				
Bank Franchise Tax	2,000.00	2,000.00	2,881.34	881.34
Liquor Tax Reversion	11,000.00	11,000.00	11,848.55	848.55
Motor Vehicle Licenses (5%)	15,000.00	15,000.00	19,200.06	4,200.06
Local Government Highway and Bridge Fund	13,000.00	13,000.00	15,942.83	2,942.83
Other	5,200.00	5,200.00	5,403.08	203.08
County Shared Revenue:				
County Wheel Tax	7,000.00	7,000.00	6,290.34	(709.66)
Charges for Goods and Services:				
General Government	3,000.00	3,000.00	4,763.13	1,763.13
Public Safety	2,500.00	2,500.00	1,917.00	(583.00)
Health	1,500.00	1,500.00	520.00	(980.00)
Culture and Recreation	27,550.00	27,550.00	24,911.85	(2,638.15)
Fines and Forfeits:				
Court Fines and Costs	2,500.00	2,500.00	3,754.01	1,254.01
Miscellaneous Revenue:				
Investment Earnings	1,300.00	1,300.00	1,109.73	(190.27)
Special Assessments	6,100.00	6,100.00	6,098.98	(1.02)
Cemeteries	8,700.00	8,700.00	9,197.97	497.97
Rentals	1,000.00	1,000.00		(1,000.00)
Cable	15,000.00	15,000.00		(15,000.00)
Other			16,846.45	16,846.45
Total Revenue	<u>1,259,370.00</u>	<u>1,259,370.00</u>	<u>1,314,316.99</u>	<u>54,946.99</u>

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF ELK POINT
BUDGETARY BASIS COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	Original	Final		
Expenditures:				
General Government:				
Legislative	297,880.00	297,880.00	289,896.27	7,983.73
Contingency	30,000.00	20,000.00		20,000.00
Total General Government	<u>327,880.00</u>	<u>317,880.00</u>	<u>289,896.27</u>	<u>27,983.73</u>
Public Safety:				
Police	292,850.00	302,850.00	296,852.56	5,997.44
Other Protection	8,950.00	8,950.00	7,078.16	1,871.84
Total Public Safety	<u>301,800.00</u>	<u>311,800.00</u>	<u>303,930.72</u>	<u>7,869.28</u>
Public Works:				
Highways and Streets	346,110.00	346,110.00	304,379.39	41,730.61
Cemeteries	30,230.00	30,230.00	23,333.66	6,896.34
Total Public Works	<u>376,340.00</u>	<u>376,340.00</u>	<u>327,713.05</u>	<u>48,626.95</u>
Health and Welfare:				
Humane Society	1,000.00	1,000.00	1,830.00	(830.00)
Total Health and Welfare	<u>1,000.00</u>	<u>1,000.00</u>	<u>1,830.00</u>	<u>(830.00)</u>
Culture and Recreation:				
Recreation	78,850.00	78,850.00	72,387.56	6,462.44
Parks	46,200.00	46,200.00	44,526.29	1,673.71
Libraries	32,775.00	32,775.00	28,210.13	4,564.87
Museums	1,750.00	1,750.00	1,750.00	
Senior Citizen	1,000.00	1,000.00		1,000.00
Total Culture and Recreation	<u>160,575.00</u>	<u>160,575.00</u>	<u>146,873.98</u>	<u>13,701.02</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	20,325.00	20,325.00	18,640.45	1,684.55
Economic Opportunity	5,700.00	5,700.00	4,455.35	1,244.65
Total Conservation and Development	<u>26,025.00</u>	<u>26,025.00</u>	<u>23,095.80</u>	<u>2,929.20</u>

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF ELK POINT
BUDGETARY BASIS COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Debt Service	25,811.00	25,811.00	25,758.43	52.57
Equipment Replacement	<u>49,401.00</u>	<u>82,401.00</u>	<u>76,075.00</u>	<u>6,326.00</u>
Total Expenditures	<u>1,268,832.00</u>	<u>1,301,832.00</u>	<u>1,195,173.25</u>	<u>106,658.75</u>
Excess of Revenue Over (Under) Expenditures	(9,462.00)	(42,462.00)	119,143.74	161,605.74
Other Financing Sources (Uses):				
Transfers In	9,500.00	9,500.00		(9,500.00)
Sale of Municipal Property			1.00	1.00
Total Other Financing Sources (Uses)	<u>9,500.00</u>	<u>9,500.00</u>	<u>1.00</u>	<u>(9,499.00)</u>
Net Change in Fund Balances	38.00	(32,962.00)	119,144.74	152,106.74
Fund Balance - Beginning	<u>464,968.42</u>	<u>464,968.42</u>	<u>464,968.42</u>	
FUND BALANCE - ENDING	<u>\$ 465,006.42</u>	<u>\$ 432,006.42</u>	<u>\$ 584,113.16</u>	<u>\$ 152,106.74</u>

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF ELK POINT
BUDGETARY BASIS COMPARISON SCHEDULE
SPECIAL REVENUE FUND - UDAG FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Positive</u> <u>(Negative)</u>
Revenues:				
Miscellaneous Revenue:				
Investment Earnings	\$ 9,350.00	\$ 9,350.00	\$ 1,354.61	\$ (7,995.39)
Total Revenue	<u>9,350.00</u>	<u>9,350.00</u>	<u>1,354.61</u>	<u>(7,995.39)</u>
Expenditures:				
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	<u>1,500.00</u>	<u>1,500.00</u>	<u> </u>	<u>1,500.00</u>
Total Expenditures	<u>1,500.00</u>	<u>1,500.00</u>	<u> </u>	<u>1,500.00</u>
Net Change in Fund Balances	7,850.00	7,850.00	1,354.61	(6,495.39)
Fund Balance - Beginning	<u>142,641.54</u>	<u>142,641.54</u>	<u>142,641.54</u>	<u> </u>
FUND BALANCE - ENDING	<u>\$ 150,491.54</u>	<u>\$ 150,491.54</u>	<u>\$ 143,996.15</u>	<u>\$ (6,495.39)</u>

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF ELK POINT
BUDGETARY BASIS COMPARISON SCHEDULE
LIQUOR, LODGING, DINING SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	Amounts (Budgetary Basis)	Positive (Negative)
Revenues:				
Taxes:				
Gross Receipt Business Taxes	\$ 31,000.00	\$ 31,000.00	\$ 27,809.68	\$ (3,190.32)
Total Revenue	<u>31,000.00</u>	<u>31,000.00</u>	<u>27,809.68</u>	<u>(3,190.32)</u>
Expenditures:				
Conservation and Development:				
Economic Development and Assistance(Industrial Development)	<u>30,000.00</u>	<u>30,000.00</u>	<u>29,672.10</u>	<u>327.90</u>
Total Expenditures	<u>30,000.00</u>	<u>30,000.00</u>	<u>29,672.10</u>	<u>327.90</u>
Net Change in Fund Balances	1,000.00	1,000.00	(1,862.42)	(2,862.42)
Fund Balance - Beginning	<u>23,691.97</u>	<u>23,691.97</u>	<u>23,691.97</u>	<u> </u>
FUND BALANCE - ENDING	<u>\$ 24,691.97</u>	<u>\$ 24,691.97</u>	<u>\$ 21,829.55</u>	<u>\$ (2,862.42)</u>

CITY OF ELK POINT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

Note 1: Budgets and Budgetary Accounting:

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

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

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

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and each major special revenue fund. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. Budgets for the General Fund and each major special revenue fund are adapted on a basis consistent with accounting principles generally accepted in the United States (USGAAP).

Note 2: GAAP/ Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

CITY OF ELK POINT
 COMBINING BALANCE SHEET
 SPECIAL REVENUE NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2014

	<u>Special Revenue</u>		Total Nonmajor Governmental Funds
	Safe Routes to School Fund	Library Fund	
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$	\$ 9,538.81	\$ 9,538.81
Due From Government	5,508.47		5,508.47
TOTAL ASSETS	<u>5,508.47</u>	<u>9,538.81</u>	<u>15,047.28</u>
<u>LIABILITIES AND FUND BALANCES:</u>			
Liabilities:			
Accounts Payable	347.28		347.28
Due to General Fund	8,668.49		8,668.49
Total Liabilities	<u>9,015.77</u>		<u>9,015.77</u>
Fund Balances:			
Restricted		9,538.81	9,538.81
Unassigned	(3,507.30)		(3,507.30)
Total Fund Balances	<u>(3,507.30)</u>	<u>9,538.81</u>	<u>6,031.51</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,508.47</u>	<u>\$ 9,538.81</u>	<u>\$ 15,047.28</u>

CITY OF ELK POINT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 SPECIAL REVENUE NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Special Revenue		Total Nonmajor Governmental Funds
	Safe Routes to School Fund	Library Fund	
Revenues:			
Intergovernmental Revenue			
Federal Grants	\$ 6,811.15	\$	\$ 6,811.15
Miscellaneous Revenue:			
Investment Earnings		15.20	15.20
Contributions & Donations		5,057.96	5,057.96
Total Revenue	<u>6,811.15</u>	<u>5,073.16</u>	<u>11,884.31</u>
Expenditures:			
Culture and Recreation:			
Libraries		4,628.52	4,628.52
General Government:			
Other	6,919.72		6,919.72
Total Expenditures	<u>6,919.72</u>	<u>4,628.52</u>	<u>11,548.24</u>
Excess of Revenue Over (Under) Expenditures	<u>(108.57)</u>	<u>444.64</u>	<u>336.07</u>
Net Change in Fund Balances	(108.57)	444.64	336.07
Fund Balance - Beginning	<u>(3,398.73)</u>	<u>9,094.17</u>	<u>5,695.44</u>
FUND BALANCE - ENDING	<u>\$ (3,507.30)</u>	<u>\$ 9,538.81</u>	<u>\$ 6,031.51</u>

QUAM & BERGLIN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

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

City Council
City of Elk Point
Elk Point, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elk Point, South Dakota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise City of Elk Point's basic financial statements and have issued our report thereon dated September 4, 2015. A disclaimer of opinion was issued on the aggregate discretely presented component unit because the financial data of this component unit was not audited.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Prior and Current Audit Findings as item 2014-001 to be a material weakness.

Compliance and Other Matters

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

Municipality's Response to Findings

The City of Elk Point's response to the findings identified in our audit is described in the accompanying Schedule of Prior and Current Audit Findings. The City of Elk Point's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Quam & Berglin, P.C.

Quam and Berglin, P.C.
Certified Public Accountants
Elk Point, SD

September 4, 2015

**CITY OF ELK POINT
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2014**

STATUS OF PRIOR AUDIT RECOMMENDATIONS:

The prior audit recommendation 2013-01 has not been corrected and is restated as Current Audit Finding Number 2014-001.

Audit Finding Number 2013-01:

The City of Elk Point does not have an adequate segregation of duties for revenues resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This finding has not been corrected.

CURRENT AUDIT FINDING:

Audit Finding Number 2014-001

The City of Elk Point does not have an adequate segregation of duties for revenues resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This is the fourteenth consecutive audit report in which this finding has appeared.

Criteria:

In order to achieve proper internal control, it is necessary to have a segregation of duties provided between performance, review and record keeping of the tasks related to revenues. Lack of this segregation of duties could adversely affect the organization's ability to record, process, summarize and report financial data consistent with management assertions.

Condition Found:

A material weakness in internal controls was reported due to a lack of adequate segregation of duties for revenues resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

Recommendation:

We recommend that the City officials be cognizant of this lack of segregation of duties and attempt to provide compensating controls whenever and wherever possible and practical.



**CITY OF ELK POINT
ELK POINT, SD 57025**

Corrective Action Plan
For the year ended December 31, 2014

The City of Elk Point has considered the lack of segregation of duties for the revenue function.

At this time it is not cost efficient for the City of Elk Point to hire additional staff needed to achieve segregation of duties. The City of Elk Point has implemented alternate procedures, to decrease the likelihood that financial data is adversely affected.



Mayor



Finance Officer/City Administrator