

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

INDEPENDENT AUDIT SERVICES, P.C.

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CITY OF ESTELLINE
ESTELLINE, SOUTH DAKOTA

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FOR THE ONE YEAR ENDING DECEMBER 31, 2014

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

INDEPENDENT AUDIT SERVICES, PC

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Governing Board
City of Estelline
Estelline, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Estelline (City), Hamlin County, South Dakota as of December 31, 2014 and for the one year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America - this includes the design, implementation, and maintenance of internal 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 amount 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 unmodified audit opinions on governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

Unmodified Opinions

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

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (page 3 to 8) and the budgetary comparison schedule (page 33 to 34) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the formation and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Matters - Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements.

The accompanying Combining Nonmajor Fund Financial Statements (page 35 to 37) are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The Combining Nonmajor Fund Financial Statements is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare these financial statements. This 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 Combining Nonmajor Fund Financial Statements is fairly stated in all material respects in relation to the financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 38) dated June 29, 2015 on my tests of City of Estelline's compliance with certain provisions of laws, regulations, contracts, grants 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



June 29, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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

FINANCIAL HIGHLIGHTS

Revenue:	
Charges for goods and services	4,557,417
Operating grants	0
Capital grants	0
General receipts	509,184

Total	5,066,601

Expenses:	
Governmental	446,289
Business-type	4,197,681

Total	4,643,970

Increase in Net Position	422,631
Net Position:	
December 31, 2013	7,284,023

December 31, 2014	7,706,654
	=====
Governmental Fund	
General	1,453,961
Capital Assets	224,273
Long-term Debt	(26,502)
Business-Type Funds:	
Water	1,774,324
Electric	1,202,242
Sewer	650,102
Solid Waste	0
Swimming pool	25,916
Estelline Nursing Care Center (ENCC)	2,041,370
Ambulance	360,968

Total	7,706,654
	=====

During the year ending December 31, 2014 the City:

- * Purchased an emergency siren for \$17,892.
- * Purchased a 1977 BOMAG roller for \$7,500.
- * Purchased two 2014 Hustler S Z mowers for \$7,500.
- * Purchased police equipment for \$5,745.
- * Purchased a well pump for \$5,555.
- * Purchased pool equipment for \$6,211.
- * Constructed a Memorial Gardens waterfall for \$13,300.
- * Paid-off the electrical upgrade bank note balance of \$108,100.
- * Paid-off the 1990 Rural Development loan balance of \$95,735.
- * Paid-off the 1997 Rural Development loan balance of \$121,059.
- * Paid down one sewer revenue bond by \$5,030 and two water revenue bonds by \$15,611.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This annual report consists of three parts: (1) management's discussion and analysis (page 3 to 8), (2) the basic financial statements (page 9 to 32) and (3) supplementary information (page 33 to 37). The basic financial statements include two types of statements that present the City from two different financial points of view.

Government-wide financial statements (View #1):

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

Fund financial statements (View #2):

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

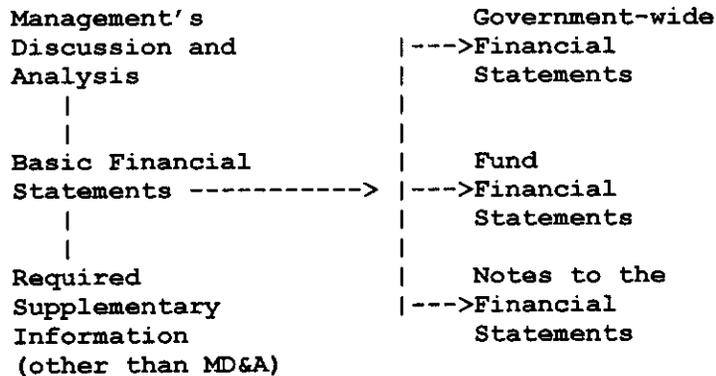
The governmental fund financial statements tell how governmental services were financed in the short-term, as well as what remains for future spending. Governmental funds operated by the City are the general fund and library fund.

The enterprise fund financial statements tell how business-like activities of the City operated using both short-term and long-term financial information. Major enterprise funds operated by the City are the water, electric, sewer, and nursing home funds. Non-major enterprise funds operated by the City are the solid waste, pool, and ambulance funds.

The fiduciary fund statements tell how the City executed fiduciary responsibilities where the City acts solely as trustee or agent for others to whom the fund resources belong. The City has two fiduciary funds, a Flex-One agency fund for Sec. 125 payroll deductions and an insurance deductible fund.

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

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



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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Enterprise Funds	Fiduciary Funds
Scope	Entire City (except fiduciary funds)	City activities except Enterprise (ie: water) and Fiduciary	Activities operated like a private business (ie: water)	City's custody of money that belongs to others
Required Financial Statements	Statement of Net Position	Balance Sheet	Statement of Net Position	Statement of Fiduciary Net position
	Statement of Activities	Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Revenues, Expenses and Changes in Net Position Statement of Cash Flows	
Basis of Accounting	Accrual	Modified accrual	Accrual	Accrual
Measurement Focus	Economic resources	Current financial resources	Economic resources	Economic resources
Types of Assets & Liabilities	All - financial and capital, short- and long-term	Only current financial assets and liabilities No capital assets	All - financial and capital, short- and long-term	All - financial and capital (if any), short- and long-term
Types of Revenue and Expenditures or Expense	All - regardless of when cash is received	Revenues when cash is received during year or within 60 days of year-end Expenditures when goods or services are received and payment is due during year or soon after year-end	All - regardless of when cash is received	All - regardless of when cash is received

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

The government-wide statements (page 9 and 10) report information about the City as a whole using accounting methods similar to those used for private companies. There are two government-wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position includes all of the government's assets and liabilities. Net Position is the difference between assets and liabilities. Changes in these accounts is one way to measure the City's financial health. Increases or decreases in net position measures improvements or declines in the City's financial health. To assess the City's overall financial health you also need to consider other factors such as changes in property tax base, sale of assets, and/or grant activity.

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

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

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

The business-type activities account for the City's water, electric, sewer, nursing home, solid waste, pool, and ambulance operations. These operations are funded mostly by user fees.

FUND FINANCIAL STATEMENTS

(Reporting the City's most significant funds)

The fund financial statements (page 11 to 16) provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting tools used to keep track of the receipt and disbursement of City resources. State law requires the use of some funds and the City Council establishes other funds to manage money for a specific purpose, like a capital project fund for a new building.

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

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

Enterprise funds: Services for which the City charges customers a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both short-term and long-term financial information. The City's enterprise funds provide water, electric, sewer, nursing home, solid waste, pool, and ambulance services.

Fiduciary funds: The City is the trustee (or fiduciary) for various external and internal parties. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The City's fiduciary activity is reported in a separate statement of fiduciary net position. (page 16) The fiduciary funds are excluded from the City's government-wide financial statements because the City cannot use those assets to finance City operations.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

In 2014 the City adopted a general fund budget of \$498,855 which is an increase of \$46,122 or 10.18% from 2013. The increase was largely in streets. There were no supplemental appropriations. See page 33 for more information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

At December 31, 2014, the City had invested \$4,749,657 in a broad range of capital assets, including land, buildings, improvements and equipment. This amount represents a net decrease (including additions and deductions) of \$166,754 or 3.39% from December 31, 2013.

Significant capital asset activity is reported above. See page 30 for more information.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

The City did not incur any additional debt in 2014. The City is current on all long-term debt. Significant long-term debt activity is reported above. See page 31 and 32 for more information.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

(Material changes for governmental activities = changes greater than \$ 30,000)

(Material changes for business-type activities = changes greater than \$250,000)

	Increase (Decrease)	Reason
Governmental Activities:		
Current assets	(51,000)	An increase in cash from operations less a net transfer out to the sewer fund.
Public works	34,000	Completed a street project for \$40,635.
Net transfer out	178,000	Transferred \$212,823 to sewer fund to pay-off two loans.
Business-type Activities:		
Current assets	297,000	An increase in cash from operations plus a net transfer in from the general fund.
Current liabilities	(285,000)	Paid-off three loans.
Charges for services	288,000	Increase in nursing home revenue.
Nursing home expenses	(303,000)	Increase in nursing home expenses.
Net transfer in	178,000	Transferred \$212,823 to sewer fund to pay-off two loans.

CURRENTLY KNOWN FACTS

In January 2015 the City let a bid to replace the nursing home roof for \$79,880.

In February 2015 the City approved repairs to the nursing home kitchen of \$19,000.

In June 2015 the City purchased a second warning siren for \$18,471.

In 2015 the City will receive a \$5,000 grant from Heartland Consumer Power for street light replacements.

In 2015 the City expects to receive a Safe Routes to Schools grant for which the City will be responsible for approximately \$10,000 of the costs.

In 2015 the City began doing its own ambulance billing with services offered by nursing home personnel.

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 Estelline's business office at P.O. Box 278, Estelline, SD 57234.

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

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Assets:						
Current assets	1,452	1,503	3,238	2,941	4,690	4,444
Capital assets	224	208	4,525	4,708	4,749	4,916
Total	1,676	1,711	7,763	7,649	9,439	9,360
Liabilities:						
Current liabilities	24	26	162	447	186	473
Long-term debt outstanding			1,546	1,603	1,546	1,603
Total	24	26	1,708	2,050	1,732	2,076
Net Position:						
Net invested in capital assets	224	208	3,175	3,011	3,399	3,219
Restricted			156	93	156	93
Unrestricted	1,428	1,477	2,724	2,495	4,152	3,972
Total	1,652	1,685	6,055	5,599	7,707	7,284

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

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	62	64	4,495	4,207	4,557	4,271
Operating grants					0	0
Capital grants					0	0
General revenues:						
Property taxes	245	237			245	237
Sales taxes	143	154			143	154
State sources	38	35			38	35
County sources	2	2			2	2
Interest earnings	18	23	23	28	41	51
Rents and franchise fee	40	40			40	40
Donations				2	0	2
Miscellaneous	1				1	0
Total revenues	549	555	4,518	4,237	5,067	4,792
Expenses:						
General government	148	149			148	149
Public safety	134	122			134	122
Public works	135	101			135	101
Health and welfare	10	11			10	11
Culture and recreation	13	8			13	8
Economic development	6	16			6	16
Water			153	142	153	142
Electric			555	584	555	584
Sewer			68	73	68	73
Nursing home			3,299	2,996	3,299	2,996
Other			123	112	123	112
Total expenses	446	407	4,198	3,907	4,644	4,314
Revenues over (under) expenses	103	148	320	330	423	478
Transfers	(136)	42	136	(42)	0	0
Sale of assets		1		1	0	2
Net position increase (decrease)	(33)	191	456	289	423	480
Net position:						
December 31, 2012		1,494		5,310		6,804
December 31, 2013	1,685	1,685	5,599	5,599	7,284	7,284
December 31, 2014	1,652		6,055		7,707	

CITY OF ESTELLINE

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

	Primary Government		Total
	Governmental Activities	Business- Type Activities	
ASSETS:			
Current assets:			
Cash and cash equivalents	1,410,024	2,678,588	4,088,612
Certificates of deposit	6,530	14,585	21,115
Taxes receivable - delinquent	6,942		6,942
Due from other governments	7,335		7,335
Accounts receivable	4,236	323,838	328,074
Inventory of supplies	16,744	57,368	74,112
Internal balances	0	0	0
Restricted assets:			
Cash and cash equivalents		162,918	162,918
Capital assets:			
Land	34,000	96,930	130,930
Other capital assets, net of accumulated depreciation	190,273	4,428,454	4,618,727
Total assets	1,676,084	7,762,681	9,438,765
LIABILITIES:			
Current liabilities:			
Accounts payable	(2,150)	126,429	124,279
Customer deposits		7,250	7,250
Resident deposits (ENCC)		7,179	7,179
Noncurrent liabilities:			
Leave liability	26,502	216,045	242,547
Due within one year		20,985	20,985
Due in more than one year		1,329,871	1,329,871
Total liabilities	24,352	1,707,759	1,732,111
NET POSITION:			
Net investment in capital assets	224,273	3,174,528	3,398,801
Restricted for:			
Debt service		62,208	62,208
Asset replacement (RD)		93,531	93,531
Unrestricted	1,427,459	2,724,655	4,152,114
Total net position	1,651,732	6,054,922	7,706,654

See accompanying notes.

CITY OF ESTELLINE

BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2014

	General Fund (1)

ASSETS:	
Cash and cash equivalents	1,410,024
Certificates of deposit	6,530
Property taxes receivable	6,942
Due from other governments	7,335
Accounts receivable	4,236
Inventory of supplies	16,744

Total assets	1,451,811
	=====
LIABILITIES:	
Accounts payable	(2,150)

Total liabilities	(2,150)
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	6,942

Total deferred inflows of resources	6,942
FUND BALANCE:	
Nonspendable	16,744
Restricted	0
Committed	0
Assigned to:	
Library	1,000
125th Celebration	5,530
Unemployment	4,086
Fire department (cash)	56,997
Unassigned	1,362,662

Total fund balance	1,447,019
Total liabilities, deferred inflows of resources and fund balance	1,451,811
	=====
Reconciliation of the above balance sheet - governmental funds to the government-wide statement of net position	
Total fund balance - governmental funds (above)	1,447,019
Amounts reported in the government-wide statement of net assets are different because:	
Capital assets and other assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Capital assets are:	657,479
Less: accumulated depreciation	(433,206)
Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds.	
	6,942
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long term liabilities at year end consist of:	
Accrued leave payable	(26,502)

Total net position on government-wide statement of net position	1,651,732
	=====

(1) Only governmental fund.

See accompanying notes.

CITY OF ESTELLINE

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

	General Fund (1)

Revenue:	
Revenue from local sources:	
Taxes:	
Ad valorem taxes	249,602
General sales and use taxes	142,831
Amusement taxes	12
Penalties and interest	1,886
Licenses and permits:	17,982
Intergovernmental revenue:	
State shared revenue:	
Bank franchise tax	1,359
Commercial prorate	1,951
Liquor tax reversion	4,491
Motor vehicle licenses (5%)	11,361
Highway and bridge	18,876
County shared revenue:	
Road taxes	1,827
Charges for goods and services:	
Fire	21,228
Landfill and refuse collection	4,780
Health and welfare	15,000
Recreation	3,309
Fines and forfeits:	0
Miscellaneous revenue:	
Interest earned	17,750
Rental and franchise	40,209
Special assessments	220
Other	722

Total revenues	555,396

Expenditures:	
General government:	
Mayor and Council	20,434
Financial administration	87,078
Other	38,652
Public safety:	
Police	102,060
Fire	28,512
Public works:	
Highways and streets	118,402
Sanitation	5,293
Health and welfare:	
West Nile	1,493
Ambulance	1,900
Culture and recreation:	
Recreation	2,547
Parks	9,318
Economic development	6,286
Capital outlays	38,637

Total expenditures	460,612

Excess of revenues over (under) expenditures	94,784
Other financing sources (uses):	
Transfers in from electric fund	77,024
Transfers (out) to sewer fund	(212,824)

Net change in fund balance	(41,016)
Fund balance:	
January 1, 2014	1,488,035
December 31, 2014	1,447,019
	=====
Reconciliation of the above statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities.	
Amounts reported in the government-wide statement of net position are different because:	
Net change in fund balances - total governmental funds (above)	(41,016)
Governmental funds report capitalized cost as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation.	
2014 capitalized cost are	38,636
2014 depreciation is	(22,734)
Some property taxes will not be collected for several months after the City's year-end. Therefore, they are not considered "available" revenues and are deferred in the governmental funds statement.	(6,450)
Governmental funds do not reflect the change in "accrued leave", but the statement of activities reflects the change in "accrued leave" through expenditures.	(1,579)
Change in net position on government-wide statement of activities	(33,143)
	=====

(1) Only governmental fund.
See accompanying notes.

CITY OF ESTELLINE

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

	Water Fund	Electric Fund	Sewer Fund	Nursing Home Fund	Other Enterprise Funds	Total Enterprise Funds
ASSETS:						
Current assets:						
Cash and cash equivalents	170,737	396,389	64,395	1,748,305	298,762	2,678,588
Certificates of deposit		500			14,085	14,585
Accounts receivable	19,947	144,541	15,917	134,334	9,099	323,838
Due from other funds		4,311				4,311
Inventory of supplies	7,235	5,179	8,900	36,054		57,368
Total current assets	197,919	550,920	89,212	1,918,693	321,946	3,078,690
Noncurrent assets:						
Cash and cash equivalents, restricted	59,991		95,748	7,179		162,918
Capital assets:						
Land	2,000	1,500	66,500	26,930		96,930
Buildings	68,160	115,524	30,524	1,040,635	27,118	1,281,961
Improvements	2,885,930	1,321,029	1,314,873	335,445	155,530	6,012,807
Equipment	52,786	86,835	17,741	703,524	100,088	960,974
Accumulated depreciation	(463,392)	(820,385)	(635,804)	(1,698,846)	(208,861)	(3,827,288)
Total noncurrent assets	2,605,475	704,503	889,582	414,867	73,875	4,688,302
Total assets	2,803,394	1,255,423	978,794	2,333,560	395,821	7,766,992
LIABILITIES:						
Current liabilities:						
Accounts payable	1,407	42,603	(1,914)	79,707	4,626	126,429
Due to other funds					4,311	4,311
Customer deposits		7,250		7,179		14,429
Current portion of:						
Long-term debt	15,865		5,120			20,985
Total current liabilities	17,272	49,853	3,206	86,886	8,937	166,154
Noncurrent liabilities:						
Noncurrent portion of long-term debt	1,007,714		322,157			1,329,871
Leave liability	4,084	3,328	3,329	205,304	0	216,045
Total noncurrent liabilities	1,011,798	3,328	325,486	205,304	0	1,545,916
Total liabilities	1,029,070	53,181	328,692	292,190	8,937	1,712,070
NET POSITION						
Net investment in capital assets	1,521,905	704,503	466,557	407,688	73,875	3,174,528
Restricted:						
Debt service	46,452		15,756			62,208
Asset replacement (RD)	13,539		79,992			93,531
Unrestricted	192,428	497,739	87,797	1,633,682	313,009	2,724,655
Total net position	1,774,324	1,202,242	650,102	2,041,370	386,884	6,054,922

See accompanying notes.

CITY OF ESTELLINE

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

	Water Fund	Electric Fund	Sewer Fund	Nursing Home Fund	Other Enterprise Fund	Total Enterprise Funds
Operating revenue:						
Charges for goods and services	131,429	715,872	96,000	3,455,188	96,629	4,495,118
Total operating revenue	131,429	715,872	96,000	3,455,188	96,629	4,495,118
Operating expenses:						
Personal services	26,568	29,022	24,481	2,530,642	14,254	2,624,967
Other current services	31,398	15,624	6,199	697,448	38,805	789,474
Cost of goods sold		475,766			50,950	526,716
Depreciation	63,751	32,971	22,201	70,836	18,680	208,439
Total operating expenses	121,717	553,383	52,881	3,298,926	122,689	4,149,596
Total operating income (loss)	9,712	162,489	43,119	156,262	(26,060)	345,522
Nonoperating revenue (expense):						
Interest earnings	733	1,603	1,170	16,224	2,807	22,537
Interest expense and fees	(30,841)	(1,964)	(15,280)			(48,085)
Total nonoperating revenue (expense)	(30,108)	(361)	(14,110)	16,224	2,807	(25,548)
Income (loss) before transfers	(20,396)	162,128	29,009	172,486	(23,253)	319,974
Transfers in			212,824		28,660	241,484
Transfers (out)		(105,684)				(105,684)
Change in net position	(20,396)	56,444	241,833	172,486	5,407	455,774
Net position:						
January 1, 2014	1,794,720	1,145,798	408,269	1,868,884	381,477	5,599,148
December 31, 2014	1,774,324	1,202,242	650,102	2,041,370	386,884	6,054,922

See accompanying notes.

CITY OF ESTELLINE

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

	Water Fund	Electric Fund	Sewer Fund	Nursing Home Fund	Other Enterprise Fund	Total Enterprise Funds
Cash flows from:						
Operating activities:						
Receipts from customers	116,864	654,421	81,003	3,472,838	96,820	4,421,946
Estimated rec. from other funds	15,150	70,700	15,150		0	101,000
Payments to employees	(26,712)	(29,060)	(25,089)	(2,508,890)	(14,254)	(2,604,005)
Payments to suppliers	(23,665)	(497,403)	(4,121)	(632,816)	(89,324)	(1,247,329)
Estimated pymts. to other funds	(5,506)		(2,090)	(63,075)	(3,611)	(74,282)
Net cash provided (used) by operating activities	76,131	198,658	64,853	268,057	(10,369)	597,330
Noncapital financing activities:						
Transfers in			212,824		28,660	241,484
Transfers (out)		(105,684)				(105,684)
Due (from)/to other funds		(4,093)			4,093	0
Capital financing activities:						
Cash paid for improvements	(5,555)		552	(13,611)		(18,614)
Cash paid for equipment		(960)			(6,212)	(7,172)
Principal paid on debt	(15,611)	(108,100)	(221,824)			(345,535)
Interest paid on debt	(30,841)	(1,964)	(15,280)			(48,085)
Investing activities:						
Interest earnings	733	1,603	1,170	16,224	2,807	22,537
Purchased certificate of deposits					(21)	(21)
Net increase (decrease) in cash	24,857	(20,540)	42,295	270,670	18,958	336,240
Cash:						
January 1, 2014	205,871	416,929	117,848	1,484,814	279,804	2,505,266
December 31, 2014	230,728	396,389	160,143	1,755,484	298,762	2,841,506
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	9,712	162,489	43,119	156,262	(26,060)	345,522
Depreciation	63,751	32,971	22,201	70,836	18,680	208,439
(Increase) decrease in:						
Receivables	585	9,249	153	28,130	191	38,308
Inventory	1,532	90		(83)		1,539
Increase (decrease) in:						
Accounts payable	695	(6,103)	(12)	1,640	(3,180)	(6,960)
Payroll deductions	(104)	134	(437)	315		(92)
Customer deposits				(1,473)		(1,473)
Pre-paid rents				(10,480)		(10,480)
Leave liability	(40)	(172)	(171)	22,910		22,527
Net cash provided (used) by operating activities	76,131	198,658	64,853	268,057	(10,369)	597,330

Noncash investing, capital and
financing activities: None

See accompanying notes.

CITY OF ESTELLINE

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 - AGENCY FUND
 AS OF DECEMBER 31, 2014

	Flex-One Fund	Insurance Fund	Total Agency Funds
	-----	-----	-----
Assets:			
Cash	8,900	12,130	21,030
	-----	-----	-----
Total assets	8,900	12,130	21,030
	=====	=====	=====
Liabilities:			
Due to others	8,900	12,130	21,030
	-----	-----	-----
Total liabilities	8,900	12,130	21,030
	=====	=====	=====

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity:

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

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

Governing Board:	Finance Officer:
Dan DeWitt, Mayor	Mary Saathoff
Julie Rieckman, President	
Chris Lilla	ENCC Administrator:
Ryan Miller	Michael Ward
Paul Setnes	
Wayne Wegner	Attorney:
Donald Zafft	Todd Boyd

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

Financial Reporting Entity:
Primary Government: - The City of Estelline
Component Unit: - None

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

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

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

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

b. Basis of Presentation:

Government-wide Financial Statements:

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

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

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

Fund Financial Statements:

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

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

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.

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:

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

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

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

Solid Waste Fund - A fund established by SDCL 9-32-11 and 34A-6 to account for the collection and disposal of solid waste from the municipality. The solid waste fund is not a major fund.

Swimming pool fund - A fund established by SDCL 9-28-60 and 69 to operate a municipal swimming pool. The swimming pool fund is not a major fund.

Health Care Funds:

Estelline Nursing & Care Center fund - A fund established by SDCL 28-18-7 to provide operation of a nursing facility in the City of Estelline. The Estelline Nursing & Care Center fund is a major fund.

Ambulance fund - A fund established by SDCL 34-9-11 and 28-18-7 to provide ambulance services. The ambulance fund is not 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 maintains an agency fund (Flex One) to account for employee withholdings for medical and daycare spending accounts under IRS code section 125 and an agency fund for insurance deductibles.

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

Basis of Accounting

Government-wide Financial Statements:

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

Fund Financial Statements:

In the fund financial statements, all governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The City's availability period for accruing and recording revenues is 30 days. The revenues which are accrued at December 31, 2014 are state shared revenue and other accounts receivable.

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

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

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

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

e. Interfund Transactions:

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

f. Cash and Cash Equivalents:

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

For the year ending December 31, 2014, all enterprise fund deposits and investments are considered to be cash and cash equivalent for purposes of the statement of cash flow except certificates of deposit totaling \$500 held for the electric fund and \$14,085 held for the ambulance fund because their maturity when purchased was longer than three months and they are not part of a pool.

g. Capital Assets and Infrastructure assets:

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

Government-wide Financial Statements:

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

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

The total December 31, 2014 balance of capital assets for governmental activities include approximately 15% for which the costs were determined by estimates of the original costs. The total December 31, 2014 balance of capital assets for business-type activities includes approximately 10% for which the costs were determined by estimates of the original costs. Estimated original costs were established by basing the estimates on a comparison to historical costs of similar items.

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities and the enterprise fund statement of revenue, expenses and changes in net position. Accumulated depreciation is reported on the government-wide statement of net position and on the enterprise fund's statement of net position. See also page 30.

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

	Capitalization Threshold	Depreciation Method	Estimated Life in Years
	-----	-----	-----
Land	All		NA
Buildings	All	Straight-line	33-50
Improvements	5,000	Straight-line	10-50
Equipment	1,000	Straight-line	3-30

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

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

h. Long-term Liabilities:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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

Program Revenue

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

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

2. Program-specific operating grants and contribution - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contribution - These arise from mandatory and voluntary non-exchange transactions with other government, organization, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

General Revenue

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

Deferred Inflows and Deferred Outflows of Resources

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

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

j. Enterprise Fund Revenue and Expense Classifications:

In the government-wide and fund financial statements, enterprise revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

k. Equity Classifications:

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

1. Fund Balance Classification Policies and Procedures:

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

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

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

<u>Fund Balance</u> <u>Classifications</u>	<u>Account</u> <u>or Fund</u>	<u>Authority</u> <u>or Action</u>	<u>Amount</u>
Nonspendable	Inventory		16,744
Restricted	None		0
Committed	None		0
Assigned	General:		
	Library	Resolution	1,000
	125th Celebration	Finance Officer	5,530
	Unemployment	Resolution	4,086
	Fire department (cash)	Resolution	56,997
Unassigned	General		1,362,662

			1,447,019

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

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

The City does not have any special revenue funds.

m. Application of Net Position:

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

n. Allowance for Doubtful Accounts:

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

o. Accounting Estimates:

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

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

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

Budget Overdrafts:

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

General fund/general government/Mayor and Council	\$ 357
/general government/other	1,281
/public safety/fire	11,408
/health and welfare/ambulance	1,900

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

3. DEPOSITS, INVESTMENTS AND RELATED RISKS

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

The City's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2. Qualified depositories are required by SDCL 4-6A-3 to maintain, at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as FDIC and NCUA.

In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

Actual bank balances at December 31, 2014 were as follows: Insured \$500,000, Collateralized ** \$3,832,391 for a total of \$4,332,391.

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

The carrying amount of these deposits, including \$180 in petty cash, at December 31, 2014 was \$4,293,675.

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

Statement of Net Position:	
Unrestricted: Cash	\$ 4,088,612
Certificates of deposits	21,115
Restricted: Cash	162,918
Fiduciary funds: (agency)	21,030

	\$ 4,293,675
	=====

Investments - 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.

The City had no investments during the year ending December 31, 2014.

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

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.

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.

Concentration of Credit Risk - the City places no limit on the amount that may be invested in any one institution. All City deposits are in Reliabank.

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 risk.

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. At December 31, 2014, the City was not exposed to custodial investment risk.

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

4. RECEIVABLES AND PAYABLES:

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

5. INVENTORY OF SUPPLIES AND SMALL TOOLS:

Government-wide Statements: (consumption method)

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

Fund Financial Statements: (consumption method)

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

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

6. CHANGES IN CAPITAL ASSETS (see schedule one on page 30)

A summary of the changes in capital assets is presented in schedule one at the end of these notes.

There was no construction-in-progress at the end of 2014

7. CHANGES IN LONG-TERM DEBT (see schedule two on page 31 and 32)

A summary of changes in long-term debt is presented in schedule two at the end of these notes. The City did not have any short-term or conduit debt during the year ending December 31, 2014.

8. FUTURE REVENUES PLEDGED TO SECURE DEBT

All water fund revenue net revenue (after normal operating, repair and maintenance expenses) is pledged to secure two Rural Development (USDA) loans which have a total remaining balance of \$1,023,578. The loans were made to cover the cost of water improvements and are described on page 31. The loans will mature in 2050 and 2052. In 2014 the loans had pledged revenue of \$73,463 before depreciation and principal and interest payments of \$46,452.

All sewer fund revenue net revenue (after normal operating, repair and maintenance expenses) is pledged to secure one Rural Development (USDA) loans which have a remaining balance of \$327,277. The loan was made to cover the cost of sewer improvements and is described on page 31. The loan will mature in 2050. In 2014 the loan had pledged revenue of \$65,320 before depreciation and principal and interest payments of \$15,756.

9. INTERFUND BALANCES

At December 31, 2014 the solid waste fund owed the electric fund \$4,311 to cover an overdraft.

10. INTERFUND TRANSFERS

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

	Governmental	Enterprise
For operations:		
General	(135,800)	
Electric		(105,684)
Sewer		212,824
Swimming pool		28,660
	-----	-----
	(135,800)	135,800

11. RESTRICTED NET POSITION

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

Purpose:	Restricted By:	Government-Wide	Business-Type
Debt	RD Loan Covenants	0	62,208
Asset Replacement	RD Loan Covenants	0	93,531
		-----	-----
		0	155,739

12. RETIREMENT PLAN

All employees, except for part-time employees who work less than 20 hours per week and temporary employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the years ending December 31, 2014, 2013, and 2012 were \$116,280, \$101,389, and \$97,136 (employer's share) respectively, equal to the required contribution each year.

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

13. EMPLOYEE BENEFIT PLAN

The city offers eligible employees a "Flexible Benefits Plan" (also known as "Flex One" or a "cafeteria plan") under IRC Sec.125. The Plan allows eligible employees to use money provided by the City through employee salary redirection, to choose (and pay for) one or more benefits offered through the Plan. The Plan is accounted for in an agency fund.

14. PROPERTY TAX

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

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

Delinquent property taxes, from prior year tax levies, are included in "net position" in the government-wide statement of activities but are deferred in the fund financial statements. See reconciliations on page 11 and 12.

15. INSURANCE

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

Health:

The City purchases health insurance for its employees from a commercial insurance carrier.

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

Liability Insurance:

The City purchases liability insurance for risks related to torts; theft or damage to property; errors and omissions of public officials from a commercial insurance carrier.

The City does not carry additional liability insurance to cover claims in excess of an upper limit. Settled claims resulting from these risks have not exceeded 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 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.

The City has assigned fund balance in the general fund of \$4,086 for future unemployment benefits. During the year ending December 31, 2014 the City paid no of unemployment benefits and no unemployment benefits are expected to be paid in 2015.

16. LITIGATION

The City can be a party to litigation. No determination can be made at this time regarding the potential outcome of such matters. However, as discussed in the risk management note above, the City has liability coverage for itself and its employees. Therefore, any litigation is not expected to have a potential material effect on the City's financial statements.

17. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

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

There is no material unallowed related party activity and the City does not offer any Other Post Employment Benefits.

In January 2015 the City let a bid to replace the nursing home roof for \$79,880.

In February 2015 the City approved repairs to the nursing home kitchen of \$19,000.

In June 2015 the City purchased a second warning siren for \$18,471.

In 2015 the City will receive a \$5,000 grant from Heartland Consumer Power for street light replacements.

In 2015 the City expects to receive a Safe Routes to Schools grant for which the City will be responsible for approximately \$10,000 of the costs.

In 2015 the City began doing its own ambulance billing with services offered by nursing home personnel.

CITY OF ESTELLINE

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

	Beginning 12-31-13	Adjustments	Additions	Deletions	Ending 12-31-14	Accumulated Depreciation 12-31-13	Adjustments	Depreciation (Additions)	Depreciation Deletions	Accumulated Depreciation 12-31-14	Remaining Cost 12-31-14
General capital assets:											
Land	34,000				34,000	0				0	34,000
Buildings	473,361			(47,981)	425,380	(318,286)		(10,413)	47,981	(280,718)	144,662
Improvements	25,311			(14,445)	10,866	(24,693)	1	(117)	14,445	(10,364)	502
Equipment	184,661	5,000	38,636	(41,064)	187,233	(165,983)	(5,001)	(12,204)	41,064	(142,124)	45,109
Totals	717,333	5,000	38,636	(103,490)	657,479	(508,962)	(5,000)	(22,734)	103,490	(433,206)	224,273

Allocation of Depreciation:

General government	222
Public safety	3,445
Public works	11,397
Health and welfare	6,344
Culture and recreation	1,326
Totals	22,734

Business-type activity:

Enterprise funds:

Land	96,930				96,930	0				0	96,930
Buildings	1,281,729	7,763		(7,531)	1,281,961	(1,121,186)	(467)	(12,439)	7,531	(1,126,561)	155,400
Improvements	5,996,972	(551)	18,855	(2,469)	6,012,807	(1,807,794)		(141,905)	2,469	(1,947,230)	4,065,577
Equipment	1,076,164	(3,488)	6,211	(117,913)	960,974	(814,775)	(2,540)	(54,095)	117,913	(753,497)	207,477
Construction-in-progress	0				0	0				0	0
Totals	8,451,795	3,724	25,066	(127,913)	8,352,672	(3,743,755)	(3,007)	(208,439)	127,913	(3,827,288)	4,525,384

Construction-in-progress:

None	0
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CITY OF ESTELLINE

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

	Beginning Balance 12-31-13	Additions	(Deletions)	Governmental Ending Balance 12-31-14	Business-type Ending Balance 12-31-14	Principal Due in 2015
	-----	-----	-----	-----	-----	-----
GOVERNMENTAL						
Accrued leave payable:						
Paid by the general fund	<u>24,923</u>	<u>1,579</u>	<u>-----</u>	<u>26,502</u>		26,502
BUSINESS-TYPE						
1990 Rural Development Loan:						
Original issue of \$155,000						
Maturing in 2030						
Interest at 5.0%						
Monthly payments of \$749.00						
Paid by the sewer fund	95,735		(95,735)		0	0
1997 Rural Development Loan:						
Total amount of \$200,000.00						
Maturing in 2029						
Interest at 4.875%						
Monthly payments of \$956.00						
Callable on any installment date						
Paid by the sewer fund	121,059		(121,059)		0	0
2005 Bank Note (lease-purchase under SDCL 9-21-18.1):						
Total utilization: \$536,000						
Maturing 12-15-2015						
Interest at 5.0%						
Secured by electrical department property						
Monthly payments of \$5,691.77						
For electrical upgrades						
Paid by the electric fund	108,100		(108,100)		0	0
2010 Rural Development Loan:						
Total amount of \$94,954 at 12-31-2010						
Total amount of \$1,019,000 at 12-31-2011						
Maturing in 2050						
Interest at 3.00%						
Monthly payments of \$3,699 starting 1-27-2012						
Callable on any installment date						
Paid by the water fund	990,553		(14,876)		975,677	15,118
2010 Rural Development Loan:						
Total amount of \$352,000						
Maturing in 2050						
Interest at 3.25%						
Monthly payments of \$1,313						
Callable on any installment date						
Paid by the sewer fund	332,307		(5,030)		327,277	5,119
2012 Rural Development Loan:						
Total amount of \$50,000						
Maturing in 2052						
Interest at 2.75%						
Monthly payments of \$172						
Callable on any installment date						
Paid by the water fund	48,636		(735)		47,901	747
Accrued leave payable:						
Paid by enterprise funds	<u>193,518</u>	<u>22,527</u>	<u>-----</u>		<u>216,045</u>	<u>216,045</u>
Total business-type	<u>1,889,908</u>	<u>22,527</u>	<u>(345,535)</u>		<u>1,566,900</u>	<u>263,531</u>

CITY OF ESTELLINE

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

Payment Schedules:

	Total Payment	Principal	Interest	Remaining Balance
	-----	-----	-----	-----
2010 Rural Development Loan:				
2015	44,388	15,118	29,270	960,559
2016	44,388	15,571	28,817	944,988
2017	44,388	16,038	28,350	928,950
2018	44,388	16,520	27,868	912,430
2019	44,388	17,015	27,373	895,415
2020-2024	221,940	93,045	128,895	802,370
2025-2029	221,940	107,865	114,075	694,505
2030-2034	221,940	125,045	96,895	569,460
2035-2039	221,940	144,962	76,978	424,498
2040-2044	221,940	168,050	53,890	256,448
2045-2049	221,940	194,816	27,124	61,632
2050	64,053	61,632	2,421	0
	-----	-----	-----	-----
Totals	1,617,633	975,677	641,956	
	=====	=====	=====	
2010 Rural Development Loan:				
2015	15,756	5,119	10,637	322,158
2016	15,756	5,286	10,470	316,872
2017	15,756	5,458	10,298	311,414
2018	15,756	5,635	10,121	305,779
2019	15,756	5,818	9,938	299,961
2020-2024	78,780	32,053	46,727	267,908
2025-2029	78,780	37,612	41,168	230,296
2030-2034	78,780	44,134	34,646	186,162
2035-2039	78,780	51,787	26,993	134,375
2040-2044	78,780	60,768	18,012	73,607
2045-2049	78,780	71,306	7,474	2,301
2050	2,376	2,301	75	0
	-----	-----	-----	-----
Totals	553,836	327,277	226,559	
	=====	=====	=====	
2012 Rural Development Loan:				
2015	2,064	747	1,317	47,154
2016	2,064	767	1,297	46,387
2017	2,064	788	1,276	45,599
2018	2,064	810	1,254	44,789
2019	2,064	832	1,232	43,957
2020-2024	10,320	4,518	5,802	39,439
2025-2029	10,320	5,174	5,146	34,265
2030-2034	10,320	5,926	4,394	28,339
2035-2039	10,320	6,787	3,533	21,552
2040-2044	10,320	7,772	2,548	13,780
2045-2049	10,320	8,902	1,418	4,878
2050-2052	5,120	4,878	242	0
	-----	-----	-----	-----
Totals	77,360	47,901	29,459	
	=====	=====	=====	

CITY OF ESTELLINE

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

GENERAL FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental		
Revenue:					
Revenue from local sources:					
Taxes:					
Ad valorem taxes	247,000			247,000	2,602
Sales and use tax	133,000			133,000	9,831
Amusement tax				0	12
Penalties and interest				0	1,886
Licenses and permits:	3,700			3,700	14,282
Intergovernmental revenue:					
State shared revenue:					
Bank franchise tax	1,000			1,000	359
Commercial prorate				0	1,951
Liquor tax reversion	4,150			4,150	341
Motor vehicle licenses (5%)	9,000			9,000	2,361
Highway and bridge	14,000			14,000	4,876
County shared revenue	1,800			1,800	27
Charges for goods and services:					
Fire department				0	21,228
Landfill and refuse collection				0	4,780
Health and welfare				0	15,000
Recreation				0	3,309
Fines and forfeits				0	0
Miscellaneous revenue:					
Interest and dividends	27,000			27,000	(9,250)
Rentals and franchise				0	40,209
Special assessment				0	220
Other	73,400			73,400	722
					(72,678)
Total revenues	514,050	0	0	514,050	41,346
Expenditures:					
General government:					
Mayor and Council	19,725	352		20,077	20,434
Contingency	36,000			36,000	36,000
Amount transferred		(16,947)		(16,947)	(16,947)
Elections	500			500	0
Financial administration	90,990			90,990	87,078
Other	36,657	714		37,371	38,652
Public safety:					
Police	117,220			117,220	107,805
Fire	16,451	653		17,104	28,512
Civil defense	100			100	100
Public works:					
Highways and streets	124,355			124,355	122,402
Sanitation	5,457	7,337		12,794	12,793
Health and welfare:					
West Niles	3,000			3,000	1,493
Ambulance				0	1,900
Culture and recreation:					
Recreation	12,200			12,200	2,547
Parks	19,700			19,700	12,818
Conservation and development:					
Economic development	16,500	7,891		24,391	24,178
					213
Total expenditures	498,855	0	0	498,855	460,612
Excess of revenues over (under) expenditures	15,195	0	0	15,195	94,784
Other financing sources (uses):					
Transfer in				0	77,024
Transfer (out)				0	(212,824)
Net change in fund balance	15,195	0	0	15,195	(41,016)
Fund balance:					
January 1, 2014	1,488,035			1,488,035	1,488,035
December 31, 2014	1,503,230	0	0	1,503,230	1,447,019

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

1. BUDGETS AND BUDGETARY ACCOUNTING

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

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2014 there were no supplemental appropriations to increase the general fund's budget. See page 33.
- e. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general fund and library fund. The City did not encumber any amounts at December 31, 2014.

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

2. GAAP and Budgetary Accounting Basis Difference:

The financial statements prepared in conformity with U.S.GAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a road grader would be reported as a capital expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances. However, in the budgetary RSI schedule, the purchase of a road grader would be reported as an expenditure in the public works function of general fund, along with all other current public works expenditures.

CITY OF ESTELLINE

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

	Solid Waste Fund	Pool Fund	Ambulance Funds	Total Enterprise Funds
	-----	-----	-----	-----
ASSETS:				
Current assets:				
Cash and cash equivalents		932	297,830	298,762
Certificates of deposit			14,085	14,085
Accounts receivable	8,274		825	9,099
Total current assets	8,274	932	312,740	321,946
Noncurrent assets:				
Capital assets:				
Land				0
Buildings			27,118	27,118
Improvements		155,530		155,530
Equipment		28,534	71,554	100,088
Accumulated depreciation		(159,521)	(49,340)	(208,861)
Total noncurrent assets	0	24,543	49,332	73,875
Total assets	8,274	25,475	362,072	395,821
LIABILITIES:				
Current liabilities:				
Accounts payable	3,963	(441)	1,104	4,626
Due to other funds	4,311			4,311
Total current liabilities	8,274	(441)	1,104	8,937
Noncurrent liabilities:				
None				0
Total noncurrent liabilities	0	0	0	0
Total liabilities	8,274	(441)	1,104	8,937
NET POSITION				
Net investment in capital assets		24,543	49,332	73,875
Unrestricted		1,373	311,636	313,009
Total net position	0	25,916	360,968	386,884

CITY OF ESTELLINE

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

	Solid Waste Fund	Pool Fund	Ambulance Funds	Total Enterprise Funds
	-----	-----	-----	-----
Operating revenue:				
Charges for goods and services	50,950	5,169	40,510	96,629
	-----	-----	-----	-----
Total operating revenue	50,950	5,169	40,510	96,629
	-----	-----	-----	-----
Operating expenses:				
Personal services		14,254		14,254
Other current services		13,363	25,442	38,805
Cost of goods sold	50,950			50,950
Depreciation		8,123	10,557	18,680
	-----	-----	-----	-----
Total operating expenses	50,950	35,740	35,999	122,689
	-----	-----	-----	-----
Total operating income (loss)	0	(30,571)	4,511	(26,060)
Nonoperating revenue (expense):				
Interest earnings		3	2,804	2,807
	-----	-----	-----	-----
Total nonoperating revenue (expense)	0	3	2,804	2,807
	-----	-----	-----	-----
Income (loss) before transfers	0	(30,568)	7,315	(23,253)
Transfers in		28,660		28,660
	-----	-----	-----	-----
Change in net position	0	(1,908)	7,315	5,407
Net position:				
January 1, 2014	0	27,824	353,653	381,477
	-----	-----	-----	-----
December 31, 2014	0	25,916	360,968	386,884
	=====	=====	=====	=====

CITY OF ESTELLINE

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

	Solid Waste Fund	Pool Fund	Ambulance Funds	Total Enterprise Funds
	-----	-----	-----	-----
Cash flows from:				
Operating activities:				
Receipts from customers	51,141	5,169	40,510	96,820
Estimated rec. from other funds				0
Payments to employees		(14,254)		(14,254)
Payments to suppliers	(55,234)	(9,752)	(24,338)	(89,324)
Estimated pymts. to other funds		(3,611)		(3,611)
Net cash provided (used) by operating activities	----- (4,093)	----- (22,448)	----- 16,172	----- (10,369)
Noncapital financing activities:				
Transfers in from electric		28,660		28,660
Due (from)/to other funds	4,093			4,093
Capital financing activities:				
Cash paid for equipment		(6,212)		(6,212)
Investing activities:				
Interest earnings		3	2,804	2,807
Purchased certificate of deposits			(21)	(21)
Net increase (decrease) in cash	----- 0	----- 3	----- 18,955	----- 18,958
Cash:				
January 1, 2014	0	929	278,875	279,804
December 31, 2014	----- 0	----- 932	----- 297,830	----- 298,762
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	0	(30,571)	4,511	(26,060)
Depreciation		8,123	10,557	18,680
(Increase) decrease in:				
Receivables	191			191
Increase (decrease) in:				
Accounts payable	(4,284)		1,104	(3,180)
Net cash provided (used) by operating activities	----- (4,093)	----- (22,448)	----- 16,172	----- (10,369)

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 Estelline
Estelline, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Estelline (City), Hamlin County, South Dakota, as of December 31, 2014 and for the one year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated June 29, 2015 which was unmodified.

Compliance and Other Matters:

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

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

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

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Estelline's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of City of Estelline'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 Estelline'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 not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

I did identify certain 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 and 2014-02 to be a significant deficiency.

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

I did note other matters involving internal control that I reported to the governing body and management of the City of Estelline in a separate Letter of Comments dated June 29, 2015.

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 of Estelline's compliance and internal control over financial reporting. Accordingly this communication is not suitable for any other purpose.

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

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



June 29, 2015

SCHEDULE OF PRIOR AUDIT FINDINGS AND RESPONSES

Prior Federal Compliance Audit finding:

The prior audit report had no federal compliance audit findings.

Prior Other Audit Findings:

The prior audit report other audit findings are repeated below.

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Part I - Summary of the Audit:

Financial Statements

Type of auditor's report issued:

Unqualified on:
Governmental Activities
Business-Type Activities
Major Funds
Aggregate Remaining Funds

Noncompliance noted:

Item 2014-01

Internal control over financial reporting:

* Material weakness(es) identified?

None Reported

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

Items 2014-01, 2014-02

Part II - Findings Relating to the Financial Statements

Finding 2014-01: Budget Overdrafts

(compliance and internal control)

Criteria:

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

Condition:

In 2014 the City of Estelline had the following significant budget overdrafts:

General fund/general government/Mayor and Council	\$	357
/general government/other		1,281
/public safety/fire		11,408
/health and welfare/ambulance		1,900

Effect:

Expenditures in excess of a budget can lead to unnecessary expenditures.

Also, joint and several liability may attach to any official who approves an expenditure in excess of the amount budgeted for any purpose or department.
SDCL 9-21-9 and 9-21-10

Recommendation:

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

Management Response:

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

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES (continued)

Finding 2013-02: Preparation of Financial Statements
(internal control)

Criteria:

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

Condition:

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

Effect:

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

Recommendation:

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.