

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

INDEPENDENT AUDIT SERVICES, P.C.

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CITY OF FAULKTON
FAULKTON, SOUTH DAKOTA

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FOR THE TWO YEARS ENDING DECEMBER 31, 2014

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

INDEPENDENT AUDIT SERVICES, PC

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Governing Board
City of Faulkton
Faulkton, South Dakota

INDEPENDENT AUDITOR'S REPORT

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

I did not audit the modified cash basis of accounting financial statements of the Faulkton Housing and Redevelopment Commission which represents 100% of the cash assets, net position, receipts and disbursements of the discretely presented component unit on the government-wide statement of net position and statement of activities.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Disclaimer of Opinion

The modified cash basis of accounting financial statements of the Faulkton Housing and Redevelopment Commission have not been audited. I was not engaged to audit these modified cash basis of accounting financial statements as part of my audit of the City of Faulkton's modified cash basis of accounting financial statements. These financial statements are included in the City's basic financial statement as a discretely presented component unit and represents 100% of the cash assets, net position, receipts and disbursements of the City's discretely presented component unit.

Disclaimer of Opinion

The financial statements, referred to above, of the financial position and changes in financial position of the discretely presented component unit of the City of Faulkton, South Dakota as of December 31, 2014 and for each of the years in the biennial period then ended were not audited by me and, accordingly, I do not express an opinion on them.

Unmodified Opinions

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

Basis of Accounting

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

Other Matters - Other Supplementary Information (Opinion)

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

The schedule of changes in long-term debt (page 33) is presented for the purpose of additional analysis and is not a required part of the modified cash basis of accounting financial statements.

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

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

Other Matters - Other Supplementary Information (No Opinion)

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

The management's discussion and analysis (page 4 to 9) and the budgetary comparison schedules (page 29 to 32) are presented for purposes of additional analysis and are not a required part of the modified cash basis of accounting financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 34) dated September 2, 2015 on my tests of City of Faulkton's compliance with certain provisions of laws, regulations, contracts and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting.

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

September 2, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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

FINANCIAL HIGHLIGHTS	2014	2013
Receipts:		
Charges for goods and services	358,637	363,783
Operating grants	11,315	11,627
Capital grants	60,013	54,400
General receipts	625,951	576,828
SRF loan proceeds	781,194	-----
Total	1,837,110	1,006,638
Disbursements:		
Governmental	562,278	505,644
Business-type	1,120,736	338,683
Total	1,683,014	844,327
Increase in Net Position	154,096	162,311
Net Position:		
December 31, 2012		1,049,938
December 31, 2013	1,212,249	1,212,249
December 31, 2014	1,366,345	=====
Governmental Funds:		
General	305,656	336,569
2nd Cent	658,064	471,599
Business-Type Funds:		
Water	132,486	179,490
Sewer	270,139	224,591
Total	1,366,345	1,212,249

During 2014, the City:

Received:

218,386 from property taxes
 334,152 from sales taxes
 60,013 from an airport grant
 781,194 from an SRF loan for sewer improvements

Paid:

123,563 for airport improvements
 68,281 for street improvements
 53,094 for water improvements
 787,303 for sewer improvements
 18,690 down on two water loans

During 2013, the City:

Received:

180,011 from property taxes
326,084 from sales taxes
54,400 from airport grants

Paid:

38,073 for airport improvements
71,002 for street improvements
48,390 for water improvements
55,081 for sewer improvements
18,099 down on two water loans

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

The financial report consists of three parts: (1) management's discussion and analysis (page 4 to 9), (2) the basic financial statements (page 10 to 28) and (3) other supplementary information (page 29 to 32). The basic financial statements include two types of statements that present the City from two different financial points of view.

Government-wide financial statements (View #1):

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

Fund financial statements (View #2):

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

The governmental financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. Governmental funds operated by the City at the two years ending of December 31, 2014 are the General and 2nd Cent Funds.

The enterprise fund financial statements offer short-term and long-term financial information about the activities of the City that operate like a business. Enterprise funds operated by the City include the Water and Sewer Funds.

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

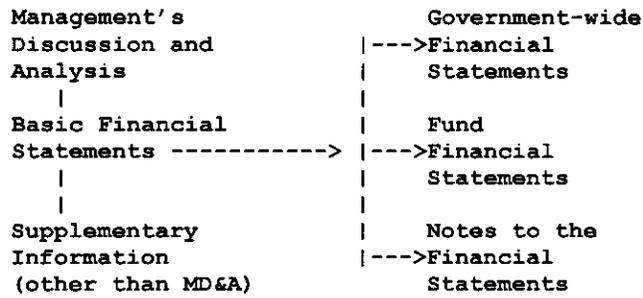
The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of supplementary information that presents a budgetary analysis for the general fund and major special revenue funds.

Supplementary Information:

The Management's Discussion and Analysis (page 4 to 9) and the Budgetary Comparison Schedules (page 29 to 32) are supplementary information. Such information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

The schedule of changes in debt (page 33) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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



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

	Government-wide Statements	Governmental Funds	Fund Statements----- Enterprise Funds
Scope	Entire City (including component units if any)	City activities except enterprise (water and sewer)	Activities operated like a private business (water and sewer)
Required Financial Statements	Statement of Net Position	Balance Sheet	Statement of Net Position
Required Financial Statements	Statement of Activities	Statement of Receipts Disbursements and Changes in Fund Balances	Statement of Cash Receipts, Disbursements and Changes in Net Position
Basis of Accounting	Modified Cash	Modified Cash	Modified Cash
Measurement Focus	Modified Cash	Modified Cash	Modified Cash
Types of assets & Liabilities	Only cash No liabilities	Only cash No liabilities	Only cash No liabilities
Types of Revenue and Expenditures or Expense	Cash receipts Cash disbursements	Cash receipts Cash disbursements	Cash receipts Cash disbursements

BASIS OF ACCOUNTING

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

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

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

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

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

The governmental activities include basic services such care of streets, police protection, community center, pool, and capital projects. Property taxes, sales taxes, interest earnings finance most of these activities. Bonds and federal and state grants help pay for capital improvements.

The business-type activities account for the City's water and sewer activities. These services are funded by user fees.

FUND FINANCIAL STATEMENTS

(Reporting the City's most significant funds)

The fund financial statements (page 13 to 17) provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools used to keep track of the City's receipts and disbursements. State law requires the use of some funds and the City Council establishes other funds to manage money for a specific purpose, like a capital project.

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

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

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

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

For the Year Ending December 31, 2014

(Material changes for governmental activities = changes greater than \$50,000)
 (Material changes for business-type activities = changes greater than \$30,000)

	Increase (Decrease)	Reason
Governmental Activities:		
Cash	155,552	Excess cash receipts over cash disbursements.
Public works	72,664	Additional airport improvements.
Business-type Activities:		
Sewer costs	753,187	Sewer improvement project.
Loan proceeds	781,194	New sewer SRF loan.

For the Year Ending December 31, 2013

(Material changes for governmental activities = changes greater than \$50,000)
(Material changes for business-type activities = changes greater than \$30,000)

	Increase (Decrease)	Reason
Governmental Activities:		
Cash	86,801	Excess cash receipts over cash disbursements.
Capital grants	(173,900)	Reduced airport improvement grants.
Public works	(299,038)	Reduced airport improvements.
Business-type Activities:		
Cash	75,510	Excess cash receipts over cash disbursements.
Charges for services	35,835	Increased water and sewer rates.
Water costs	50,434	Water line improvements.
Sewer costs	32,176	Sewer improvement project.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

In 2014 the City adopted a general fund budget of \$766,633 which is a decrease of \$9,082 or 1.17% from 2013. The decrease was spread across several line items. There were no supplemental appropriations to the general fund budget. See page 29 for more information.

In 2013 the City adopted a general fund budget of \$775,715 which is an increase of \$362,846 or 87.88% from 2012. The increase was mainly for airport activities. There was one supplemental appropriation for \$17,000 to the general fund budget. See page 30 for more information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Significant capital asset activity is reported above.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

During 2014 the City made principal payments of \$18,690 on two water loans. At December 31, 2014 these loans had a balance of \$1,062,887 and \$107,409. Also in 2014 the City received new SRF sewer loan proceeds of \$781,194 and made no payments on this loan. During 2013 the City made principal payments of \$18,099 on two water loans. At December 31, 2013 these loans had a balance of \$1,079,129 and \$109,857. See also page 33 for more information.

The City has guaranteed 25% of three Faulkton Housing & Redevelopment Rev Bonds which had balances of \$174,783; \$256,341; and \$1,100,000 at December 31, 2014.

CURRENTLY KNOWN FACTS

In 2015 the City:

- * Purchased a 924K loader for \$153,390.
- * Completed the GA terminal building for approximately \$169,000.
- * Conducted a public meeting regarding sewer line replacement and relining for an estimated cost of \$5,151,000 which would increase sewer rates to about \$40 a month.
- * Considered applying for a 60/40 split Community Access Grant to improve 15th Avenue from Pearl Street to the hospital.
- * Received a base bid of \$344,430 for hanger and taxilane improvements using some \$286,530 of available federal entitlements.
- * Approved re-organization of the Housing & Redevelopment Commission Board to include 2 member of the City Council.

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 Faulkton's business office at 105 8th Avenue North, Faulkton, SD 57438-0021. Phone 605.598.6515.

CITY OF FAULKTON

TABLE 1 - NET POSITION
 MODIFIED CASH BASIS - BASED ON GOVERNMENT-WIDE STATEMENT OF POSITION
 AS OF DECEMBER 31, 2014, 2013, and 2012

	Governmental Activities			Business-Type Activities			Total Government		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Cash assets:									
Cash	858,108	702,924	616,803	274,100	275,928	201,103	1,132,208	978,852	817,906
Certif. of deposit	105,612	105,244	104,564	128,525	128,153	127,468	234,137	233,397	232,032
Total	963,720	808,168	721,367	402,625	404,081	328,571	1,366,345	1,212,249	1,049,938
Net position:									
Restricted				60,336	53,132	46,994	60,336	53,132	46,994
Unrestricted	963,720	808,168	721,367	342,289	350,949	281,577	1,306,009	1,159,117	1,002,944
Total	963,720	808,168	721,367	402,625	404,081	328,571	1,366,345	1,212,249	1,049,938

TABLE 2 - CHANGES IN NET POSITION
 MODIFIED CASH BASIS - BASED ON GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 FOR THE THREE YEARS ENDING DECEMBER 31, 2014

	Governmental Activities			Business-Type Activities			Total Government		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Receipts:									
Program receipts:									
Charges for service:	22,116	20,776	23,787	336,521	343,007	307,172	358,637	363,783	330,959
Operating grants				11,315	11,627	12,562	11,315	11,627	12,562
Capital grants	60,013	54,400	228,300			8,000	60,013	54,400	236,300
General receipts:									
Property taxes	218,386	180,011	172,286				218,386	180,011	172,286
Sales taxes	334,152	326,084	286,270				334,152	326,084	286,270
Other taxes	132	108	156				132	108	156
State sources	48,064	43,383	42,456				48,064	43,383	42,456
County sources	2,422	4,844	2,422				2,422	4,844	2,422
Interest received	1,365	1,290	3,802	511	946	3,577	1,876	2,236	7,379
Rent and franchise	18,814	17,804	15,848				18,814	17,804	15,848
Donations	150	388	564				150	388	564
Miscellaneous	1,555		1,976				1,555	0	1,976
Total receipts	707,169	649,088	777,867	348,347	355,580	331,311	1,055,516	1,004,668	1,109,178
Disbursements:									
General government	92,529	108,826	89,269				92,529	108,826	89,269
Public safety	51,648	51,488	51,156				51,648	51,488	51,156
Public works	325,232	252,568	551,606				325,232	252,568	551,606
Health and welfare	6,783	66	7,275				6,783	66	7,275
Culture/recreation	66,911	71,517	72,057				66,911	71,517	72,057
Economic development	19,175	21,179	10,000				19,175	21,179	10,000
Water				267,121	238,255	187,821	267,121	238,255	187,821
Sewer				853,615	100,428	68,252	853,615	100,428	68,252
Total disbursements	562,278	505,644	781,363	1,120,736	338,683	256,073	1,683,014	844,327	1,037,436
Net position increase (decrease) before transfers	144,891	143,444	(3,496)	(772,389)	16,897	75,238	(627,498)	160,341	71,742
Other financing sources (uses):									
Transfers in (out)	10,261	(58,613)	10,550	(10,261)	58,613	(10,550)	0	0	0
Loan proceeds			30,965	781,194			781,194	0	30,965
Sale of surplus property	400	1,970	130				400	1,970	130
Change in net position	155,552	86,801	38,149	(1,456)	75,510	64,688	154,096	162,311	102,837
Net position:									
December 31, 2011			683,218			263,883			947,101
December 31, 2012		721,367	721,367		328,571	328,571		1,049,938	1,049,938
December 31, 2013	808,168	808,168		404,081	404,081		1,212,249	1,212,249	
December 31, 2014	963,720			402,625			1,366,345		

CITY OF FAULKTON

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

	Primary Government			Unaudited Component Unit
	Governmental Activities	Business- Type Activities	Total	
ASSETS:				
Cash and cash equivalents	200,044	274,100	474,144	3,113
Money market	658,064		658,064	94,601
Certificates of deposit	105,612	128,525	234,137	39,686
Total assets	<u>963,720</u>	<u>402,625</u>	<u>1,366,345</u>	<u>137,400</u>
NET POSITION:				
Restricted for:				
Construction			0	79,021
Debt service		22,982	22,982	
Deposits		37,354	37,354	675
Unrestricted	963,720	342,289	1,306,009	57,704
Total net position	<u>963,720</u>	<u>402,625</u>	<u>1,366,345</u>	<u>137,400</u>

See accompanying notes.

CITY OF FAULKTON

STATEMENT OF ACTIVITIES
 MODIFIED CASH BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2014

Functions/Programs:	Program Receipts				Net Receipts (Disbursements) and Changes in Net Position			Unaudited Component Unit
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Primary government:								
Governmental activities:								
General government	92,529	6,174			(86,355)		(86,355)	
Public safety	51,648				(51,648)		(51,648)	
Public works	325,232	2,527		60,013	(262,692)		(262,692)	
Health and welfare	6,783				(6,783)		(6,783)	
Culture and recreation	66,911	13,415			(53,496)		(53,496)	
Economic development	19,175				(19,175)		(19,175)	
Total governmental activities	562,278	22,116	0	60,013	(480,149)	0	(480,149)	0
Business-type activities:								
Water	267,121	208,713	11,315			(47,093)	(47,093)	
Sewer	853,615	127,808				(725,807)	(725,807)	
Total business-type activities	1,120,736	336,521	11,315	0	0	(772,900)	(772,900)	0
Total primary government	1,683,014	358,637	11,315	60,013	(480,149)	(772,900)	(1,253,049)	0
Component unit activity:								
Faulkton Housing & Redev Commission	1,085,725	67,574						(1,018,151)
General receipts:								
Taxes:								
Property taxes					218,386		218,386	
Sales taxes					334,152		334,152	
Amusement taxes					132		132	
State shared receipts					48,064		48,064	
County shared receipts					2,422		2,422	
Interest received					1,365	511	1,876	268
Rents and franchise fees					18,814		18,814	
Donations					150		150	
Miscellaneous receipts					1,555		1,555	
Sale of surplus property					400		400	
SRF loan proceeds					0	781,194	781,194	
Bank loan proceeds					0		0	1,100,000
Transfers					10,261	(10,261)	0	
Total general receipts, special items and transfers					635,701	771,444	1,407,145	1,100,268
Change in net position					155,552	(1,456)	154,096	82,117
Net position:								
January 1, 2014					808,168	404,081	1,212,249	55,283
December 31, 2014					<u>963,720</u>	<u>402,625</u>	<u>1,366,345</u>	<u>137,400</u>

See accompanying notes.

CITY OF FAULKTON

STATEMENT OF ACTIVITIES
 MODIFIED CASH BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2013

Functions/Programs:	Program Receipts				Net Receipts (Disbursements) and Changes in Net Position			Unaudited Component Unit
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Primary government:								
<i>Governmental activities:</i>								
General government	108,826	7,521			(101,305)		(101,305)	
Public safety	51,488				(51,488)		(51,488)	
Public works	252,568	4,001		54,400	(194,167)		(194,167)	
Health and welfare	66				(66)		(66)	
Culture and recreation	71,517	9,254			(62,263)		(62,263)	
Economic development	21,179				(21,179)		(21,179)	
Total governmental activities	505,644	20,776	0	54,400	(430,468)	0	(430,468)	0
<i>Business-type activities:</i>								
Water	238,255	214,431	11,627			(12,197)	(12,197)	
Sewer	100,428	128,576				28,148	28,148	
Total business-type activities	338,683	343,007	11,627	0	0	15,951	15,951	0
Total primary government	844,327	363,783	11,627	54,400	(430,468)	15,951	(414,517)	0
<i>Component unit activity:</i>								
Faulkton Housing & Redev Commission	69,551	65,945						(3,606)
General receipts:								
Taxes:								
Property taxes					180,011		180,011	
Sales taxes					326,084		326,084	
Amusement taxes					108		108	
State shared receipts					43,383		43,383	
County shared receipts					4,844		4,844	
Interest received					1,290	946	2,236	686
Rents and franchise fees					17,804		17,804	
Donations					388		388	
Sale of surplus property					1,970		1,970	
Transfers					(58,613)	58,613	0	
Total general receipts, special items and transfers					517,269	59,559	576,828	686
Change in net position					86,801	75,510	162,311	(2,920)
Net position:								
January 1, 2013					721,367	328,571	1,049,938	58,203
December 31, 2013					<u>808,168</u>	<u>404,081</u>	<u>1,212,249</u>	<u>55,283</u>

See accompanying notes.

CITY OF FAULKTON

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

	General Fund	2nd cent Fund	Total
	-----	-----	-----
ASSETS:			
Cash and cash equivalents	200,044		200,044
Interest bearing accounts		658,064	658,064
Certificates of deposit	105,612		105,612
	-----	-----	-----
Total assets	305,656	658,064	963,720
	=====	=====	=====
FUND BALANCES:			
Nonspendable			0
Restricted			0
Committed		658,064	658,064
Assigned - Key deposit	750		750
Assigned - Capital projects	35,000		35,000
Unassigned	269,906		269,906
	-----	-----	-----
Total fund balances	305,656	658,064	963,720 *
	=====	=====	=====

* Equals net position on
 statement of net position

See accompanying notes.

CITY OF FAULKTON

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND
BALANCES -- MODIFIED CASH BASIS -- ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2014
FOR THE YEAR ENDING DECEMBER 31, 2013

	2014			2013		
	General Fund	2nd Cent Fund	Total	General Fund	2nd Cent Fund	Total
Receipts:						
Local sources:						
Taxes:						
Ad valorem taxes	218,386		218,386	180,011		180,011
General sales and use taxes	167,076	167,076	334,152	163,042	163,042	326,084
Amusement taxes	132		132	108		108
Licenses and permits:	6,057		6,057	7,144		7,144
Intergovernmental:						
Federal shared receipts:						
Grant - Airport	60,013		60,013	33,097		33,097
State shared revenue:						
State grants - airport			0	21,303		21,303
Bank franchise tax	682		682	640		640
Liquor tax revision	5,426		5,426	5,052		5,052
Motor vehicle licenses (5%)	11,703		11,703	10,491		10,491
Highway and bridge	30,253		30,253	26,600		26,600
Other			0	600		600
County shared revenue: road tax	2,422		2,422	4,844		4,844
Charges for goods and services:						
Highway and streets	2,347		2,347			0
Solid waste	180		180	200		200
Sale of white goods			0	3,351		3,351
Mowing			0	450		450
Recreation - pool	8,576		8,576	7,948		7,948
Recreation - ball park	2,350		2,350			0
Recreation - camping	1,900		1,900	1,062		1,062
Recreation - carousel	589		589	244		244
Fines and forfeits:	117		117	377		377
Miscellaneous:						
Interest earned	561	728	1,289	778	418	1,196
Dividends	76		76	94		94
Rents and cable franchise	18,814		18,814	17,804		17,804
Donations	150		150	388		388
Other	1,555		1,555			0
Total receipts	539,365	167,804	707,169	485,628	163,460	649,088
Disbursements:						
Current:						
General government:						
Mayor and Council	15,498		15,498	13,753		13,753
Elections	612		612	25		25
Financial administration	59,585		59,585	58,837		58,837
Other	16,834		16,834	36,211		36,211
Public safety:						
Police	41,500		41,500	41,500		41,500
Fire	10,148		10,148	9,988		9,988
Public works:						
Highways and streets	118,517		118,517	129,112		129,112
Solid waste	7,920		7,920	7,248		7,248
Airport	3,951		3,951	4,133		4,133
Cemetery	3,000		3,000	3,000		3,000
Health and welfare:						
West Nile	6,783		6,783	66		66
Culture and recreation:						
Recreation	8,226		8,226	6,275		6,275
Parks	6,071		6,071	6,168		6,168
Pool	34,778		34,778	34,502		34,502
Community Center	17,836		17,836	17,857		17,857
Conservation and development:						
Economic development	12,664		12,664	11,179		11,179
Capital outlay	198,355		198,355	125,790		125,790
Total disbursements	562,278	0	562,278	505,644	0	505,644
Excess of receipts over (under) disbursements	(22,913)	167,804	144,891	(20,016)	163,460	143,444
Other financing sources (uses):						
Transfers in (out)	(8,400)	18,661	10,261	64,486	(123,099)	(58,613)
Sale of surplus property	400		400	1,970		1,970
Net change in fund balance (**)	(30,913)	186,465	155,552	46,440	40,361	86,801
Fund balance:						
January 1, 2013				290,129	431,238	721,367
December 31, 2013	336,569	471,599	808,168	336,569	471,599	808,168
December 31, 2014	305,656	658,064	963,720			

** Equals change in net position on
Statement of Activities
See accompanying notes.

CITY OF FAULKTON

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

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
ASSETS			
Cash and cash equivalent	110,486	163,614	274,100
Certificates of deposit	22,000	106,525	128,525
	-----	-----	-----
Total assets	132,486	270,139	402,625
	=====	=====	=====
 NET POSITION			
Restricted - debt service	22,982		22,982
Restricted - meter deposits	37,354		37,354
Unrestricted	72,150	270,139	342,289
	-----	-----	-----
Total net position	132,486	270,139	402,625
	=====	=====	=====

See accompanying notes.

CITY OF FAULKTON

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

	2014			2013		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Operating receipts:						
Charges for goods and services	208,713	127,808	336,521	214,431	128,576	343,007
Total operating receipts	208,713	127,808	336,521	214,431	128,576	343,007
Operating disbursements:						
Personal services	50,071	48,676	98,747	38,173	36,903	75,076
Other current services	38,883	17,636	56,519	23,638	8,444	32,082
Cost of goods sold	68,285		68,285	71,266		71,266
Capital improvements	53,094	787,303	840,397	48,390	55,081	103,471
Total operating disbursements	210,333	853,615	1,063,948	181,467	100,428	281,895
Excess operating receipts (disbursements)	(1,620)	(725,807)	(727,427)	32,964	28,148	61,112
Nonoperating receipts (disbursements):						
Interest received	89	422	511	218	728	946
BB refundable credit	11,315		11,315	11,627		11,627
SRF loan proceeds - federal portion		54,280	54,280			0
SRF loan proceeds - state portion		726,914	726,914			0
Loan pymts - principal	(18,690)		(18,690)	(18,099)		(18,099)
- interest	(38,098)		(38,098)	(38,689)		(38,689)
Total nonoperating receipts (disbursements)	(45,384)	781,616	736,232	(44,943)	728	(44,215)
Excess receipts (disbursements) before transfers	(47,004)	55,809	8,805	(11,979)	28,876	16,897
Transfers in (out) - 2nd cent		(10,261)	(10,261)	48,352	10,261	58,613
Change in net position	(47,004)	45,548	(1,456)	36,373	39,137	75,510
Net position:						
January 1, 2013				143,117	185,454	328,571
December 31, 2013	179,490	224,591	404,081	179,490	224,591	404,081
December 31, 2014	132,486	270,139	402,625			

See accompanying notes.

CITY OF FAULKTON

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

	2014			2013		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Cash flows from:						
Operating activities:						
Receipts from customers	208,713	127,808	336,521	214,431	128,576	343,007
Payments to employees	(50,071)	(48,676)	(98,747)	(38,173)	(36,903)	(75,076)
Payments to suppliers	(107,168)	(17,636)	(124,804)	(94,904)	(8,444)	(103,348)
Net cash provided (used) by operating activities	51,474	61,496	112,970	81,354	83,229	164,583
Noncapital financing activities:						
Transfers in (out)		(10,261)	(10,261)	48,352	10,261	58,613
BB refundable credit	11,315		11,315	11,627		11,627
Capital financing activities:						
Capital improvements	(53,094)	(787,303)	(840,397)	(48,390)	(55,081)	(103,471)
SRF loan proceeds - federal portion		54,280	54,280			
SRF loan proceeds - state portion		726,914	726,914			
RD loan pymts - principal	(18,690)		(18,690)	(18,099)		(18,099)
- interest	(38,098)		(38,098)	(38,689)		(38,689)
Investing activities:						
Interest received	89	422	511	218	728	946
Less certificate of deposit interest		(372)	(372)		(685)	(685)
Net increase (decrease) in cash and cash equivalents	(47,004)	45,176	(1,828)	36,373	38,452	74,825
Cash and cash equivalents:						
January 1, 2013				121,117	79,986	201,103
December 31, 2013	157,490	118,438	275,928	157,490	118,438	275,928
December 31, 2014	110,486	163,614	274,100			
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	(1,620)	(725,807)	(727,427)	32,964	28,148	61,112
Add back capital improvements	53,094	787,303	840,397	48,390	55,081	103,471
Net cash provided (used) by operating activities	51,474	61,496	112,970	81,354	83,229	164,583

Noncash investing, capital and financing activities: None

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity:

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

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

Mayor:	Finance Officer:
Slade Roseland	Sallie Traver
Governing Board:	Attorney:
Steve Wanner, President	Emily Sovell
Linda Bartholomew	
Sheilah Fischer	
David Hadrick	
Danny Ramsdell	
Mark Toennies	

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

Financial Reporting Entity:

Primary Government: - The City of Faulkton
Component Unit: - Faulkton Housing and Redevelopment Commission

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

The reporting entity of the City of Faulkton 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 Faulkton Housing and Redevelopment Commission (Commission) is a component unit of the City of Faulkton and represents 100% of the balances and activity of the discretely presented component unit column of these financial statements.

The Commission is organized to provide housing by building and renting out two 4-plex housing units and one 8-plex unit. The City has guaranteed 25% of three Essential Function Housing Development Bonds issued by the Commission for these units. At December 31, 2014 the balances of the three bonds were \$175,288; \$256,685; and \$1,100,000. The books of the Commission are available at the Faulkton City Hall. The Commission is established under SDCL 11-7-7.

b. Basis of Presentation:

Government-wide Financial Statements:

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

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

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

Fund Financial Statements:

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

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

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

City funds are described below within their respective fund type:

Governmental Funds

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

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

Special Revenue Fund Type - 2nd Cent Sales Tax Fund - A fund established by City of Faulkton's Ordinance No. 6 to collect an additional 1% sales tax to be used for capital improvements, including water, sewer and airport improvements. The 2nd cent sales tax fund is a major fund.

Enterprise Funds (Business-Type)

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

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

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

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

The City of Faulkton has no fiduciary funds.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses (disbursements) are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The City's basis of accounting is the modified cash basis of accounting, which is a basis of accounting other than US-GAAP. Under US-GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis of accounting, transactions are recorded when cash is received or disbursed.

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

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

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

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

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

d. Cash and Cash Equivalents:

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

The City's certificate of deposit has a maturity of more than three months when purchased and are not considered a cash equivalent for the statement of cash flows.

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

e. Interfund Transactions:

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

f. Program Receipts and General Receipts:

Program Receipts:

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

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

General Receipts:

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

g. Enterprise Fund Receipt Classifications:

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

h. Equity Classifications:

Government-wide financial Statements:

Equity is classified as net position and is displayed in two components:

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

Fund Financial Statements:

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

i. 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.

j. Fund Cash 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:

Constitutional Debt Limit:

At December 31, 2014 the City's total debt, including the 25% Essential Function Bond guarantee, is \$2,334,271. This exceeds 10% of the 2014 taxable valuation of \$17,283,053 by \$605,966. However, the City's total debt is under 10% of the 2015 taxable valuation of \$26,273,783 by \$293,107.

3. DEPOSITS, INVESTMENTS AND RELATED RISKS

Except for restricted cash held by 3rd parties and bank certificates of deposit purchased for an individual fund, the City follows the practice of aggregating deposits of its various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

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

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

Actual bank balances at December 31, 2014 were as follows: Insured \$500,000, Collateralized ** \$876,288, for a total of \$1,376,288.

** 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 at December 31, 2014 was \$1,366,345 held as follows.

Dakota Bank Faulkton (Faulkton, SD):	
Checking	\$ 473,994
Savings	658,064
Certificates of deposit	234,137

	\$ 1,366,195
Petty cash	150

	\$ 1,366,345
	=====

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

4. INVESTMENTS AND RELATED RISKS

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

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

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

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

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

Concentration of Credit Risk - the City places no limit on the amount that may be invested in any one institution. The amount of investment in an institution is shown above.

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

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

5. LONG-TERM DEBT

A summary of changes in long-term liabilities is presented as supplementary information on page 33. The City did not have any short-term or conduit debt in 2013 or 2014.

6. FUTURE REVENUES PLEDGED TO SECURE DEBT

All water fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure the Water Project Revenue Bond, Series 2009 which has a remaining balance of \$1,062,887 and a SRF Drinking Water loan which has a remaining balance of \$107,409 at December 31, 2014. These debts were incurred to cover the cost of water improvements as described on page 33. The bonds will mature in 2050 and the SRF loan will mature in 2042. In 2014 the debt had pledged revenue of \$51,474 and total payments of \$56,788.

All sewer fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure a SRF Clean Water loan which has a balance of \$781,194 at December 31, 2014. This debt is incurred to cover the cost of sewer improvements as described on page 33. The bonds will mature in 2045. In 2014 the debt had pledged revenue of \$61,496 and total payments of \$0.

7. WATER PURCHASE AGREEMENT

The City of Faulkton entered into an agreement with WEB Water Development Association, Inc. to provide water to the City for \$1.45 per 1,000 gallons plus an indefinite minimum monthly charge of \$1,833.00 for WEB's debt service, capital improvements and water line maintenance.

8. RESTRICTED NET POSITION

The following table shows the December 31, 2014 net position restricted for specific purposes as shown on the statement of net position

Purpose:	Restricted By:	Governmental	Business-Type
Debt service	Covenants		22,982
Meter deposits	Contract		37,354
		-----	-----
Total Restricted Net Position		0	60,336

9. INTERFUND TRANSFERS

Transfers "in" and "(out)" between funds were:

	<u>Governmental</u>	<u>Enterprise</u>	<u>Purpose</u>
2014			
General	(8,400)		Operations
2nd Cent	18,661		Operations
Sewer		(10,261)	Return prior year transfer
	-----	-----	
	10,261	(10,261)	
2013			
General	64,486		Operations
2nd Cent	(123,099)		Operations
Water		48,352	Capital project
Sewer		10,261	Capital project
	-----	-----	
	(58,613)	58,613	

10. RETIREMENT PLAN

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

General employees are required by statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9% respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% 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 \$8,679, \$7,598 and \$6,727 (employer's share) respectively, equal to the required contributions each year.

There are no deferred contributions.

11. PROPERTY TAX

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

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

12. INSURANCE

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

Employee Health Insurance:

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members.

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

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide coverage for property, boiler and machinery, general liability, officials liability, and automobile insurance.

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

The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower cost for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed above, under a claims-made policy and the premiums are accrued on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage.

A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve on the following formula:

End of the City's:

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

As of December 31, 2014, the City has a vested balance in the cumulative reserve fund of \$17,224.

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.

Airport Liability Coverage:

The City has purchased airport liability coverage through a commercial insurance carrier.

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 \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. 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 provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota. No unemployment payments were made during the two years ending December 31, 2014 and none are expected in 2015.

13. LITIGATION

At December 31, 2014, the City was not a party to litigation or pending legal action. However, as discussed in the risk management note above, the City has liability coverage for itself and its employees through South Dakota Public Assurance Alliance. Therefore, should there be legal action, it is not expected to have a material effect on the City's financial statements.

14. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The City has no material unallowed related party activity.

The City does not offer any Other Post Employment Benefits.

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

In 2014 the City paid the Development Corporation \$15,000 to maintain the Community Center, \$5,000 for support and \$2,500 towards the director's salary.

In 2015 the City:

- * Purchased a 924K loader for \$153,390.
- * Completed the GA terminal building for approximately \$169,000.
- * Conducted a public meeting regarding sewer line replacement and relining for an estimated cost of \$5,151,000 which would increase sewer rates to about \$40 a month.
- * Considered applying for a 60/40 split Community Access Grant to improve 15th Avenue from Pearl Street to the hospital.
- * Received a base bid of \$344,430 for hanger and taxilane improvements using some \$286,530 of available federal entitlements.
- * Approved re-organization of the Housing & Redevelopment Commission Board to include 2 member of the City Council.

CITY OF FAULKTON

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

GENERAL FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Ad valorem taxes	192,343			218,386	26,043
Sales and use tax	140,000			167,076	27,076
Amusement tax			0	132	132
Licenses and permits:	10,995		10,995	6,057	(4,938)
Federal grants	337,500		337,500	60,013	(277,487)
State grants	18,750		18,750		(18,750)
Intergovernmental receipts:	40,690		40,690	50,486	9,796
Charges for goods and services	8,700		8,700	15,942	7,242
Fines and forfeits			0	117	117
Miscellaneous receipts:	14,500		14,500	21,156	6,656
Total receipts	763,478	0	0	539,365	(224,113)
Disbursements:					
General government:					
Mayor and Council	15,630	131		15,761	263
Contingency	10,000			10,000	10,000
Amount transferred		(2,158)		(2,158)	(2,158)
Elections	620		620	612	8
Financial administration	62,359	1,629		59,585	4,403
Other	22,991			16,834	6,157
Public safety:					
Police	41,500			41,500	0
Fire	10,000	148		10,148	0
Public works:					
Highways and streets	142,352	250		142,602	(44,196)
Solid waste	10,693			10,693	2,773
Airport	361,665			361,665	234,151
Cemetery	3,000			3,000	0
Health and welfare:					
West Nile	7,425			7,425	642
Culture and recreation:					
Recreation	46,260			46,260	3,256
Parks	6,613			6,071	542
Community center	18,025			17,836	189
Conservation and development:					
Economic devel. - assistance	7,500			7,500	19,175
Total disbursements	766,633	0	0	562,278	204,355
Excess of receipts over (under) disbursements	(3,155)	0	0	(3,155)	(19,758)
Other financing sources (uses):					
Transfer (out)				0	(8,400)
Sale of surplus property				0	400
Change in fund balance	(3,155)	0	0	(3,155)	(27,758)
Fund balance:					
January 1, 2014	336,569			336,569	0
December 31, 2014	333,414	0	0	305,656	(27,758)

CITY OF FAULKTON

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

GENERAL FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental		
Receipts:					
Receipts from local sources:					
Taxes:					
Ad valorem taxes	181,035			181,035	(1,024)
Sales and use tax	140,000			140,000	23,042
Amusement tax				0	108
Licenses and permits:	9,705			9,705	7,144
Federal grants	315,000			315,000	33,097
State grants	17,500			17,500	21,303
Intergovernmental receipts:	38,850			38,850	48,227
Charges for goods and services	8,300			8,300	13,255
Fines and forfeits				0	377
Miscellaneous receipts:	13,100			13,100	19,064
Total receipts	723,490	0	0	723,490	485,628
Disbursements:					
General government:					
Mayor and Council	15,555			15,555	13,753
Contingency	10,000			10,000	0
Amount transferred				0	600
Elections	600			600	25
Financial administration	55,527		4,300	59,827	58,837
Other	23,466		12,700	36,166	36,211
Public safety:					
Police	41,500			41,500	41,500
Fire	10,000			10,000	9,988
Public works:					
Highways and streets	145,299			145,299	200,114
Solid waste	6,925			6,925	7,248
Airport	346,860			346,860	42,206
Cemetery	3,000			3,000	3,000
Health and welfare:					
West Nile	1,725			1,725	66
Culture and recreation:					
Recreation	55,210			55,210	44,942
Parks	11,663			11,663	8,718
Community center	17,885			17,885	17,857
Conservation and development:					
Economic devel. - assistance	13,500			13,500	21,179
Total disbursements	758,715	0	17,000	775,715	505,644
Excess of receipts over (under) disbursements	(35,225)	0	(17,000)	(52,225)	(20,016)
Other financing sources (uses):					
Transfer in				0	64,486
Sale of surplus property				0	1,970
Change in fund balance	(35,225)	0	(17,000)	(52,225)	46,440
Fund balance:					
January 1, 2013	290,129			290,129	290,129
December 31, 2013	254,904	0	(17,000)	237,904	336,569

CITY OF FAULKTON

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

2ND CENT SALES TAX FUND (Reserved for capital improvements)	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Sales and use tax	141,000		141,000	167,076	26,076
Miscellaneous receipts:					
Interest received			0	728	728
Total receipts	141,000	0	141,000	167,804	26,804
Disbursements:					
General government:					
City Hall	20,000		20,000		20,000
Public works:					
Streets	115,000		115,000		115,000
Airport	18,750		18,750		18,750
Promoting the City	20,000		20,000		20,000
Total disbursements	173,750	0	173,750	0	173,750
Excess of receipts over (under) disbursements	(32,750)	0	(32,750)	167,804	200,554
Other financing sources (uses):					
Transfers in			0	18,661	18,661
Change in fund balance	(32,750)	0	(32,750)	186,465	219,215
Fund balance:					
January 1, 2014	471,599		471,599	471,599	0
December 31, 2014	438,849	0	438,849	658,064	219,215

FOR THE YEAR ENDING DECEMBER 31, 2013

2ND CENT SALES TAX FUND (Reserved for capital improvements)	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Sales and use tax	110,000		110,000	163,042	53,042
Miscellaneous receipts:					
Interest received			0	418	418
Total receipts	110,000	0	110,000	163,460	53,460
Disbursements:					
Public works:					
Highways and streets	77,500		77,500		77,500
Airport	17,500		17,500		17,500
Promoting the City	15,000		15,000		15,000
Total disbursements	110,000	0	110,000	0	110,000
Excess of receipts over (under) disbursements	0	0	0	163,460	163,460
Other financing sources (uses):					
Transfers (out)			0	(123,099)	(123,099)
Change in fund balance	0	0	0	40,361	40,361
Fund balance:					
January 1, 2013	431,238		431,238	431,238	0
December 31, 2013	431,238	0	431,238	471,599	40,361

CITY OF FAULKTON

BUDGETARY SUPPLEMENTARY INFORMATION

NOTES TO THE BUDGETARY COMPARISON SCHEDULES FOR THE GENERAL FUND
AND 2ND CENT FUND FOR THE TWO YEARS ENDING DECEMBER 31, 2014

1. BUDGETS AND BUDGETARY ACCOUNTING

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

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2014 there were no supplemental budgets to the general fund or the 2nd cent fund. See page and 29 and 31. During 2013 there was one supplemental budget to the general fund. See page 30.
- e. Formal budgetary integration is employed as a management control device for the general fund and 2nd cent fund.
- f. Budgets for the general fund and 2nd cent fund are not adopted on a basis consistent with generally accepted accounting principles (GAAP) because all accounting, and the adoption of the all budgets, is on a modified cash basis of accounting.

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE:

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

CITY OF FAULKTON

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

BUSINESS-TYPE	Beginning 12-31-12	2013 Additions (Deletions)	2014 Additions (Deletions)	Governmental	Enterprise	Principal Payments Due in 2015
				Funds Ending 12-31-14	Funds Ending 12-31-14	
2010 Water Project Bond, Series 2009:						
Original amount of \$1,141,000						
Maturing in 2050						
Interest at 3.25%						
Monthly payments of \$4,256						
Paid by the water fund	1,094,852	(15,723)	(16,242)		1,062,887	16,528
2011 SRF Drinking Water #2:						
Original amount of \$112,816						
Maturing 7-15-2042						
Interest at 3.00%						
Quarterly payments of \$1,429						
Paid by the water fund	112,233	(2,376)	(2,448)		107,409	2,522
2014 SRF Clean Water #1:						
Original amount of \$790,879						
Maturing 7-15-2045						
Interest at 3.25%						
Quarterly payments of \$10,342						
Paid by the sewer fund	0		781,194		781,194	3,916
Totals	1,207,085	(18,099)	762,504		1,951,490	22,966

NOTE

The City guarantees 25% of three Essential Function Housing Bonds for the Faulkton Housing & Redevelopment Commission. At December 31, 2014 the bonds have a remaining balance of \$174,783; \$256,341; and \$1,100,000. The City's guarantee on these bonds is \$382,781.

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

	Total Payment	Principal	Interest	Balance
2010 Water Project Bond, Series 2009:				
2015	51,072	16,528	34,544	1,046,359
2016	51,072	17,065	34,007	1,029,294
2017	51,072	17,620	33,452	1,011,674
2018	51,072	18,193	32,879	993,481
2019	51,072	18,784	32,288	974,697
2020-2024	255,360	103,483	151,877	871,214
2025-2029	255,360	121,428	133,932	749,786
2030-2034	255,360	142,485	112,875	607,301
2035-2039	255,360	167,194	88,166	440,107
2040-2044	255,360	196,187	59,173	243,920
2045-2049	255,360	230,209	25,151	13,711
2050	14,156	13,711	445	0
Totals	1,801,676	1,062,887	738,789	
2011 SRF Drinking Water #2:				
2015	5,716	2,522	3,194	104,887
2016	5,717	2,599	3,118	102,288
2017	5,716	2,678	3,038	99,610
2018	5,717	2,759	2,958	96,851
2019	5,716	2,843	2,873	94,008
2020-2024	28,582	15,561	13,021	78,447
2025-2029	28,582	18,069	10,513	60,378
2030-2034	28,582	20,981	7,601	39,397
2035-2039	28,582	24,363	4,219	15,034
2040-2042	17,150	15,034	2,116	0
Totals	160,060	107,409	52,651	
2014 SRF Clean Water #1:				
2015		(9,685)		790,879
2016	30,274	3,916	26,358	786,963
2017	41,369	15,987	25,382	770,976
2018	41,370	16,512	24,858	754,464
2019	41,369	17,056	24,313	737,408
2020	41,370	17,617	23,753	719,791
2020-2024	208,847	97,169	111,678	622,622
2025-2029	208,847	114,239	94,608	508,383
2030-2034	208,847	134,308	74,539	374,075
2035-2039	208,847	157,903	50,944	216,172
2040-2044	208,847	185,642	23,205	30,530
2045	31,027	30,530	497	0
Totals	1,271,014	781,194	480,135	

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 Faulkton
Faulkton, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of governmental activities, business-type activities, and each major fund, of the City of Faulkton (City), Faulk County, South Dakota, as of December 31, 2014 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated September 2, 2015 which was unmodified.

Compliance and Other Matters

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

I did note other matters involving compliance that I reported to the governing body and management of the City of Faulkton in a separate Letter of Comments dated September 2, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Faulkton's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Faulkton'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 Faulkton'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 questioned costs that I consider to be significant deficiencies. I consider the deficiencies described in the accompanying schedule of current audit findings and questioned costs as items 2014-01 and 2014-02 to be significant deficiencies.

I did note other matters involving internal control that I reported to the governing body and management of the City of Faulkton in a separate Letter of Comments dated September 2, 2015.

Management's Response to Findings

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

Purpose of this Report

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

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

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

September 2, 2015



SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit finding:
Not applicable to this audit.

Prior Other Audit Findings:
2012-01: [Enterprise Accounting] -- Corrected
2006-02: [Financial Statement Preparation] -- Repeated below as item 2014-02.

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Part I - Summary of the Audit:

Financial Statements

Type of auditor's report issued:

Disclaimer on:
Faulkton Housing and Redevelopment Commission
Unqualified on:
Governmental Activities
Business-Type Activities
All 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 and 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 and 2013 these City departments exceeded their budget by the following amounts.

2014:	General fund - Public Works/Highways and Streets	\$ 44,196
	- Conservation and Dev/Economic Development	11,675
2013:	General fund - General Government/Other	\$ 45
	- Public Works/Highways and Streets	54,815
	/Solid Waste	323
	- Conservation and Dev/Economic Development	7,679

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

CITY OF FAULKTON
DECEMBER 31, 2014
SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES (continued)

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.

Finding 2014-02: Financial Statement Preparation
(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.

Possible Effect:

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

Recommendations:

This situation is not unusual for an entity of the 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.