

**CITY OF ELKTON**  
**ELKTON, SOUTH DAKOTA**  
**FINANCIAL REPORT**  
**FOR THE TWO YEARS ENDING DECEMBER 31, 2014**  
**WITH INDEPENDENT AUDITOR'S REPORTS**

**INDEPENDENT AUDIT SERVICES, P.C.**

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

CITY OF ELKTON  
ELKTON, SOUTH DAKOTA

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FOR THE TWO YEARS ENDING DECEMBER 31, 2014

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

# INDEPENDENT AUDIT SERVICES, PC

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Governing Board  
City of Elkton  
Elkton, South Dakota

## INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying modified cash basis of accounting financial statements of governmental activities, business-type activities, and each major fund of the City of Elkton (City), Brookings County, South Dakota, as of December 31, 2014 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in note 1c; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

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

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

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

### Basis for Adverse Opinion on Discretely Presented Component Unit: Elkton Housing and Redevelopment Commission

Financial statements of the Elkton Housing and Redevelopment Commission (a component unit of the City of Elkton) are not presented and would have represented 100% of the cash assets, net position, receipts and disbursements of a discretely presented component unit on the government-wide statement of net position and statement of activities. I was unable to apply alternative procedures regarding the balances and activity of the Elkton Housing & Redevelopment Commission's separate books and records.

Adverse Opinion on Discretely Presented Component Unit:  
Elkton Housing and Redevelopment Commission

In my opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements of the Elkton Housing and Redevelopment Commission (a component unit of the City of Elkton) do not present fairly as a discretely presented component unit on the government-wide statement of net position and statement of activities, the financial position on a modified cash basis of accounting of the Elkton Housing and Redevelopment Commission as of December 31, 2014 or the results of its operations for each of the years in the biennial period then ended.

Basis for Modified Opinions:  
Governmental Activities and General Fund

These financial statements do not reflect the fire and ambulance department's December 31, 2014 cash or their related 2013 and 2014 receipts and disbursements. From a December 31, 2014 bank confirmation and petty cash these departments had total cash of \$124,642. These departments keep their own books and records for fund raising activities to purchase equipment and support operations. Omission of fire and ambulance department cash and activity results in (1) the understatement of the balances and activities in the general fund and (2) related effects in the government-wide financial statements. I was unable to apply alternative procedures regarding the balances and activity of the fire and ambulance department's separate books and records.

Modified Opinions:  
Governmental Activities and General Fund

In my opinion, except for the effects of (1) omitting some \$124,642 of fire and ambulance department cash at December 31, 2014 and the related 2013 and 2014 receipts and disbursements as discussed above, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of governmental activities and the general fund of the City of Elkton, South Dakota, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in note 1c to these financial statements.

Unmodified Opinions:  
Business-Type Activities and All Major Funds Except the General Fund

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of business-type activities and each major fund except the general fund of the City of Elkton, South Dakota, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in note 1c to these financial statements.

Other Matters - Basis of Accounting

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

Other Matters - Other Supplementary Information (Opinion)

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of Elkton's financial statements.

The schedule of changes in long-term debt (page 34) is presented for the purpose of additional analysis and is not a required part of the modified cash basis of accounting financial statements.

The schedule of changes in long-term debt is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the modified cash basis of accounting financial statements. The information has been subject to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In my opinion, the schedule of changes in long-term debt is fairly stated, in all material respects, in relation to the modified cash basis of accounting financial statements as a whole.

Other Matters - Other Supplementary Information (No Opinion)

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of Elkton's financial statements.

The management's discussion and analysis (page 4 to 9) and the budgetary comparison schedules (page 30 to 33) are presented for purposes of additional analysis and are not a required part of the modified cash basis of accounting financial statements.

I have applied certain limited procedures to this supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on this information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 36) dated May 6, 2016 on my tests of City of Elkton's compliance with certain provisions of laws, regulations, contracts and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting.

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



May 6, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of the City of Elkton's (City) financial performance provides an overview of the City's financial activities for the two years ending December 31, 2014, within the limitations of the City's modified cash basis of accounting. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS	2014	2013
Receipts:		
Charges for goods and services	528,341	549,094
Operating grants	0	0
Capital grants	0	0
General receipts	510,233	494,348
	-----	-----
Total	1,038,574	1,043,442
	-----	-----
Disbursements:		
Governmental	545,858	592,585
Business-type	436,689	474,299
	-----	-----
Total	982,547	1,066,884
	-----	-----
Increase (Decrease) in Net Position	56,027	(23,442)
Net Position:		
December 31, 2012		550,522
		-----
December 31, 2013	527,080	527,080
	-----	=====
December 31, 2014	583,107	
	=====	
Governmental Funds:		
General	80,230	79,615
2nd Cent Sales Tax	189,567	169,525
Library	4,455	5,065
TIF #2	(8,317)	(1,922)
TIF #3 (Kinner)	3,178	4,062
Business-Type Funds:		
Liquor	154,068	152,580
Water	79,872	55,244
Sewer	80,054	62,911
	-----	-----
Total	583,107	527,080
	=====	=====

During 2014, the City:

- \* Paid \$94,779 for drainage and chip sealing street work.
- \* Paid \$10,811 for bar equipment maintenance and replacement.
- \* Paid \$ 9,544 for a gazebo and park benches and equipment.
- \* Paid \$ 6,460 for the balance remaining on softball lights.
- \* Paid \$ 4,395 for a security camera system at the Community Center.
- \* Paid \$ 4,283 for library books and equipment.
- \* Paid \$ 3,136 for fire equipment.
- \* Paid \$ 2,600 for trees to be put in the park.
- \* Contributed \$1,494 towards the purchase of an ambulance stair chair.
- \* Made all loan payments as agreed. See page 34 for more information.

During 2013, the City:

- \* Paid \$63,132 for park improvements.
- \* Paid \$45,322 for street work.
- \* Paid \$10,021 for the purchase of a Bobcat.
- \* Paid \$12,319 for Rainbow Play Systems playground equipment.
- \* Paid \$ 9,110 for park improvements.
- \* Paid \$ 5,031 for bar improvements.
- \* Paid \$ 4,761 for library books and equipment.
- \* Paid \$ 4,704 for a mower.
- \* Paid \$ 2,469 for fire equipment.
- \* Contributed \$20,000 towards the purchase of new ball field lights.
- \* Contributed \$7,000 towards the purchase of fire air packs.
- \* Transferred \$54,012 from the general fund to the 2nd cent fund for park improvements.
- \* Made all loan payments as agreed. See page 34 for more information.

**BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS**

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

The financial report consists of three parts: (1) management's discussion and analysis (page 4 to 9), (2) the basic financial statements (page 10 to 29) and (3) supplementary information (page 30 to 35). The basic financial statements include two types of statements that present the City from two different financial points of view.

**Government-wide financial statements (View #1):**

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

**Fund financial statements (View #2):**

The remaining financial statements are fund financial statements that focus on significant operations of the governmental and enterprise activities of the City.

The governmental financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. Governmental funds operated by the City in 2013 and 2014 were the General, 2nd Cent Sales Tax, Library, TIF #2 and TIF #3 funds.

The enterprise fund financial statements offer short-term and long-term financial information about the activities of the City that operate like a business. Enterprise funds operated by the City in 2013 and 2014 were the Liquor, Water and Sewer funds.

The fiduciary fund financial statements provide information about the financial status of activities in which the City acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. In 2013 and 2014 the City had no fiduciary funds.

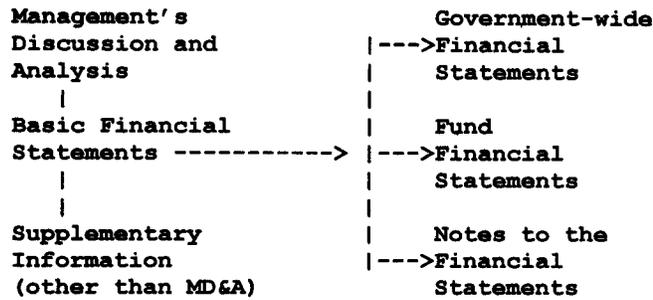
The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of supplementary information that presents a budgetary analysis for the general fund and a major special revenue fund.

**Supplementary Information:**

The Management's Discussion and Analysis (page 4 to 9) and the Budgetary Comparison Schedules and Schedule of Changes in Long-Term Debt (page 30 to 35) are supplementary financial information. Such information provides readers of this report with additional data that supplements the government-wide statements and

fund financial statements. The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

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



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

	Government-wide Statements	-----Fund Statements-----	
		Governmental Funds	Enterprise Funds
Scope	Entire City	City activities except enterprise funds	Activities operated like a private business (ie: water)
Required Modified Cash Basis Financial Statements	Statement of Net Position  Statement of Activities	Balance Sheet  Stmt. of Receipts Disbursements and Changes in Fund Balances	Stmt. of Net Position  Stmt. of Receipts, Disbursements and Changes in Fund Net Position  Stmt. of Cash Flows
Basis of Accounting	Modified Cash	Modified Cash	Modified Cash
Measurement Focus	Modified Cash	Modified Cash	Modified Cash
Types of assets & Liabilities	Cash, CDs Investments, Notes receivable and customer deposits	Cash, CDs, Investments and notes receivable	Cash, CDs Investments and customer deposits
Types of Receipts and Cash disbursements Disbursements	Cash receipts Cash disbursements	Cash receipts Cash disbursements	Cash receipts Cash disbursements

#### BASIS OF ACCOUNTING

The City has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues and expenses and related assets are recorded when they result from cash transactions, except for the recording of investments (if any).

#### GOVERNMENT-WIDE STATEMENTS

The government-wide statements (page 10 to 12) report information about the City as a whole using cash accounting methods similar to those used by private-sector companies. The statement of net position includes all of the City's cash. The statement of activities includes all of the year's receipts and disbursements.

The two government-wide statements report the City's net position and how it has changed. Net position is the City's petty cash, checking accounts, savings accounts, certificates of deposit, and money market accounts (if any). The change in these accounts is one way to measure the City's financial health. Increases or decreases in net position measures improvements or declines in the City's financial health. To assess the City's overall financial health you also need to consider other factors such as changes in the property tax base, and/or sales tax receipts generated from local businesses.

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

The governmental activities include basic services such as police and fire protection, maintenance of streets, and parks. Property taxes, sales taxes, and interest received finance most of these activities.

The business-type activities account for the City's liquor, water and sewer activities. These services are funded by user fees. Bonds and federal and state grants help pay for capital improvements to the water and sewer systems.

The City has no component units. These are organizations which, because the nature and significance of their relationship to the City, would make the City's financial statements incomplete or misleading if they were excluded from the City's financial statements.

#### FUND FINANCIAL STATEMENTS

The fund financial statements (page 13 to 18) provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools used to keep track of the City's receipts and disbursements. State law requires the use of some funds and the City Council establishes other funds to manage money for a specific purpose.

The fund financial statements show information in two broad categories: governmental and enterprise (business-type).

**Governmental funds:** Most of the City's basic services are included in the governmental funds, which focus on (1) how cash flows in and out of that fund, and (2) cash balances left at year-end which are available for spending in the next year. The governmental funds financial statements provide detail that helps you determine whether there is more or fewer cash resources available for spending in the near future to finance City programs.

**Enterprise fund:** Services for which the City charges the customer a fee are generally reported in enterprise funds. These funds account for cash and the receipt and disbursement of cash, the same as the governmental funds. The liquor, water and sewer funds are the only enterprise funds maintained by the City.

#### MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

##### For the Two Years Ending December 31, 2014

(Material changes for governmental activities = changes greater than \$40,000)

(Material changes for business-type activities = changes greater than \$40,000)

== 2014 ==	Increase (Decrease)	Reason
Governmental Activities:	0	None to report
Business-Type Activities:		
Cash	43,259	Excess receipts over disbursements.
== 2013 ==		
Governmental Activities:		
Cash	(49,078)	Excess receipts over disbursements.
Public works	(83,360)	Street overlay completed in 2012.
Culture and recreation	43,196	Park improvements.
Debt service	60,174	Extra large TIF #3 payment in 2013.
Business-Type Activities:	0	None to report

## SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

In 2014 the City's general fund budget of \$439,720 was an increase of \$24,330 or 5.86% from 2013. There was one supplemental appropriation to the general fund's budget for streets. See also page 30.

In 2013 the City's general fund budget of \$415,390 was an increase of \$20,065 or 5.08% from 2012. There was one supplemental appropriation of \$20,200 to the general fund's budget for parks. See also page 31.

## SIGNIFICANT CAPITAL ASSET ACTIVITY

Significant capital asset activity is reported above under "Financial Highlights."

## SIGNIFICANT LONG-TERM DEBT ACTIVITY

During 2014 the City made principal payments of \$54,687 on four governmental loans and \$19,054 on two water and sewer loans. At December 31, 2014 the City's governmental loans had a balance of \$717,357 and the water and sewer loans had a balance of \$598,105. See page 34 for more information.

During 2013 the City made principal payments of \$78,623 on four governmental loans and \$18,423 on two water and sewer loans. At December 31, 2013 the City's governmental loans had a balance of \$780,418 and the water and sewer loans had a balance of \$617,159. See page 34 for more information.

## CURRENTLY KNOWN FACTS

In February 2015 the Council approved the purchase of a new water leak detector for approximately \$4,000 to \$5,000.

In May 2015 the Council appointed 5 new members to the Elkton Housing & Redevelopment Commission Board with terms of 1, 2, 3, 4, and 5 years.

In May 2015 the new Elkton Housing & Redevelopment Commission Board decided to sell the Commission's 2 quadraplexes and look into low income housing options for the City of Elkton.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Elkton's finance office at 109 Elk Street, Elkton, SD 57026 or telephone us at 605.542.5411.

## CITY OF ELKTON

TABLE 1 - NET POSITION (condensed and in thousands)  
 BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS - MODIFIED CASH BASIS  
 AS OF DECEMBER 31, 2014, 2013 AND 2012

	Governmental Activities			Business-Type Activities			Total Government		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
<b>Assets:</b>									
Cash	240,392	230,145	250,518	296,630	253,389	227,774	537,022	483,534	478,292
Cash - restricted	28,721	26,200	54,905	17,364	17,346	17,325	46,085	43,546	72,230
<b>Total assets</b>	<b>269,113</b>	<b>256,345</b>	<b>305,423</b>	<b>313,994</b>	<b>270,735</b>	<b>245,099</b>	<b>583,107</b>	<b>527,080</b>	<b>550,522</b>
<b>Liabilities:</b>									
None (cash basis)	0	0	0	0	0	0	0	0	0
<b>Total liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net position:</b>									
Restricted	33,176	35,327	54,905	55,282	55,264	55,243	88,458	90,591	110,146
Unrestricted	235,937	221,018	250,518	258,712	215,471	189,856	494,649	436,489	440,374
<b>Total net position</b>	<b>269,113</b>	<b>256,345</b>	<b>305,423</b>	<b>313,994</b>	<b>270,735</b>	<b>245,099</b>	<b>583,107</b>	<b>527,080</b>	<b>550,522</b>

TABLE 2 - CHANGES IN NET POSITION (condensed and in thousands)  
 BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS  
 FOR THE THREE FISCAL YEARS ENDING DECEMBER 31, 2014

	Governmental Activities			Business-Type Activities			Total Government		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
<b>Receipts:</b>									
<b>Program receipts:</b>									
Charges for services	48,410	49,180	51,818	479,931	499,914	535,556	528,341	549,094	585,374
Operating grants and contri.							0	0	0
Capital grants and contri.							0	0	0
<b>General receipts:</b>									
Receipts from taxes	437,258	432,940	411,043				437,258	432,940	411,043
Receipts from state sources	43,832	37,991	36,905				43,832	37,991	36,905
Receipts from county sources	6,469	6,399	6,372				6,469	6,399	6,372
Interest received	4,031	1,327	2,476	17	21	36	4,048	1,348	2,512
Other general receipts	18,626	15,670	18,494				18,626	15,670	18,494
<b>Total receipts</b>	<b>558,626</b>	<b>543,507</b>	<b>527,108</b>	<b>479,948</b>	<b>499,935</b>	<b>535,592</b>	<b>1,038,574</b>	<b>1,043,442</b>	<b>1,062,700</b>
<b>Disbursements:</b>									
General government	126,573	117,561	121,964				126,573	117,561	121,964
Public safety	48,857	48,180	42,789				48,857	48,180	42,789
Public works	209,462	211,586	294,946				209,462	211,586	294,946
Health and welfare	4,781	2,892	3,512				4,781	2,892	3,512
Culture and recreation	48,072	71,326	28,130				48,072	71,326	28,130
Economic development	5,000	9,110	18,236				5,000	9,110	18,236
Debt service	103,113	131,930	71,756				103,113	131,930	71,756
Liquor				276,316	283,796	316,912	276,316	283,796	316,912
Water				92,504	110,072	89,265	92,504	110,072	89,265
Sewer				67,869	80,431	82,267	67,869	80,431	82,267
<b>Total disbursements</b>	<b>545,858</b>	<b>592,585</b>	<b>581,333</b>	<b>436,689</b>	<b>474,299</b>	<b>488,444</b>	<b>982,547</b>	<b>1,066,884</b>	<b>1,069,777</b>
<b>Excess of receipts over (under) disbursements</b>	<b>12,768</b>	<b>(49,078)</b>	<b>(54,225)</b>	<b>43,259</b>	<b>25,636</b>	<b>47,148</b>	<b>56,027</b>	<b>(23,442)</b>	<b>(7,077)</b>
Compensation for property damage			2,921			1,483	0	0	4,404
<b>Change in net position</b>	<b>12,768</b>	<b>(49,078)</b>	<b>(51,304)</b>	<b>43,259</b>	<b>25,636</b>	<b>48,631</b>	<b>56,027</b>	<b>(23,442)</b>	<b>(2,673)</b>
<b>Net position:</b>									
December 31, 2011			356,727			196,468			553,195
December 31, 2012		305,423	305,423		245,099	245,099		550,522	550,522
December 31, 2013	256,345	256,345		270,735	270,735		527,080	527,080	
December 31, 2014	269,113			313,994			583,107		

CITY OF ELKTON

STATEMENT OF NET POSITION  
 MODIFIED CASH BASIS  
 AS OF DECEMBER 31, 2014

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	240,392	296,630	537,022
Restricted cash	28,721	17,364	46,085
<b>Total assets</b>	<b>269,113</b>	<b>313,994</b>	<b>583,107</b>
<b>NET POSITION:</b>			
Restricted for:			
Revolving loan	25,543		25,543
Library	4,455		4,455
TIF #3 developer repayment	3,178		3,178
Rural Development debt service		17,364	17,364
SRF loan debt service		37,918	37,918
Unrestricted	235,937	258,712	494,649
<b>Total net position</b>	<b>269,113</b>	<b>313,994</b>	<b>583,107</b>

See accompanying notes.





CITY OF ELKTON

BALANCE SHEET -- MODIFIED CASH BASIS  
 ALL GOVERNMENTAL FUNDS  
 AS OF DECEMBER 31, 2014

	General Fund	2nd Cent Sales Tax Fund	Library Fund	TIF #2 Debt Service Fund	Kinner TIF #3 Debt Service Fund	Total
<b>ASSETS:</b>						
Cash and cash equivalents	54,687	189,567	4,455	(8,317)		240,392
Restricted cash	25,543				3,178	28,721
<b>Total assets</b>	<b>80,230</b>	<b>189,567</b>	<b>4,455</b>	<b>(8,317)</b>	<b>3,178</b>	<b>269,113</b>
<b>FUND BALANCE (DEFICIT):</b>						
Nonspendable						0
Restricted	25,543		4,455		3,178	33,176
Committed		189,567				189,567
Assigned						0
Unassigned	54,687			(8,317)		46,370
<b>Total fund balances</b>	<b>80,230</b>	<b>189,567</b>	<b>4,455</b>	<b>(8,317)</b>	<b>3,178</b>	<b>269,113 **</b>

\*\* Equals net position on  
 statement of net position

See accompanying notes.

CITY OF ELKTON

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND  
BALANCES -- MODIFIED CASH BASIS -- ALL GOVERNMENTAL FUNDS  
FOR THE YEAR ENDING DECEMBER 31, 2014

	General Fund	2nd Cent Sales Tax Fund	Library Fund	TIF #2 Debt Service Fund	Kinner TIF #3 Debt Service Fund	Total
<b>Receipts:</b>						
<b>Local sources:</b>						
<b>Taxes:</b>						
Ad valorem taxes	195,938			1,391	59,107	256,436
General sales taxes	90,369	90,369				180,738
Amusement taxes	84					84
Licenses and permits:	676					676
<b>Intergovernmental:</b>						
<b>State shared revenue:</b>						
Bank franchise tax	3,991					3,991
Liquor tax revision	4,681					4,681
5% Motor vehicle license	7,230					7,230
Highway and bridge	27,930					27,930
County shared revenue	6,469					6,469
<b>Charges for goods and services:</b>						
General government						0
Sanitation	43,925					43,925
Culture and recreation	472		3,337			3,809
<b>Fines and forfeits:</b>						0
<b>Miscellaneous:</b>						
Interest received	4,022				9	4,031
Rents and franchise	7,178					7,178
Revolving loan payments	4,343					4,343
Donations	1,493					1,493
Other	5,612					5,612
<b>Total receipts</b>	<b>404,413</b>	<b>90,369</b>	<b>3,337</b>	<b>1,391</b>	<b>59,116</b>	<b>558,626</b>
<b>Disbursements:</b>						
<b>Current:</b>						
<b>General government:</b>						
Mayor and Council	22,940					22,940
Elections	40					40
Financial administration	79,779					79,779
Government buildings	19,260					19,260
<b>Public safety:</b>						
Police	32,647					32,647
Fire	13,074					13,074
<b>Public works:</b>						
Highways and streets	72,510					72,510
Sanitation	41,473					41,473
<b>Health and welfare:</b>						
Ambulance	3,287					3,287
<b>Culture and recreation:</b>						
Parks and recreation	9,927					9,927
Library	13,233		2,024			15,257
<b>Conservation and development:</b>						
Economic development	5,000					5,000
<b>Debt service - principal</b>		30,614		4,134	19,939	54,687
- interest		4,713		3,652	40,061	48,426
<b>Capital outlay</b>	<b>90,628</b>	<b>35,000</b>	<b>1,923</b>			<b>127,551</b>
<b>Total disbursements</b>	<b>403,798</b>	<b>70,327</b>	<b>3,947</b>	<b>7,786</b>	<b>60,000</b>	<b>545,858</b>
<b>Excess of receipts over (under) disbursements</b>	<b>615</b>	<b>20,042</b>	<b>(610)</b>	<b>(6,395)</b>	<b>(884)</b>	<b>12,768</b>
<b>Other financing sources (uses):</b>						<b>0</b>
None						
<b>Net change in fund balance</b>	<b>615</b>	<b>20,042</b>	<b>(610)</b>	<b>(6,395)</b>	<b>(884)</b>	<b>12,768 **</b>
<b>Fund balance (deficit):</b>						
January 1, 2014	79,615	169,525	5,065	(1,922)	4,062	256,345
December 31, 2014	80,230	189,567	4,455	(8,317)	3,178	269,113

\*\* Equals change in net position on  
Statement of Activities

See accompanying notes.

CITY OF ELKTON

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND  
BALANCES -- MODIFIED CASH BASIS -- ALL GOVERNMENTAL FUNDS  
FOR THE YEAR ENDING DECEMBER 31, 2013

	General Fund	2nd Cent Sales Tax Fund	Library Fund	TIF #2 Debt Service Fund	Kinner TIF #3 Debt Service Fund	Total
<b>Receipts:</b>						
<b>Local sources:</b>						
<b>Taxes:</b>						
Ad valorem taxes	196,782			9,191	61,045	267,018
General sales taxes	82,913	82,913				165,826
Amusement taxes	96					96
Licenses and permits:	494					494
<b>Intergovernmental:</b>						
<b>State shared revenue:</b>						
Bank franchise tax	2,778					2,778
Liquor tax revision	4,358					4,358
5% Motor vehicle license	6,298					6,298
Highway and bridge	24,557					24,557
County shared revenue	6,399					6,399
<b>Charges for goods and services:</b>						
General government	300					300
Sanitation	43,917					43,917
Culture and recreation	522		3,947			4,469
<b>Fines and forfeits:</b>						
Miscellaneous:						0
Interest received	1,314				13	1,327
Rents and franchise	5,688					5,688
Revolving loan payments	3,439					3,439
Donations	20					20
Other	6,523					6,523
<b>Total receipts</b>	<b>386,398</b>	<b>82,913</b>	<b>3,947</b>	<b>9,191</b>	<b>61,058</b>	<b>543,507</b>
<b>Disbursements:</b>						
<b>Current:</b>						
<b>General government:</b>						
Mayor and Council	19,394					19,394
Elections	33					33
Financial administration	84,325					84,325
Government buildings	13,809					13,809
<b>Public safety:</b>						
Police	30,241					30,241
Fire	8,470					8,470
<b>Public works:</b>						
Highways and streets	59,685					59,685
Sanitation	41,370					41,370
<b>Health and welfare:</b>						
Ambulance	2,892					2,892
<b>Culture and recreation:</b>						
Parks and recreation	17,097					17,097
Library	14,338		1,634			15,972
<b>Conservation and development:</b>						
Economic development						0
<b>Debt service - principal</b>						
		28,472		4,011	46,140	78,623
<b>- interest</b>						
		6,472		3,775	43,060	53,307
<b>Capital outlay</b>	<b>89,478</b>	<b>74,334</b>	<b>3,555</b>			<b>167,367</b>
<b>Total disbursements</b>	<b>381,132</b>	<b>109,278</b>	<b>5,189</b>	<b>7,786</b>	<b>89,200</b>	<b>592,585</b>
<b>Excess of receipts over (under) disbursements</b>	<b>5,266</b>	<b>(26,365)</b>	<b>(1,242)</b>	<b>1,405</b>	<b>(28,142)</b>	<b>(49,078)</b>
<b>Other financing sources (uses):</b>						
Transfer in (out)	(54,012)	54,012				0
<b>Net change in fund balance</b>	<b>(48,746)</b>	<b>27,647</b>	<b>(1,242)</b>	<b>1,405</b>	<b>(28,142)</b>	<b>(49,078) **</b>
<b>Fund balance (deficit):</b>						
January 1, 2013	128,361	141,878	6,307	(3,327)	32,204	305,423
December 31, 2013	79,615	169,525	5,065	(1,922)	4,062	256,345

\*\* Equals change in net position on  
Statement of Activities

See accompanying notes.

CITY OF ELKTON

STATEMENT OF NET POSITION  
 MODIFIED CASH BASIS  
 ENTERPRISE FUNDS  
 AS OF DECEMBER 31, 2014

	Liquor Fund	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----	-----
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalent	154,068	62,508	80,054	296,630
Restricted cash		17,364		17,364
	-----	-----	-----	-----
<b>Total assets</b>	<b>154,068</b>	<b>79,872</b>	<b>80,054</b>	<b>313,994</b>
	=====	=====	=====	=====
<b>NET POSITION</b>				
Restricted - debt service		17,364	37,918	55,282
Unrestricted	154,068	62,508	42,136	258,712
	-----	-----	-----	-----
<b>Total net position</b>	<b>154,068</b>	<b>79,872</b>	<b>80,054</b>	<b>313,994</b>
	=====	=====	=====	=====

See accompanying notes.

## CITY OF ELKTON

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
 IN NET POSITION -- MODIFIED CASH BASIS  
 ENTERPRISE FUNDS  
 FOR THE YEAR ENDING DECEMBER 31, 2014  
 FOR THE YEAR ENDING DECEMBER 31, 2013

	2014				2013			
	Liquor Fund	Water Fund	Sewer Fund	Total	Liquor Fund	Water Fund	Sewer Fund	Total
<b>Operating receipts:</b>								
Charges for goods and services	277,804	117,115	85,012	479,931	297,765	117,372	84,777	499,914
<b>Total operating receipts</b>	<b>277,804</b>	<b>117,115</b>	<b>85,012</b>	<b>479,931</b>	<b>297,765</b>	<b>117,372</b>	<b>84,777</b>	<b>499,914</b>
<b>Operating disbursements:</b>								
Personal services	67,233	16,082	16,082	99,397	72,318	15,706	15,706	103,730
Other current services	54,550	15,885	26,753	97,188	39,558	32,645	38,516	110,719
Cost of goods sold	143,722	37,777		181,499	166,889	36,102		202,991
Capital assets	10,811	808		11,619	5,031	3,666	1,176	9,873
Contribution in aid of construction		4,920		4,920		4,920		4,920
<b>Total operating disbursements</b>	<b>276,316</b>	<b>75,472</b>	<b>42,835</b>	<b>394,623</b>	<b>283,796</b>	<b>93,039</b>	<b>55,398</b>	<b>432,233</b>
<b>Excess operating receipts (disbursements)</b>	<b>1,488</b>	<b>41,643</b>	<b>42,177</b>	<b>85,308</b>	<b>13,969</b>	<b>24,333</b>	<b>29,379</b>	<b>67,681</b>
<b>Nonoperating receipts (disbursements):</b>								
Interest received		17		17		21		21
Loan pymts - principal		(4,381)	(14,673)	(19,054)		(4,183)	(14,240)	(18,423)
- interest		(12,651)	(10,361)	(23,012)		(12,850)	(10,793)	(23,643)
<b>Total nonoperating receipts (disbu)</b>	<b>0</b>	<b>(17,015)</b>	<b>(25,034)</b>	<b>(42,049)</b>	<b>0</b>	<b>(17,012)</b>	<b>(25,033)</b>	<b>(42,045)</b>
<b>Excess receipts (disbursements) before transfers</b>	<b>1,488</b>	<b>24,628</b>	<b>17,143</b>	<b>43,259</b>	<b>13,969</b>	<b>7,321</b>	<b>4,346</b>	<b>25,635</b>
<b>Transfers - none</b>				<b>0</b>				<b>0</b>
<b>Change in net position</b>	<b>1,488</b>	<b>24,628</b>	<b>17,143</b>	<b>43,259</b>	<b>13,969</b>	<b>7,321</b>	<b>4,346</b>	<b>25,635</b>
<b>Net position:</b>								
January 1, 2013					138,611	47,923	58,565	245,099
December 31, 2013	152,580	55,244	62,911	270,735	152,580	55,244	62,911	270,735
December 31, 2014	154,068	79,872	80,054	313,994				

See accompanying notes.

## CITY OF ELKTON

STATEMENT OF CASH FLOWS-- MODIFIED CASH BASIS  
 ENTERPRISE FUNDS  
 FOR THE YEAR ENDING DECEMBER 31, 2014  
 FOR THE YEAR ENDING DECEMBER 31, 2013

	2014				2013			
	Liquor Fund	Water Fund	Sewer Fund	Total	Liquor Fund	Water Fund	Sewer Fund	Total
Cash flows from:								
Operating activities:								
Receipts from customers	277,804	117,115	85,012	479,931	297,765	117,372	84,777	499,914
Payments to employees	(67,233)	(16,082)	(16,082)	(99,397)	(72,318)	(15,706)	(15,706)	(103,730)
Payments to suppliers	(198,272)	(53,662)	(26,753)	(278,687)	(206,447)	(68,747)	(38,516)	(313,710)
Payments for capital assets	(10,811)	(808)		(11,619)	(5,031)	(3,666)	(1,176)	(9,873)
Contribution in aid of construction		(4,920)		(4,920)		(4,920)		(4,920)
Net cash provided (used) by operating activities	1,488	41,643	42,177	85,308	13,969	24,333	29,379	67,681
Noncapital financing activities:								
None				0				0
Capital financing activities:								
RD loan pymts - principal		(4,381)	(14,673)	(19,054)		(4,183)	(14,240)	(18,423)
- interest		(12,651)	(10,361)	(23,012)		(12,850)	(10,793)	(23,643)
Investing activities:								
Interest received		17		17		21		21
Net increase (decrease) in cash and cash equivalents	1,488	24,628	17,143	43,259	13,969	7,321	4,346	25,636
Cash and cash equivalents:								
January 1, 2013					138,611	47,923	58,565	245,099
December 31, 2013	152,580	55,244	62,911	270,735	152,580	55,244	62,911	270,735
December 31, 2014	154,068	79,872	80,054	313,994				
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:								
Operating income (loss)	1,488	41,643	42,177	85,308	13,969	24,333	29,379	67,681
Net cash provided (used) by operating activities	1,488	41,643	42,177	85,308	13,969	24,333	29,379	67,681
Noncash investing, capital and financing activities:								
None								

See accompanying notes.

CITY OF ELKTON  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity:

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

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

Governing Board:

Dave Landsman, Mayor

Robin Mulvey, President

Michael DeVries

Tal Farnham

Carol Jensen

Mike Jensen

Dennis Lundgren

Finance Officer:

Susan Schuurman

Attorney:

William Ellingson

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

Financial Reporting Entity:

Primary Government: - The City of Elkton

Component Unit: - Elkton Housing & Redevelopment Commission (not reported)

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

The reporting entity of the City of Elkton consists of (1) the primary government, which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; (2) those organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the City (the primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City unless that organization can, without the approval of the City: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

Based upon the application of these criteria, the Elkton Housing & Redevelopment Commission is a component unit of the City of Elkton, but is not reported in these financial statements.

b. Basis of Presentation:

*Government-wide Financial Statements:*

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

The Statement of Net Position reports all cash assets. Net position is displayed in two components: restricted (distinguishing between major categories of restrictions) and unrestricted.

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

*Fund Financial Statements:*

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

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

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

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

*Governmental Funds*

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

**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. The City has the following special revenue funds:

2nd Cent Sales Tax Fund - A fund allowed by law to account for proceeds from the 2nd cent sales tax, restricted to payments of principal and interest on series 2000 sales tax revenue bonds. However, per section 9.4.6 of the sales tax bond resolution, "So long as the revenue from the sales tax are sufficient to make all required [principal and interest payments] the City may deposit the excess revenues from the sales tax to the general fund or any other City fund as determined by the City and as permitted by law." Because this fund has sufficient cash to pay-off all 2000 sales tax revenue bonds and because less than 1/2 of this funds expenditures are related to debt service, this fund is considered a special revenue fund. It was established by Ordinance No. 93 and is a major fund.

Library Fund - A fund allowed by SDCL 14-2-42 and AGR 82-33 to account for the collection and disbursement of library fines and gifts. This fund is a major fund.

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

TIF #2 Debt Service Fund - A fund allowed by law to account for proceeds from specific property taxes, restricted to use for the payment of principal and interest on debt issued to finance public improvements in Lots 9 through 15, Block 3, all in the Original Plat of the City of Elkton. This fund is a major fund.

TIF #3 (Kinner) Debt Service fund - A fund allowed by law to account for proceeds from specific property taxes, restricted to use for the repayment of developer contributions to finance public improvements for home sites in the City of Elkton. This fund is a major fund.

**Enterprise Funds**  
(Business-Type)

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

Liquor Fund - A fund allowed by SDCL 35-3-21 to account for the operation of an on-sale and/or off-sale municipal liquor store. This fund is a major fund.

Water Fund - A fund allowed by SDCL 9-47-1 to provide water to customers within the City of Elkton. This fund is a major fund.

Sewer Fund - A fund allowed by SDCL 9-48-2 to provide sewer services to customers within the City of Elkton. This fund is a major fund.

**Fiduciary Funds**

Fiduciary funds are never considered to be major funds.

Agency funds: Agency funds are used to account for resources held by the City in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The City had no agency funds in 2013 or 2014.

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 (disbursements) are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The City's basis of accounting is the modified cash basis of accounting, which is a basis of accounting other than US-GAAP. Under US-GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis of accounting, transactions are recorded when cash is received or disbursed.

Measurement Focus

*Government-wide Financial Statements:*

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

*Fund Financial Statements:*

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

Basis of Accounting

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipts and disbursement transactions. Under the modified cash basis of accounting, the statement of net position reports only cash and cash equivalents. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements are certificates of deposit (if any) whose maturity when purchased is more than 90 days.

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

If the City applied US-GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for enterprise funds and fiduciary funds (if any) would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

d. Cash and Cash Equivalents:

For purposes 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 (if any) in open-end mutual funds shares or similar investments in external investment pools, are also considered to be cash equivalents.

The City's certificates of deposit (if any) with a maturity of more than three months when purchased are not considered a cash equivalent for the statement of cash flows.

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

e. Interfund Transactions:

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

f. Program Receipts and General Receipts:

Program Receipts:

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

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

General Receipts:

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

g. Enterprise Fund Receipt Classifications:

In both the government-wide statements and fund financial statements, enterprise fund operating receipts, such as charges for water and sewer services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, if any, such as grants, operating subsidies, interest received, and transfers in, result from nonexchange transactions.

**h. Equity Classifications:**

**Government-wide financial Statements:**

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

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

**Fund Financial Statements:**

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

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

The City of Elkton's fund balance classifications are:

<u>Fund Balance Classifications</u>	<u>Account or Fund</u>	<u>Authority or Action</u>	<u>Amount</u>
Nonspendable	None		0
Restricted	General - Revolving Loan	Grant Agreement	25,543
	Library	Statute	4,455
	TIF #3	Developer Agreement	3,178
Committed	2nd Cent - Debt Service	Ordinance	26,625
	2nd Cent - Non-Debt Service	Ordinance	162,942
Assigned	None		0
Unassigned	General		54,687
	TIF #2		(8,317)
			-----
			269,113

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

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

The purpose of each special revenue fund and revenue source is:

Special Revenue Fund:	Purpose:	Revenue Source:
* 2nd Cent Sales Tax	Receive sales taxes	See page 14 and 15
* Library	Receive fines and gifts	See page 14 and 15

j. Application of Net Position:

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

**2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS**

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund. In 2014 the City went over general fund budget line for streets by \$3,989 and for parks by \$1,932. See page 30. In 2013 the City went over general fund budget line for Mayor and Council by \$74 and financial administration by \$405. See page 31.

In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation. These budget overdrafts are not considered a material or significant finding with respect to these financial statements.

**3. DEPOSITS, INVESTMENTS AND RELATED RISKS**

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

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

Actual bank balances at December 31, 2014 were as follows: Insured \$455,347, Collateralized \*\* \$123,760, for a total of \$579,107.

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

The carrying amount of these deposits and \$5,400 of petty cash at December 31, 2014 was \$583,107.

Certificates of deposit (if any), with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

4. INVESTMENTS AND RISKS

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

During the two years ending December 31, 2014 the City had no investments.

Investment 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.

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

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

Concentration of Credit Risk - the City places no limit on the amount that may be invested in any one institution. The City's deposit are held in BankStar Financial.

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 deposit or investment. The City's policy is to credit all income from deposits and investments to the general fund except for interest on deposits related to debt service.

5. RESTRICTED CASH

Restricted cash amounts, which can only be used for a specific purpose and cannot be used to pay other current liabilities, at December 31, 2014 are:

Purpose:	Governmental	Business-Type
General Fund - Revolving loan balance	25,543	
TIF #3 Fund - Reimburse developer	3,178	
Water Fund - Rural Development debt service		17,364
	-----	-----
Total Restricted Cash	28,721	17,364

6. RESTRICTED NET POSITION

Net position restricted for specific purposes are as follows:

Purpose:	Restricted By:	Governmental	Business-Type
Debt service	Covenants		55,282
Revolving loan	Grant	25,543	
Library services	Statute	4,455	
Repay developer	Contract	3,178	
		-----	-----
Total Restricted Net Cash Assets		33,176	55,282

7. LONG-TERM DEBT

A summary of changes in long-term liabilities is presented as supplementary information on page 34. The City did not have any short-term or conduit debt in 2013 or 2014.

8. FUTURE REVENUES PLEDGED TO SECURE DEBT

All water fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure 2002 Water Revenue Bonds which have a remaining balance of \$261,959 at December 31, 2014. This debt was incurred to cover the cost of water improvements. The bonds will mature in 2042. In 2014 this debt had pledged revenue of \$42,451 and total payments of \$17,032. See page 34.

All sewer fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure 2010 Sewer Revenue Bonds which have a remaining balance of \$336,146 at December 31, 2014. This debt was incurred to cover the cost of sewer improvements. The bonds will mature in 2032. In 2014 this debt had pledged revenue of \$42,177 and total payments of \$25,034. See page 34.

9. INTERFUND TRANSFERS

In 2013 the general fund transferred \$54,012 to the 2nd cent fund for park improvements.

10. DEFICIT FUND BALANCE:

At December 31, 2014 the TIF #2 Debt Service fund had a deficit fund balance of \$8,317 because the City has been paying out more for principal and interest payments than it has received in property taxes. Generally, the City's obligation for TIF indebtedness is limited to amounts received from property taxes. However, the City does expect this deficit to be corrected in 2015 and later years from the collection of property taxes.

11. REVOLVING LOAN CASH

In September 2007 to City received a \$99,900 RBEG grant from Rural Development to establish a revolving loan fund. The City contributed \$5,000 to the fund. With this funding a revolving loan of \$100,000 was made to a local business at 1% payable at \$460.34 a month for 20 years. In 2014 an additional \$5,000 was advanced.

Revolving loan cash activity was:

	2014	2013
Payments received	4,343	3,499
New loan made	(5,000)	
	-----	-----
Net change	(657)	3,499
Beginning cash	26,200	22,701
	-----	-----
Ending cash	25,543	26,200

12. WATER PURCHASE AGREEMENT

The City of Elkton entered into a 40 year agreement with Brookings-Deuel Rural Water System (BDRWS) to provide water to the City. The agreement expires July 3, 2015. A monthly service charge in the amount of \$410 is paid by the City to BDRWS along with a charge of \$1.65 per 1,000 gallons of water consumed and \$250 per month as an equitable share of pre-existing facilities. The monthly service charge represents a contribution by the City to aid BDRWS in the construction of the facilities necessary to provide the City with water. The City will not acquire ownership of any of these water facilities with these payments. Payments are made from the City's water fund. The following is the minimum future payment due on the agreement: \$2,460 due in 2015.

### 13. RETIREMENT PLAN

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

Covered employees are required by statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% 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 ending December 31, 2014, 2013, and 2012 were \$5,650, \$5,465 and \$5,223 (employer's share) respectively, equal to the required contributions each year.

There are no deferred contributions.

### 14. PROPERTY TAX

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

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

### 15. RISK MANAGEMENT

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

#### Employee Health Insurance:

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

#### Liability Insurance:

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

#### Worker's Compensation:

The City joined the South Dakota Municipal League Workers' Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$250,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,750,000 per individual per incident.

The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospective rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The City may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs.

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

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the two years ending December 31, 2014, no claims for unemployment benefits were paid. At December 31, 2014, no claims have been filed for unemployment benefits and none are anticipated in the 2015 year.

16. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The City is not involved in any significant litigation.

The City does not offer any Other Post Employment Benefits.

The City does not have any material related party transactions.

The city has a rubble site. It does not have a landfill with any associated closure costs or liabilities.

In February 2015 the Council approved the purchase of a new water leak detector for approximately \$4,000 to \$5,000.

In May 2015 the Council appointed 5 new members to the Elkton Housing & Redevelopment Commission Board with terms of 1, 2, 3, 4, and 5 years.

In May 2015 the new Elkton Housing & Redevelopment Commission Board decided to sell the Commission's 2 quadraplexes and look into low income housing options for the City of Elkton.

## CITY OF ELKTON

## SUPPLEMENTARY INFORMATION

## BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

FOR THE YEAR ENDING DECEMBER 31, 2014

GENERAL FUND	Budgeted Amounts			Actual: Budgetary Basis	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental: Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Ad valorem taxes	287,096		287,096	195,938	(91,158)
General sales and use taxes				90,369	90,369
Amusement tax				84	84
Licenses and permits:	300		300	676	376
Intergovernmental receipts:	29,650		29,650		(29,650)
State shared receipts:					
Bank franchise tax				3,991	3,991
Liquor tax revision				4,681	4,681
Titles and registration				7,230	7,230
Highway and bridge				27,930	27,930
County shared receipts:				6,469	6,469
Charges for goods and services:	45,900		45,900		(45,900)
General government					0
Sanitation collection				43,925	43,925
Culture and recreation	3,450		3,450	472	(2,978)
Miscellaneous receipts:	9,500		9,500		(9,500)
Interest received				4,022	4,022
Rents and franchise fees				7,178	7,178
Revolving loan payments				4,343	4,343
Donations				1,493	1,493
Other	16,800		16,800	5,612	(11,188)
Total receipts	392,696	0	392,696	404,413	11,717
Disbursements:					
General government:					
Mayor and Council	23,750		23,750	22,940	810
Contingency	15,000		15,000		15,000
Amount transferred		(8,400)	(8,400)		(8,400)
Elections	750		750	40	710
Financial administration	89,500		89,500	79,779	9,721
Government buildings	33,750		33,750	23,814	9,936
Public safety:					
Police	34,000		34,000	32,647	1,353
Fire	18,700		18,700	16,210	2,490
Public works:					
Highways and Streets	99,000		129,000	132,989	(3,989)
Sanitation	42,400		42,400	41,473	927
Health and welfare:					
Mosquito spraying	2,000		2,000		2,000
Ambulance	5,700		5,700	4,781	919
Culture and recreation:					
Parks and recreation	18,200	8,400	26,600	28,532	(1,932)
Library	16,970		16,970	15,593	1,377
Economic development:	10,000		10,000	5,000	5,000
Total disbursements	409,720	0	439,720	403,798	35,922
Excess of receipts over (under) disbursements	(17,024)	0	(30,000)	615	47,639
Other financing sources (uses):					
None			0		0
Net change in fund cash balance	(17,024)	0	(47,024)	615	47,639
Fund cash balance:					
January 1, 2014	79,615		79,615	79,615	0
December 31, 2014	62,591	0	32,591	80,230	47,639

## CITY OF ELKTON

SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
 FOR THE YEAR ENDING DECEMBER 31, 2013

GENERAL FUND	Budgeted Amounts			Actual: Budgetary Basis	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental: Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Ad valorem taxes	287,096		287,096	196,782	(90,314)
General sales and use taxes				82,913	82,913
Amusement tax				96	96
Licenses and permits:	300		300	494	194
Intergovernmental receipts:	29,650		29,650		(29,650)
State shared receipts:					
Bank franchise tax				2,778	2,778
Liquor tax revision				4,358	4,358
Titles and registration				6,298	6,298
Highway and bridge				24,557	24,557
County shared receipts:				6,399	6,399
Charges for goods and services:	45,900		45,900		(45,900)
General government				300	300
Sanitation collection				43,917	43,917
Culture and recreation	3,450		3,450	522	(2,928)
Miscellaneous receipts:	9,500		9,500		(9,500)
Interest received				1,314	1,314
Rents and franchise fees				5,688	5,688
Revolving loan payments				3,439	3,439
Donations				20	20
Other	19,494		19,494	6,523	(12,971)
Total receipts	395,390	0	395,390	386,398	(8,992)
Disbursements:					
General government:					
Mayor and Council	19,320		19,320	19,394	(74)
Contingency	15,000		15,000		15,000
Amount transferred		(13,651)	(13,651)		(13,651)
Elections	750		750	33	717
Financial administration	83,100	820	83,920	84,325	(405)
Government buildings	20,250		20,250	13,809	6,441
Public safety:					
Police	32,000		32,000	30,241	1,759
Fire	21,200		21,200	17,939	3,261
Public works:					
Highways and Streets	96,000	5,100	101,100	95,882	5,218
Sanitation	41,100	300	41,400	41,370	30
Health and welfare:					
Mosquito spraying	2,000		2,000		2,000
Ambulance	5,700		5,700	2,892	2,808
Culture and recreation:					
Parks and recreation	23,200	7,431	20,000	50,631	39
Library	15,770		15,770	15,545	225
Economic development:	20,000		20,000	9,110	10,890
Total disbursements	395,390	0	415,390	381,132	34,258
Excess of receipts over (under) disbursements	0	0	(20,000)	5,266	25,266
Other financing sources (uses):					
Transfer (out)			0	(54,012)	(54,012)
Net change in fund cash balance	0	0	(20,000)	(48,746)	(28,746)
Fund cash balance:					
January 1, 2013	128,361		128,361	128,361	0
December 31, 2013	128,361	0	108,361	79,615	(28,746)

CITY OF ELKTON

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

2ND CENT SALES TAX FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
<b>Receipts:</b>					
General sales taxes	90,000		90,000	90,369	369
<b>Total receipts</b>	<b>90,000</b>	<b>0</b>	<b>90,000</b>	<b>90,369</b>	<b>369</b>
<b>Disbursements:</b>					
Public works: streets	35,000		35,000	35,000	0
Debt service - principal	30,615		30,615	30,614	1
- interest	4,713		4,713	4,713	0
<b>Total disbursements</b>	<b>70,328</b>	<b>0</b>	<b>70,328</b>	<b>70,327</b>	<b>1</b>
<b>Excess of receipts over (under) disbursements</b>	<b>19,672</b>	<b>0</b>	<b>19,672</b>	<b>20,042</b>	<b>370</b>
<b>Other financing sources (uses):</b>					
None			0		0
<b>Change in fund balance</b>	<b>19,672</b>	<b>0</b>	<b>19,672</b>	<b>20,042</b>	<b>370</b>
<b>Fund balance:</b>					
January 1, 2014	169,525		169,525	169,525	0
December 31, 2014	189,197	0	189,197	189,567	370

FOR THE YEAR ENDING DECEMBER 31, 2013

	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
<b>Receipts:</b>					
General sales taxes	90,000		90,000	82,913	(7,087)
<b>Total receipts</b>	<b>90,000</b>	<b>0</b>	<b>90,000</b>	<b>82,913</b>	<b>(7,087)</b>
<b>Disbursements:</b>					
Public works: streets	50,000		50,000	20,322	29,678
Parks and recreation		54,095	54,095	54,012	83
Debt service - principal	28,473		28,473	28,472	1
- interest	6,472		6,472	6,472	0
<b>Total disbursements</b>	<b>84,945</b>	<b>54,095</b>	<b>139,040</b>	<b>109,278</b>	<b>29,762</b>
<b>Excess of receipts over (under) disbursements</b>	<b>5,055</b>	<b>(54,095)</b>	<b>(49,040)</b>	<b>(26,365)</b>	<b>22,675</b>
<b>Other financing sources (uses):</b>					
Transfer in			0	54,012	54,012
<b>Change in fund balance</b>	<b>5,055</b>	<b>(54,095)</b>	<b>(49,040)</b>	<b>27,647</b>	<b>76,687</b>
<b>Fund balance:</b>					
January 1, 2013	141,878		141,878	141,878	0
December 31, 2013	146,933	(54,095)	92,838	169,525	76,687

CITY OF ELKTON

BUDGETARY SUPPLEMENTARY INFORMATION

NOTES TO THE BUDGETARY COMPARISON SCHEDULES FOR THE GENERAL FUND  
AND SPECIAL REVENUE FUNDS FOR THE TWO YEARS ENDING DECEMBER 31, 2014

1. BUDGETS AND BUDGETARY ACCOUNTING

The City of Elkton (City) follows these procedures in establishing the budgetary data reflected in the budgetary supplementary information:

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2014 there was one supplemental budget to the general fund. See page 30. During 2013 there was one supplemental budget to the general fund. See page 31.
- e. Formal budgetary integration is employed as a management control device for the general fund and special revenue funds.
- f. Budgets for the general fund and special revenue funds are not adopted on a basis consistent with generally accepted accounting principles (GAAP) because all accounting, and the adoption of the all budgets, is on a modified cash basis of accounting.

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE:

The financial statements prepared in conformity with US-GAAP (within the context of the modified cash basis of accounting) present capital outlay disbursement information as a separate category of disbursements. Under the budgetary basis of accounting, capital outlay disbursements are reported within the function to which they relate. For example, the purchase of a road grader would be reported as a capital outlay disbursement in the governmental funds statement of receipts, disbursements and changes in fund cash balance. However, in the budgetary supplementary information schedule, the purchase of a road grader would be reported as a disbursement in the public works function of general fund, along with all other current public works disbursements.

CITY OF ELKTON

SUPPLEMENTAL INFORMATION  
 SCHEDULE OF CHANGES IN LONG-TERM DEBT  
 FOR THE TWO YEARS ENDING DECEMBER 31, 2014

	Beginning 12-31-12	2013 Additions (Deletions)	2014 Additions (Deletions)	Ending Governmental Funds 12-31-14	Ending Enterprise Funds 12-31-14	Principal Due in 2015
<b>GOVERNMENTAL</b>						
2007 Fire Truck Bank Loan: Original Amount of \$152,864 Maturing on April 1, 2017 Interest at 5.06% Purpose: Fire truck purchase Township pay fire department for 1/2 of this payment plus extra City's 1/2 share paid by 2nd cent fund	61,241	(6,672)	(8,374)	32,509		15,492
2000 Sales Tax Revenue Bonds: Original Issues of \$250,000 Maturing on December 1, 2015 Interest at 6.5% Purpose: Street improvements Paid by the 2nd cent fund	70,400	(21,800)	(23,600)	25,000		25,000
2007 Bank Loan for TIF #2: Original Amount of \$95,350 Maturing on December 31, 2027 Interest at 5.25% Purpose: Remodel retail store Secured by TIF #2 tax receipts Paid by TIF #2 debt service f	71,610	(4,011)	(4,134)	63,465		4,454
2009 TIF #3 Developer Contribution: Original Amount of \$687,464 Maturing in 2027 Interest at 6.50% Purpose: Subdivision improvements Secured by TIF #3 tax receipts Paid by TIF #3 debt service f	662,462	(46,140)	(19,939)	596,383		21,235
<b>Totals</b>	<b>865,713</b>	<b>(85,295)</b>	<b>(63,061)</b>	<b>717,357</b>		<b>66,181</b>
<b>BUSINESS-TYPE</b>						
2002 Water Utility Revenue Bonds: (RD) Original Issues of \$257,800 Maturing on August 8, 2042 Interest at 4.75% Purpose: Water tower construction Paid by the water fund	270,523	(4,183)	(4,381)		261,959	4,590
2010 Clean Water Revenue Bond: (SRF) Original Issues of \$510,000 Maturing on January 15, 2032 Interest and fees at 3.00% Purpose: Wastewater Treatment System Improvements Loan forgiveness of \$130,000 in 2012 Paid by the sewer fund	365,059	(14,240)	(14,673)		336,146	15,118
<b>Totals</b>	<b>635,582</b>	<b>(18,423)</b>	<b>(19,054)</b>		<b>598,105</b>	<b>19,708</b>

CITY OF ELKTON

SUPPLEMENTAL INFORMATION  
 SCHEDULE OF CHANGES IN LONG-TERM DEBT (continued)  
 FOR THE TWO YEARS ENDING DECEMBER 31, 2014

Payment Schedules:	Total Payment	Principal	Interest	Balance
<b>2007 Fire Truck Bank Loan:</b>				
2015	17,137	15,492	1,645	17,017
2016	17,137	16,275	862	742
2017	779	742	37	0
<b>Totals</b>	<b>35,053</b>	<b>32,509</b>	<b>2,544</b>	
<b>2000 Sales Tax Revenue Bonds:</b>				
2015	26,625	25,000	1,625	0
<b>2007 Bank Loan for TIF #2:</b>				
2015	7,786	4,454	3,332	59,011
2016	7,786	4,688	3,098	54,323
2017	7,786	4,934	2,852	49,389
2018	7,786	5,193	2,593	44,196
2019	7,786	5,465	2,321	38,731
2020-2024	38,929	31,945	6,984	6,786
2025	7,142	6,786	356	0
<b>Totals</b>	<b>85,001</b>	<b>63,465</b>	<b>21,536</b>	
<b>2009 TIF #3 Developer Contribution:</b>				
2015	60,000	21,235	38,765	575,148
2016	61,744	24,360	37,384	550,788
2017	63,597	27,796	35,801	522,992
2018	65,505	31,510	33,995	491,482
2019	67,470	35,523	31,947	455,959
2020-2024	368,952	249,832	119,120	206,127
2025-2027	232,784	206,127	26,657	0
<b>Totals</b>	<b>920,052</b>	<b>596,383</b>	<b>323,669</b>	
<b>2002 Water Utility Revenue Bonds:</b>				
2015	17,033	4,590	12,443	257,369
2016	17,033	4,808	12,225	252,561
2017	17,033	5,036	11,997	247,525
2018	17,032	5,275	11,757	242,250
2019	17,033	5,526	11,507	236,724
2020-2024	85,164	31,826	53,338	204,898
2025-2029	85,164	40,137	45,027	164,761
2030-2034	85,164	50,619	34,545	114,142
2035-2039	85,164	63,839	21,325	50,303
2040-2042	57,126	50,303	6,823	0
<b>Totals</b>	<b>482,946</b>	<b>261,959</b>	<b>220,987</b>	
<b>2010 Clean Water Revenue Bond:</b>				
2015	25,033	15,118	9,915	321,028
2016	25,034	15,576	9,458	305,452
2017	25,033	16,049	8,984	289,403
2018	25,034	16,536	8,498	272,867
2019	25,033	17,038	7,995	255,829
2020-2024	125,166	93,263	31,903	162,566
2025-2029	125,166	108,296	16,870	54,270
2030-2032	56,324	54,270	2,054	0
<b>Totals</b>	<b>431,823</b>	<b>336,146</b>	<b>95,677</b>	

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

Governing Board  
City of Elkton  
Elkton, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of governmental activities, business-type activities, and each major fund of the City of Elkton (City), Brookings County, South Dakota, as of December 31, 2014 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated May 6, 2016 which was an adverse opinion of a discretely presented component unit, modified opinions for governmental activities and the general fund and unmodified opinions for business-type activities and all other funds.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elkton's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of current audit findings and responses as items 2014-02 and 2014-04.

I did note other matters involving compliance that I reported to the governing body and management of the City of Elkton in a separate Letter of Comments dated May 6, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

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

A *significant deficiency*, is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did identify one deficiency in internal control that I consider to be material weaknesses, which is described in the accompanying schedule of current audit findings and responses as item 2014-04. Also, additional material weaknesses may exist that have not been identified.

I did identify deficiencies in internal control, described in the accompanying schedule of current audit findings and responses, that I consider to be significant deficiencies. I consider the deficiencies described in the accompanying schedule of current audit findings and responses as items 2014-01, 2014-02, and 2014-03 to be significant deficiencies.

I did note other matters involving internal control that I reported to the governing body and management of the City of Elkton in a separate Letter of Comments dated May 6, 2016.

#### Management's Response to Findings

Management's responses to the findings identified in my audit are described in the accompanying schedule of current audit findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

#### Purpose of this Report

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

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

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

May 6, 2016



SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit Findings:

There are no prior year federal compliance audit findings.

Prior Other Audit Findings:

2003-04 (lack of proper segregation of duties): Repeated below as 2014-01  
2003-06 (capital asset records): Repeated below as 2014-02  
2005-09 (preparation of financial statement): Repeated below as 2014-03  
2008-08 (fire and ambulance records): Repeated below as 2014-04

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Finding 2014-01: Lack of Proper Segregation of Duties  
(internal control)

**Criteria:**

The management of the City is responsible for establishing and maintaining an internal control structure to provide management and taxpayers with reasonable assurance: 1) that assets are safeguarded against loss from unauthorized use or disposition, 2) that transactions are executed in accordance with management's authorization, and 3) that transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles or other comprehensive basis of accounting.

A key element of an effective internal control structure is the separation of duties so one person isn't responsible of all aspects of a transaction.

**Condition:**

The finance officer processed most revenue transactions from beginning to end. The finance officer received money, issued receipts, recorded receipts, posted receipts in the accounting records, prepared bank deposits, and reconciled bank statements. As a result, an inadequate segregation of duties existed for the revenue function of the City of Elkton.

**Questioned Cost:**

None could be identified regarding this finding.

**Effect:**

Inadequate segregation of duties can lead to the misappropriation of funds.

**Recommendation:**

I recommend the City of Elkton's management be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever possible and practical.

**Management Response:**

Susan Schuurman, the City of Elkton's finance officer, is the contact person responsible for the corrective action plan for this comment. This comment is a result of the size of the entity, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. The City of Elkton is aware of this problem and is attempting to provide compensating controls whenever and wherever possible and practical. However, this lack of segregation of duties in the revenue function is expected to continue to exist.

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES (continued)

Finding 2014-02: Capital Asset Records  
(compliance and internal control)

**Criteria:**

Accounting standards established by SDCL 4-11-6 requires adequate records to support a city's capital asset amounts.

**Condition:**

The City does not have adequate capital asset records.

**Effect:**

Inadequate capital asset records can results in inaccurate financial reporting and, possibly, the misappropriation of funds.

**Recommendation:**

Management of the City should maintain adequate capital asset records.

**Management Response:**

The City of Elkton is in the process of updating its capital asset records.

Finding 2014-03: Preparation of Financial Statements  
(internal control)

**Criteria:**

A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

**Condition:**

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

**Effect:**

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

**Recommendations:**

This situation is not unusual for an entity of this City's size. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**Management Response:**

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

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES (continued)

**Finding 2014-04: Fire and Ambulance Department Records**  
(compliance and internal control)

**Criteria:**

Governmental Accounting Standards Board (GASB) requires that a government's general purpose financial statements include the activity of all entities related to that government. (GASB Codification Sec. 2600) Also, South Dakota Codified Laws 9-14-17 and 9-14-18 require the finance officer to keep regular books of account for all financial transactions. To fully comply with these statutes, the finance officer should have access to, or knowledge of, the balances and activity of bank accounts and books kept by the Elkton fire and ambulance departments.

**Condition:**

The fire and ambulance departments belongs to the City of Elkton. These departments keep their own books and records for fund raising activities to purchase equipment and support operations.

**Effect:**

Omission of cash and activity of the fire and ambulance departments' separate books and records results in (1) the understatement of balances and activities in the general fund and (2) related effects in the government-wide financial statements. This deficiency can lead to misappropriation of funds.

**Recommendation:**

All City departments, including the fire and ambulance departments, should comply with SDCL 9-14-17 and 9-14-18.

**Management Response:**

The City of Elkton will continue to attempt to get financial information from the fire and ambulance departments.