

**CITY OF HARTFORD**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**DECEMBER 31, 2014**

**CITY OF HARTFORD  
MUNICIPAL OFFICIALS  
DECEMBER 31, 2014**

Mayor

Paul Zimmer

Governing Board

Mark Monahan

Scott Yount

Gail Olson-Duck

Doyle Johnson

Bill Campbell

Scott Nelson

Finance Officer & Assistant City Administrator

Karen Wilber

City Administrator

Teresa Sidel

Attorney

Larry Nelson

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# QUAM & BERGLIN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
110 WEST MAIN – P.O. BOX 426  
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(605) 356-3374

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Hartford  
Minnehaha County, South Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hartford, South Dakota, as of December 31, 2014 and for the 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

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

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Nonmajor Fund Financial Statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

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

*Quam & Berglin, P.C.*

Quam and Berglin, P.C.  
Certified Public Accountants

November 4, 2015

**CITY OF HARTFORD  
STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>ASSETS:</u></b>			
Cash and Cash Equivalents	\$ 1,800,362.03	\$ 1,561,210.26	\$ 3,361,572.29
Investments		26,144.63	26,144.63
Taxes Receivable	9,328.40		9,328.40
Accounts Receivable, Net	18,823.08	78,334.35	97,157.43
Special Assessments Receivable - Current	24,188.52		24,188.52
Due From Government	64,034.64		64,034.64
Inventory	123,080.21	37,226.00	160,306.21
Restricted Assets:			
Restricted Cash	67,243.31		67,243.31
Restricted Deposits	17,663.08		17,663.08
Noncurrent Assets:			
Special Assessment Receivable	49,599.52		49,599.52
Capital Assets:			
Land and Construction Work in Progress	1,429,185.90	149,000.00	1,578,185.90
Other Capital Assets, Net of Depreciation	4,466,735.01	3,830,706.18	8,297,441.19
<b>TOTAL ASSETS</b>	<b><u>8,070,243.70</u></b>	<b><u>5,682,621.42</u></b>	<b><u>13,752,865.12</u></b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred Connection Fee		1,161,693.00	1,161,693.00
<b><u>LIABILITIES:</u></b>			
Accounts Payable	41,764.15	15,658.45	57,422.60
Accrued Wages Payable	8,460.97	2,120.34	10,581.31
Customer Deposits Payable		50,025.00	50,025.00
Noncurrent Liabilities:			
Due Within One Year	245,301.90	202,165.38	447,467.28
Due in More than One Year	1,487,683.42	2,107,596.36	3,595,279.78
<b>TOTAL LIABILITIES</b>	<b><u>1,783,210.44</u></b>	<b><u>2,377,565.53</u></b>	<b><u>4,160,775.97</u></b>
<b><u>NET POSITION:</u></b>			
Net Investment in Capital Assets	4,186,154.88	1,679,988.68	5,866,143.56
Restricted for:			
Debt Services	171,502.95		171,502.95
Capital Improvement	110,699.99		110,699.99
Community Development	96,560.69		96,560.69
Cumulative Reserve - SDPAA	17,663.08		17,663.08
Unrestricted	1,704,451.67	2,786,760.21	4,491,211.88
<b>TOTAL NET POSITION</b>	<b><u>\$ 6,287,033.26</u></b>	<b><u>\$ 4,466,748.89</u></b>	<b><u>\$ 10,753,782.15</u></b>

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

**CITY OF HARTFORD  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government	
					Business-Type Activities	Total
<b>Primary Government:</b>						
Governmental Activities:						
General Government	\$ 426,638.51	\$ 98,979.18	\$ 23,749.20	\$ (303,910.13)	\$	\$ (303,910.13)
Public Safety	251,806.52		5,509.00	(246,297.52)		(246,297.52)
Public Works	541,939.49	63,627.09		(478,312.40)		(478,312.40)
Culture and Recreation	242,506.91	29,525.50		(212,981.41)		(212,981.41)
Conservation & Development	182,744.33			(182,744.33)		(182,744.33)
*Interest on Long-Term Debt	73,894.72			(73,894.72)		(73,894.72)
<b>Total Governmental Activities</b>	<b>1,719,530.48</b>	<b>192,131.77</b>	<b>29,258.20</b>	<b>(1,498,140.51)</b>		<b>(1,498,140.51)</b>
Business-Type Activities:						
Water	530,536.54	512,508.32			(18,028.22)	(18,028.22)
Sewer	396,745.31	397,291.37			546.06	546.06
<b>Total Business-Type Activities</b>	<b>927,281.85</b>	<b>909,799.69</b>			<b>(17,482.16)</b>	<b>(17,482.16)</b>
<b>Total Primary Government</b>	<b>\$ 2,646,812.33</b>	<b>\$ 1,101,931.46</b>	<b>\$ 29,258.20</b>	<b>(1,498,140.51)</b>	<b>(17,482.16)</b>	<b>(1,515,622.67)</b>
<b>General Revenues:</b>						
Taxes:						
				882,469.81		882,469.81
				765,764.60		765,764.60
				32,557.11		32,557.11
				1,868.57	157.63	2,026.20
				60,869.80		60,869.80
				<u>1,743,529.89</u>	<u>157.63</u>	<u>1,743,687.52</u>
				<u>245,389.38</u>	<u>(17,324.53)</u>	<u>228,064.85</u>
				5,492,982.00	4,484,073.42	9,977,055.42
				<u>548,661.88</u>		<u>548,661.88</u>
				<u>6,041,643.88</u>	<u>4,484,073.42</u>	<u>10,525,717.30</u>
				<u>\$ 6,287,033.26</u>	<u>\$ 4,466,748.89</u>	<u>\$ 10,753,782.15</u>

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

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

**CITY OF HARTFORD  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014**

	Major Funds		Nonmajor	Total Governmental Funds
	General Fund	Diamond Trail West Fund	Other Governmental Funds	
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 1,487,310.43	\$ 9,838.27	\$ 303,213.33	\$ 1,800,362.03
Taxes Receivable - Delinquent	9,328.40			9,328.40
Accounts Receivable, Net	18,823.08			18,823.08
Special Assessments Receivable - Current	2,451.73		21,736.79	24,188.52
Special Assessments Receivable - Delinquent			12,867.87	12,867.87
Special Assessments Receivable - Deferred			36,731.65	36,731.65
Restricted Cash	67,243.31			67,243.31
Restricted Deposits	17,663.08			17,663.08
Due From Government	61,313.02		2,721.62	64,034.64
Inventory	123,080.21			123,080.21
<b>TOTAL ASSETS</b>	<b><u>\$ 1,787,213.26</u></b>	<b><u>\$ 9,838.27</u></b>	<b><u>\$ 377,271.26</u></b>	<b><u>\$ 2,174,322.79</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:</b>				
Liabilities:				
Accounts Payable	\$ 33,418.25	\$	\$ 8,345.90	\$ 41,764.15
Accrued Wages Payable	8,460.97			8,460.97
<b>Total Liabilities</b>	<b><u>41,879.22</u></b>		<b><u>8,345.90</u></b>	<b><u>50,225.12</u></b>
Deferred Inflows of Resources:				
Unavailable Revenue - Property Taxes	9,328.40			9,328.40
Unavailable Revenue - Special Assessments	2,451.73		71,336.31	73,788.04
<b>Total Deferred Inflows of Resources</b>	<b><u>11,780.13</u></b>		<b><u>71,336.31</u></b>	<b><u>83,116.44</u></b>
Fund Balances:				
Nonspendable	207,986.60			207,986.60
Restricted		9,838.27	301,401.27	311,239.54
Assigned	283,764.92			283,764.92
Unassigned	1,241,802.39		(3,812.22)	1,237,990.17
<b>Total Fund Balances</b>	<b><u>1,733,553.91</u></b>	<b><u>9,838.27</u></b>	<b><u>297,589.05</u></b>	<b><u>2,040,981.23</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ 1,787,213.26</u></b>	<b><u>\$ 9,838.27</u></b>	<b><u>\$ 377,271.26</u></b>	<b><u>\$ 2,174,322.79</u></b>

The attached notes are an integral part of these financial statements

**CITY OF HARTFORD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

Total Fund Balances - Governmental Funds \$ 2,040,981.23

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Cost of Assets:	\$ 9,305,399.58	
(Less) Accumulated Depreciation	<u>(3,409,478.67)</u>	5,895,920.91

Long-term liabilities, including loans payable and accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.

Loans Payable	\$ 1,709,766.03	
Accrued Leave Payable	<u>23,219.29</u>	(1,732,985.32)

Assets such as taxes receivable (delinquent), special assessments receivable (current, delinquent and deferred) and certain notes receivables are not available to pay for current period expenditures and therefore are deferred in the funds but are revenue in the government-wide financial statements.

83,116.44

Net Position - Governmental Funds \$ 6,287,033.26

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

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

	<u>Major Funds</u>		<u>Nonmajor</u>	
	<u>General Fund</u>	<u>Diamond Trail West Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Taxes:				
General Property Taxes	\$ 885,494.10	\$	\$	\$ 885,494.10
General Sales and Use Taxes	703,111.99		41,130.95	744,242.94
Business Sales Tax Revenue	21,521.66			21,521.66
Delinquent Taxes	2,522.31			2,522.31
Licenses and Permits	87,280.91			87,280.91
Intergovernmental Revenue:				
Federal Grants				
State Grants	5,509.00			5,509.00
State Shared Revenue:				
Bank Franchise Tax	19,806.69			19,806.69
Liquor Tax Reversion	12,750.42			12,750.42
Motor Vehicle Licenses (5%)	15,131.91			15,131.91
County Shared Revenue:				
County Highway and Bridge Tax	24,909.20			24,909.20
County Wheel Tax	3,382.83			3,382.83
Charge for Services:				
General Government			11,698.27	11,698.27
Culture and Recreation	29,525.50			29,525.50
Miscellaneous Revenue:				
Investment Earnings	1,344.43	29.68	494.46	1,868.57
Rentals	2,400.00			2,400.00
Special Assessments	11,280.89		18,187.57	29,468.46
Contributions and Donations	23,749.20			23,749.20
Other	34,080.85	3,190.95		37,271.80
<b>Total Revenue</b>	<u>1,883,801.89</u>	<u>3,220.63</u>	<u>71,511.25</u>	<u>1,958,533.77</u>
<b>Expenditures:</b>				
General Government:				
Legislative	14,425.14			14,425.14
Executive	3,525.54			3,525.54
Elections	699.71			699.71
Financial Administration	239,819.82			239,819.82
Other	57,369.60			57,369.60
<b>Total General Government</b>	<u>315,839.81</u>			<u>315,839.81</u>
Public Safety:				
Police	123,750.01			123,750.01
Fire	97,500.00			97,500.00
Siren	1,962.83			1,962.83
<b>Total Public Safety</b>	<u>223,212.84</u>			<u>223,212.84</u>

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

	Major Funds		Nonmajor	Total Governmental Funds
	General Fund	Diamond Trail West Fund	Other Governmental Funds	
Public Works:				
Highways and Streets	373,035.92			373,035.92
Total Public Works	373,035.92			373,035.92
Culture and Recreation:				
Recreation	81,207.74		1,269.65	82,477.39
Parks	110,510.77			110,510.77
Libraries	3,055.00			3,055.00
Total Culture and Recreation	194,773.51		1,269.65	196,043.16
Conservation and Development:				
Economic Development and Assistance	110,744.33		72,000.00	182,744.33
Total Conservation and Development	110,744.33		72,000.00	182,744.33
Debt Service	249,602.31		83,305.13	332,907.44
Capital Outlay	159,743.78	217,497.91	113,940.85	491,182.54
<b>Total Expenditures</b>	<b>1,626,952.50</b>	<b>217,497.91</b>	<b>270,515.63</b>	<b>2,114,966.04</b>
Excess of Revenue Over (Under) Expenditures	256,849.39	(214,277.28)	(199,004.38)	(156,432.27)
<b>Other Financing Sources (Uses):</b>				
Transfer In	67,243.31		115,568.46	182,811.77
Transfer Out	(115,568.46)		(67,243.31)	(182,811.77)
Sale of Municipal Property	21,198.00			21,198.00
Proceeds from Long Term Debt		475,000.00		475,000.00
<b>Total Other Financing Sources (Uses)</b>	<b>(27,127.15)</b>	<b>475,000.00</b>	<b>48,325.15</b>	<b>496,198.00</b>
Net Change in Fund Balances	229,722.24	260,722.72	(150,679.23)	339,765.73
Fund Balance - Beginning	1,410,775.24	(250,884.45)	282,984.08	1,442,874.87
Prior Period Adjustment	93,056.43		165,284.20	258,340.63
Fund Balance - Adjusted Beginning	1,503,831.67	(250,884.45)	448,268.28	1,701,215.50
<b>FUND BALANCE - ENDING</b>	<b>\$ 1,733,553.91</b>	<b>\$ 9,838.27</b>	<b>\$ 297,589.05</b>	<b>\$ 2,040,981.23</b>

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

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

Net Change in Fund Balances - Total Governmental Funds \$ 339,765.73

Amounts reported for governmental activities in the Statement of  
Activities are different because:

Governmental funds report capital outlays as expenditures, however, in the  
Statement of Activities the cost of those assets is allocated over their  
estimated useful lives and reported as depreciation expense. This is the  
amount by which capital outlay exceeded depreciation in the current period. 133,767.68

The receipt of donated capital assets is not reported on the fund  
statements, but is reported as a program revenue on the government- wide  
statements.

The issuance of long-term debt is an other financing source in the fund  
statements but an increase in long-term liabilities on the government-wide  
statements.

Revenue Bond (475,000.00)

Governmental funds do not reflect the change in accrued leave, but the  
statement of activities reflects the change in accrued leave through  
expenditures. 2,655.16

Repayment of debt is an expenditure in the governmental funds, but the  
repayment reduces long-term liabilities in the Statement of Net Position. 259,012.72

Governmental funds report property taxes and special assessments as  
revenue when cash is received, but the Statement of Activities includes  
these items as revenues when earned. (14,811.91)

Change in Net Position of Governmental Activities \$ 245,389.38

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

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

	<u>Enterprise Funds</u>		
	<u>Major Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<b><u>ASSETS:</u></b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,154,876.57	\$ 406,333.69	\$ 1,561,210.26
Investments	26,144.63		26,144.63
Accounts Receivable, Net	39,878.31	38,456.04	78,334.35
Inventory of Supplies	12,245.00	9,465.00	21,710.00
Inventory of Stores Purchased for Resale	15,516.00		15,516.00
<b>Total Current Assets</b>	<u>1,248,660.51</u>	<u>454,254.73</u>	<u>1,702,915.24</u>
Noncurrent Assets:			
Capital Assets:			
Land		149,000.00	149,000.00
Buildings	9,837.44	559,837.43	569,674.87
Improvement other than Buildings	3,797,935.52	4,772,675.10	8,570,610.62
Machinery and Equipment	42,057.96	143,202.63	185,260.59
Less: Accumulated Depreciation	<u>(2,242,889.33)</u>	<u>(3,251,950.57)</u>	<u>(5,494,839.90)</u>
<b>Total Noncurrent Assets</b>	<u>1,606,941.59</u>	<u>2,372,764.59</u>	<u>3,979,706.18</u>
<b>TOTAL ASSETS</b>	<u>2,855,602.10</u>	<u>2,827,019.32</u>	<u>5,682,621.42</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred Connection Fee	<u>1,161,693.00</u>		<u>1,161,693.00</u>
<b><u>LIABILITIES:</u></b>			
Current Liabilities:			
Accounts Payable	9,837.59	5,820.86	15,658.45
Accrued Wages Payable	1,275.49	844.85	2,120.34
Customer Deposits	50,025.00		50,025.00
Accrued Leave Payable - Current	5,022.12	5,022.12	10,044.24
Other Long-Term Debt - Current	95,337.74	96,783.40	192,121.14
<b>Total Current Liabilities</b>	<u>161,497.94</u>	<u>108,471.23</u>	<u>269,969.17</u>
Noncurrent Liabilities:			
Revenue Bonds Payable	<u>1,124,839.52</u>	<u>982,756.84</u>	<u>2,107,596.36</u>
<b>Total Noncurrent Liabilities</b>	<u>1,124,839.52</u>	<u>982,756.84</u>	<u>2,107,596.36</u>
<b>TOTAL LIABILITIES</b>	<u>1,286,337.46</u>	<u>1,091,228.07</u>	<u>2,377,565.53</u>
<b><u>NET POSITION:</u></b>			
Net Investment in Capital Assets	386,764.33	1,293,224.35	1,679,988.68
Unrestricted Net Position	<u>2,344,193.31</u>	<u>442,566.90</u>	<u>2,786,760.21</u>
<b>TOTAL NET POSITION</b>	<u>\$ 2,730,957.64</u>	<u>\$ 1,735,791.25</u>	<u>\$ 4,466,748.89</u>

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

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

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Major Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	
<b><u>Operating Revenue:</u></b>			
Charges for Goods and Services (Revenues Securing Debt Issues)	\$ 507,584.41	\$ 383,926.17	\$ 891,510.58
Miscellaneous	4,923.91	13,365.20	18,289.11
Total Operating Revenue	<u>512,508.32</u>	<u>397,291.37</u>	<u>909,799.69</u>
<b><u>Operating Expenses:</u></b>			
Personal Services	41,947.34	40,620.66	82,568.00
Other Current Expense	172,382.25	71,080.08	243,462.33
Amortization	103,990.00		103,990.00
Depreciation	169,494.33	242,349.57	411,843.90
Total Operating Expenses	<u>487,813.92</u>	<u>354,050.31</u>	<u>841,864.23</u>
Operating Income (Loss)	24,694.40	43,241.06	67,935.46
<b><u>Nonoperating Revenue (Expense):</u></b>			
Interest Income	157.63		157.63
Interest Expense and Fiscal Charges	<u>(42,722.62)</u>	<u>(42,695.00)</u>	<u>(85,417.62)</u>
Total Nonoperating Revenue (Expense)	<u>(42,564.99)</u>	<u>(42,695.00)</u>	<u>(85,259.99)</u>
Change in Net Position	(17,870.59)	546.06	(17,324.53)
Net Position - Beginning	<u>2,748,828.23</u>	<u>1,735,245.19</u>	<u>4,484,073.42</u>
<b>NET POSITION - ENDING</b>	<u>\$ 2,730,957.64</u>	<u>\$ 1,735,791.25</u>	<u>\$ 4,466,748.89</u>

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

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

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Major Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>			
Cash Receipts from Customers	\$ 508,103.86	\$ 386,023.19	894,127.05
Cash Receipts from Interfund Services Provided	4,216.15	4,216.14	8,432.29
Cash Payments to Employees for Services	(39,036.73)	(37,768.69)	(76,805.42)
Cash Payments to Suppliers for Goods and Services	(147,003.66)	(73,233.22)	(220,236.88)
Net Cash Provided (Used) by Operating Activities	<u>326,279.62</u>	<u>279,237.42</u>	<u>605,517.04</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>			
Purchase of Capital Assets	(16,654.10)	(20,743.80)	(37,397.90)
Principal Paid on Capital Debt	(94,530.74)	(95,452.76)	(189,983.50)
Interest Paid on Capital Debt	(42,722.62)	(42,695.00)	(85,417.62)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(153,907.46)</u>	<u>(158,891.56)</u>	<u>(312,799.02)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>			
Purchase of Investment Securities	(144.63)		(144.63)
Interest Earnings	157.63		157.63
Net Cash Provided (Used) by Investing Activities	<u>13.00</u>		<u>13.00</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 172,385.16</u>	<u>\$ 120,345.86</u>	<u>\$ 292,731.02</u>
Cash and Cash Equivalents at Beginning of Year	\$ 982,491.41	\$ 285,987.83	\$ 1,268,479.24
Cash and Cash Equivalents at End of Year	<u>1,154,876.57</u>	<u>406,333.69</u>	<u>1,561,210.26</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 172,385.16</u>	<u>\$ 120,345.86</u>	<u>\$ 292,731.02</u>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u></b>			
Operating Income (Loss)	\$ 24,694.40	\$ 43,241.06	\$ 67,935.46
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	169,494.33	242,349.57	411,843.90
Amortization Expense	103,990.00		103,990.00
Change in Assets and Liabilities:			
Receivables	(3,013.31)	(7,052.04)	(10,065.35)
Inventories	27,615.00	(35.00)	27,580.00
Accounts and Other Payables	(2,236.41)	(2,118.14)	(4,354.55)
Accrued Wages Payable	220.49	161.85	382.34
Accrued Leave Payable	2,690.12	2,690.12	5,380.24
Customer Deposits	2,825.00		2,825.00
Net Cash Provided (Used) by Operating Activities	<u>\$ 326,279.62</u>	<u>\$ 279,237.42</u>	<u>\$ 605,517.04</u>

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

CITY OF HARTFORD  
NOTES TO THE FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies**

a. Financial Reporting Entity:

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

b. Basis of Presentation:

*Government-wide Financial Statements:*

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

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

*Fund Financial Statements:*

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

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

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

## **Governmental Funds:**

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

Special Revenue Funds – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Additional Sales Tax Fund – A fund established by South Dakota Codified Law (SDCL) 10-52-2, to pay debt service on bonds and other costs of capital improvements and land acquisition. The fund is financed by a “Second Penny” retail sales tax collected prior to December 31, 2002. This is not a major fund.

“Second Penny” sales tax collected after December 31, 2002 is unrestricted; therefore it is accounted for in the General Fund.

3rd Penny Sales Tax Fund- A fund established by SDCL 10-52A used to pay for promotion of the City. It is financed by a gross receipts tax on bars, restaurants and motels. This is not a major fund.

Debt Service Funds – Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

2007 Special Assessments Fund- To account for special assessment taxes which may be used only for the payment of the debt principal, interest, and related costs. This is not a major fund.

Capital Project Funds – Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

The Capital Project Funds maintained by the City during 2014 were the “Diamond Trail West Fund”, “Diamond Trail East Fund”, “Pool Fund” and the “Sports Complex Fund.” The purpose of these funds was to construct selected park and recreation improvements. The projects were funded in 2014 by transfers from the General Fund. These are not major funds, except for the “Diamond Trail West Fund”, which was a major fund in 2014.

## **Proprietary Funds:**

Enterprise Funds – enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity’s principle revenue sources.

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

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

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

c. Measurement Focus and Basis of Accounting:

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

**Measurement Focus:**

*Government-wide Financial Statements:*

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

*Fund Financial Statements:*

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary funds.

**Basis of Accounting:**

*Government-wide Financial Statements:*

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

*Fund Financial Statements:*

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Hartford, the length of that cycle is 30 days. The revenues which were accrued at December 31, 2014, are taxes receivable, amounts due from other governments for grants, and other receivables due within 30 days.

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

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications:

*Government-wide Financial Statements:*

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

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.

e. Deposits and Investments:

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

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

f. Capital Assets:

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

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

*Government-Wide Statements:*

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized. The total December 31, 2014 balance of governmental activities and business-type capital assets are all valued at original cost.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired

prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements Other than Buildings." For governmental activities capital assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land and Land Rights	All	NA	NA
Improvements other than Buildings	\$ 50,000	Straight Line	20-100 years
Buildings	25,000	Straight Line	15-50 years
Machinery and Equipment	500	Straight Line	4-20 years

Land is an inexhaustible capital asset and is not depreciated.

*Fund Financial Statements:*

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

g. Long-Term Liabilities:

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of revenue bonds, special assessment bonds, state revolving loans, and compensated absences.

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

h. Program Revenues:

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

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

i. Deferred Inflows and Deferred Outflows of Resources

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

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

j. Proprietary Funds Revenue and Expense Classifications:

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

k. Cash and Cash Equivalents:

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

l. Equity Classifications:

*Government-wide Statements:*

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

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

m. Application of Net Position:

It is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

n. Fund Balance Classification Policies and Procedures:

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

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

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

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

A schedule of fund balances is provided as follows:

CITY OF HARTFORD  
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014

<b>Fund Balances:</b>	<u>General Fund</u>	<u>Diamond Trail West Fund</u>	<u>Other Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Nonspendable:</i>				
Restricted Cash	\$ 67,243.31	\$	\$	67,243.31
Inventory	123,080.21			123,080.21
SDPAA Insurance Pool	17,663.08			17,663.08
<i>Restricted for:</i>				
Debt Service			100,166.64	100,166.64
Capital Improvement		9,838.27	104,673.94	114,512.21
Community Development			96,560.69	96,560.69
<i>Assigned:</i>				
For Park	283,764.92			283,764.92
<i>Unassigned</i>	<u>1,241,802.39</u>	<u>                    </u>	<u>(3,812.22)</u>	<u>1,237,990.17</u>
Total Fund Balances	<u>\$ 1,733,553.91</u>	<u>\$ 9,838.27</u>	<u>\$ 297,589.05</u>	<u>\$ 2,040,981.23</u>

**2. Deficit Fund Balances/Net Position of Individual Non-major Funds:**

As of December 31, 2014, the following individual non-major fund had a deficit fund balance/net position in the amounts shown:

Sports Complex Fund	\$ (3,812.22)
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In the future, the Governing Board plans to transfer enough money from the General Fund to correct negative fund balances.

**3. Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk**

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

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

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

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

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 Investment -The City places no limit on the amount that may be invested in any one issuer.

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

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

**4. Restricted Cash**

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

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Additonal Sales Tax	\$ 67,243.31	Debt Service, by debt covenants

## **5. Receivables and Payables**

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

## **6. Inventory**

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

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

### *Government-wide Financial Statements:*

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

### *Fund Financial Statements:*

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

## **7. Property Taxes**

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach an enforceable lien on property, and become due and payable as of the following January, 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.

## **8. Changes In General Capital Assets**

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

**Restated	Balance 01/01/14	Increases	Decreases	Balance 12/31/14
<b>Governmental Activities:</b>				
Land	\$ 750,785.00	\$ 73,676.77	\$ (21,198.00)	\$ 803,263.77
Construction in Progress	** 726,208.84	369,634.04	(469,920.75)	625,922.13
Total Capital Assets, not being Depreciated	<u>1,476,993.84</u>	<u>443,310.81</u>	<u>(491,118.75)</u>	<u>1,429,185.90</u>
<b>Capital Assets, being Depreciated:</b>				
Buildings	** 396,084.43	29,661.98		425,746.41
Improvements, other than Buildings	** 5,655,006.55	471,722.73		6,126,729.28
Machinery and Equipment	** 1,307,334.27	16,403.72		1,323,737.99
Total Capital Assets, being Depreciated	<u>7,358,425.25</u>	<u>517,788.43</u>		<u>7,876,213.68</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	246,207.92	8,365.58		254,573.50
Improvements, other than Buildings	1,959,929.99	284,313.93		2,244,243.92
Machinery and Equipment	<u>845,925.90</u>	<u>64,735.35</u>		<u>910,661.25</u>
Total Accumulated Depreciation	<u>3,052,063.81</u>	<u>357,414.86</u>		<u>3,409,478.67</u>
Total Governmental Activities Capital Assets, being Depreciated, Net	<u>4,306,361.44</u>	<u>160,373.57</u>		<u>4,466,735.01</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 5,783,355.28</u>	<u>\$ 603,684.38</u>	<u>\$ (491,118.75)</u>	<u>\$ 5,895,920.91</u>

Depreciation expenses were charged to functions as follows:

General Government	\$ 110,798.70
Public Safety	28,593.68
Public Works	171,558.73
Culture and Recreation	<u>46,463.75</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 357,414.86</u>

	Balance 1/1/2014	Increases	Decreases	Balance 12/31/2014
<b>Business-Type Activities:</b>				
<b>Capital Assets, not being Depreciated</b>				
Land	\$ 149,000.00	\$	\$	\$ 149,000.00
Construction in Progress				
Total Capital Assets, not being Depreciated	<u>149,000.00</u>			<u>149,000.00</u>
<b>Capital Assets, being Depreciated:</b>				
Buildings	550,000.00	19,674.87		569,674.87
Improvements Other than Building	8,570,610.62			8,570,610.62
Machinery and Equipment	<u>167,537.56</u>	<u>17,723.03</u>		<u>185,260.59</u>
Total	<u>9,288,148.18</u>	<u>37,397.90</u>		<u>9,325,546.08</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	248,920.83	11,393.50		260,314.33
Improvements Other than Building	4,720,840.45	392,487.89		5,113,328.34
Machinery and Equipment	<u>113,234.85</u>	<u>7,962.38</u>		<u>121,197.23</u>
Total Accumulated Depreciation	<u>5,082,996.13</u>	<u>411,843.77</u>		<u>5,494,839.90</u>
Total Business-Type Activities Capital Assets, being depreciated, net	<u>4,205,152.05</u>	<u>(374,445.87)</u>		<u>3,830,706.18</u>
Business-Type Activity, Capital Assets, net	<u>\$ 4,354,152.05</u>	<u>\$ (374,445.87)</u>	<u>\$</u>	<u>\$ 3,979,706.18</u>

Depreciation expense was charged to functions as follows:

Water	\$ 169,494.33
Sewer	242,349.44
Total Depreciation Expense, Business-Type Activities	<u>\$ 411,843.77</u>

Construction Work in Progress at December 31, 2014 is comprised of the following:

<u>Project Name</u>	<u>Authorization</u>	<u>Expended through 12/31/2014</u>	<u>Committed</u>
<b><u>Governmental Activities</u></b>			
Sports Complex	\$ 2,500,000.00	\$ 594,161.34	\$ 1,905,838.66
Diamond Trail	31,760.79	31,760.79	249,116.00
<b>Total Governmental Activities</b>	<u>\$ 2,531,760.79</u>	<u>\$ 625,922.13</u>	<u>\$ 2,154,954.66</u>

## 9. Changes in Long-term Debt

A summary of the changes in long-term debt for the year ended December 31, 2014 is as follows:

	1/1/2014 Beginning Balance	Additions	Retired	12/31/2014 Ending Balance	Due within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Bonds Payable - Revenue	\$ 789,000.00	\$ 475,000.00	\$ 110,119.92	\$ 1,153,880.08	\$ 112,620.38
State Revolving Funds	369,305.22		37,128.86	332,176.36	39,020.40
Special Assessments	335,321.25		111,611.66	223,709.59	70,441.83
Accrued Compensated Absences- Governmental Funds	20,564.13	29,215.17	26,560.01	23,219.29	23,219.29
<b>Total Governmental Activities</b>	<u>1,514,190.60</u>	<u>504,215.17</u>	<u>285,420.45</u>	<u>1,732,985.32</u>	<u>245,301.90</u>
<b>Business-Type Activities:</b>					
State Revolving Funds	2,485,034.38		185,317.50	2,299,716.88	192,121.14
Accrued Compensated Absences- Business-Type Funds	9,330.30	11,542.64	10,828.70	10,044.24	10,044.24
<b>Total Business-Type Activities</b>	<u>2,494,364.68</u>	<u>11,542.64</u>	<u>196,146.20</u>	<u>2,309,761.12</u>	<u>202,165.38</u>
<b>Total Primary Government</b>	<u>\$ 4,008,555.28</u>	<u>\$ 515,757.81</u>	<u>\$ 481,566.65</u>	<u>\$ 4,042,746.44</u>	<u>\$ 447,467.28</u>

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

<u>Revenue Bonds</u>	<u>General Long-Term Debt</u>
Sales Tax Revenue Bond--Series 2013, 3.25% interest, Final Maturity Date of January 1, 2023. Retired by the General Fund.	\$ 720,029.16
Sales Tax Revenue Bond--Series 2014, 3.15% interest, Final Maturity Date of November 1, 2023. Retired by the General Fund.	<u>433,850.92</u>
<b>TOTAL REVENUE BONDS</b>	<u>\$ 1,153,880.08</u>

<u>State Revolving Loans</u>	General Long-Term Debt	Enterprise Funds
State Revolving Fund Loan; 5.00% Interest, Final Maturity Date of April 1, 2022: Retired by the General Fund.	\$ 332,176.36	
State Revolving Fund Loan; 3.25% Interest, Final Maturity Date of April 15, 2027: Retired by the Water Fund.		\$ 771,837.49
State Revolving Fund Loan; 3.25% Interest, Final Maturity Date of January 15, 2024: Retired by the Water Fund.		448,339.83
State Revolving Fund Loan; 3.25% Interest, Final Maturity Date of January 15, 2028: Retired by the Sewer Fund.		394,682.17
State Revolving Fund Loan; 3.50% Interest, Final Maturity Date of January 15, 2024: Retired by the Sewer Fund.		301,326.34
State Revolving Fund Loan; 3.25% Interest, Final Maturity Date of October 1, 2022: Retired by the Sewer Fund.		141,466.88
State Revolving Fund Loan; 5.00% Interest, Final Maturity Date of April 1, 2022: Retired by the Sewer Fund.		242,064.17
<b>TOTAL STATE REVOLVING LOANS</b>	<b><u>\$ 332,176.36</u></b>	<b><u>\$ 2,299,716.88</u></b>

Special Assessment Bonds

Special Assessment Bond-Series 2007, 5.75% interest. Final Maturity date of December 1, 2017, Retired by Debt Service Fund

\$ 223,709.59

Compensated Absences

Accumulated Liability for Unused Vacation. Payments to be made by the funds that payroll expenditures are charged to.

\$ 23,219.29      \$ 10,044.24

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

**GOVERNMENTAL ACTIVITIES**

Year Ended Dec 31,	Revenue Bonds		State Revolving Loan		Special Assessments		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2015	\$ 112,620	\$ 37,392	\$ 39,020	\$ 15,885	\$ 70,442	\$ 12,863	\$ 222,082
2016	116,269	33,743	41,008	13,897	74,492	8,813	231,769	56,453
2017	119,985	30,027	43,097	11,805	78,776	4,530	241,858	46,362
2018	123,926	26,087	45,293	9,612			169,219	35,699
2019	127,941	22,071	47,601	7,305			175,542	29,376
2020-2024	553,139	45,482	116,157	7,380			669,296	52,862
<b>Total</b>	<b><u>\$ 1,153,880</u></b>	<b><u>\$ 194,802</u></b>	<b><u>\$ 332,176</u></b>	<b><u>\$ 65,884</u></b>	<b><u>\$ 223,710</u></b>	<b><u>\$ 26,206</u></b>	<b><u>\$ 1,709,766</u></b>	<b><u>\$ 286,892</u></b>

**BUSINESS-TYPE ACTIVITIES**

Year Ended Dec 31,	State Revolving Loan	
	Principal	Interest
2015	\$ 192,121	\$ 78,614
2016	199,181	71,554
2017	206,508	64,227
2018	214,111	56,624
2019	336,418	77,150
2020-2024	985,756	104,429
2025-2029	165,622	6,801
Total	<b>\$ 2,299,717</b>	<b>\$ 459,399</b>

*Utilities Revenues Pledged:*

The City has pledged future water, electric, telephone and cable customer revenues, net of specified operating expenses:

The City has pledged future water customer's revenues, net of specified operating expenses, to repay \$1,924,513 in water system loans issued in 2003 and 2005. Proceeds from the loans provided financing for the construction of water system infrastructure.

The loans are payable solely from water customer net revenues and are payable through 2027. Annual principal and interest payment on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,463,337. Principal and interest paid for the current year and total customer net revenues were \$134,921 and \$512,508 respectively.

The City had also pledged future sewer customers' revenues, net of specified operating expenses, to repay \$1,877,644 in sewer system loans issued in 2000, 2002, 2004 and 2007. Proceeds from the loans provided financing for the construction of sewer system improvements.

The loans are payable solely from sewer customer net revenues and are payable through 2028. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,295,779. Principal and interest paid for the current year and total customer net revenues were \$135,815 and \$397,291, respectively.

**10. Restricted Net Position**

Restricted net position for the year ended December 31, 2014 was as follows:

Debt Service Funds	\$ 171,502.95
Capital Improvement	110,699.99
Community Development	96,560.69
SDPAA Contribution	<u>17,663.08</u>
Total Restricted Net Position	<u>\$ 396,426.71</u>

These balances are restricted due to federal grant and statutory requirements.

**11. Interfund Transfers**

Interfund transfers for the year ended December 31, 2014 were as follows:

<u>Transfer From:</u>	<u>Transfer To:</u>				<u>Total</u>
	<u>Capital Project Funds-Nonmajor</u>				
	<u>General Fund</u>	<u>Sports Complex Fund</u>	<u>Pool Fund</u>	<u>Diamond Trail East</u>	
General Fund		\$ 33,681.67	\$ 50,000.00	\$ 31,886.79	\$ 115,568.46
Additional Sales Tax	67,243.31				67,243.31
	<u>\$ 67,243.31</u>	<u>\$ 33,681.67</u>	<u>\$ 50,000.00</u>	<u>\$ 31,886.79</u>	<u>\$ 182,811.77</u>

The City typically budgets transfers to the capital project funds to conduct the indispensable functions of the City.

**12. Prior Period Adjustments**

A prior period adjustment of \$ 17,663.08 was made to the General Fund Balance Sheet and to the Governmental Activities Statement of Net Position in relation to SDPAA reserve fund for an amount that should have been included in a prior year.

A prior period adjustment of \$ 75,393.35 was made to the General Fund Balance Sheet and to the Governmental Activities Statement of Net Position in relation to special assessments unavailable revenue recorded in the wrong governmental fund.

A prior period adjustment of \$165,284.20 was made to the Combining Statement of Revenues, Expenditures and Changes in Fund Balances and to the Governmental Activities Statement of Activities to add the 2007 Special Assessments as a Governmental Debt Service Fund. This fund had been reported as Trust & Agency in prior years.

A prior period adjustment of \$290,321.25 was made to the Governmental Activities Statement of Net Position to add the 2007 Special Assessments Revenue Bonds Debt. This fund had been reported as Trust & Agency in prior years.

**13. Retirement Plan**

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

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2014, 2013, and 2012 were \$21,084, \$20,616, and \$16,177, respectively, equal to the required contributions each year.

#### **14. Risk Management**

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

##### **Employee Health Insurance:**

The city purchases health insurance for its employees from a commercial insurance carrier. Settled results 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, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the 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 costs for that coverage. The Municipality'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 below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for torts, thefts, errors and omissions, automobile and general liability.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverage will be provided up to a \$2,000,000 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. 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 fund on the following basis:

End of City's First Full Year	50%
End of City's Second Full Year	60%
End of City's Third Full Year	70%
End of City's Fourth Full Year	80%
End of City's Fifth Full Year	90%
End of City's Sixth Full Year and Thereafter	100%

As of December 31, 2014, the City has a vested balance in the cumulative reserve fund of \$17,663.08.

##### **Worker's Compensation:**

The city joined the South Dakota City League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on the behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance, which covers up to an additional \$2,000,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

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.

**NOTE 16 – Significant Contingencies-Litigation**

At November 4, 2015, the City was not involved in any litigation.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts (Budgetary Basis)</u>	<u>Positive (Negative)</u>
<b>Revenues:</b>				
Taxes:				
General Property Taxes	\$ 891,600.00	\$ 891,600.00	\$ 885,494.10	\$ (6,105.90)
General Sales and Use Taxes	620,000.00	620,000.00	703,111.99	83,111.99
Gross Receipts Business Taxes	17,020.00	17,020.00	21,521.66	4,501.66
Penalties on Taxes	2,000.00	2,000.00	2,522.31	522.31
Licenses and Permits	100,430.00	100,430.00	87,280.91	(13,149.09)
Intergovernmental Revenue:				
Federal Grants	329,366.00	329,366.00		(329,366.00)
State Grants			5,509.00	5,509.00
State Shared Revenue:				
Bank Franchise Tax	15,500.00	15,500.00	19,806.69	4,306.69
Liquor Tax Reversion	12,000.00	12,000.00	12,750.42	750.42
Motor Vehicle Licenses (5%)	11,000.00	11,000.00	15,131.91	4,131.91
County Shared Revenue:				
County Highway and Bridge Tax	18,000.00	18,000.00	24,909.20	6,909.20
County Wheel Tax	3,000.00	3,000.00	3,382.83	382.83
Charge for Services:				
Culture and Recreation	21,500.00	21,500.00	29,525.50	8,025.50
Fines and Forfeits:				
Court Fines and Costs	2,000.00	2,000.00		(2,000.00)
Miscellaneous Revenue:				
Investment Earnings	1,570.00	1,570.00	1,344.43	(225.57)
Rentals			2,400.00	2,400.00
Special Assessments	5,590.79	5,590.79	11,280.89	5,690.10
Contribution and Donations	1,500.00	1,500.00	23,749.20	22,249.20
Other	9,000.00	9,000.00	34,080.85	25,080.85
<b>Total Revenue</b>	<u>2,061,076.79</u>	<u>2,061,076.79</u>	<u>1,883,801.89</u>	<u>(177,274.90)</u>
<b>Expenditures:</b>				
General Government:				
Legislative	22,430.00	22,430.00	14,425.14	8,004.86
Executive	4,456.00	4,456.00	3,525.54	930.46
Elections	830.00	830.00	699.71	130.29
Financial Administration	229,079.00	249,804.00	239,819.82	9,984.18
Other	67,253.00	149,009.77	147,287.88	1,721.89
<b>Total General Government</b>	<u>324,048.00</u>	<u>426,529.77</u>	<u>405,758.09</u>	<u>20,771.68</u>
Public Safety:				
Police	129,704.00	129,704.00	123,750.01	5,953.99
Fire	97,500.00	97,500.00	97,500.00	
Siren	500.00	1,962.83	1,962.83	
<b>Total Public Safety</b>	<u>227,704.00</u>	<u>229,166.83</u>	<u>223,212.84</u>	<u>5,953.99</u>

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

	<u>Budgeted Amounts</u>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
Public Works:				
Highways and Streets	379,930.00	398,810.00	381,163.56	17,646.44
<b>Total Public Works</b>	<u>379,930.00</u>	<u>398,810.00</u>	<u>381,163.56</u>	<u>17,646.44</u>
Culture and Recreation:				
Recreation	169,030.00	209,598.46	83,079.74	126,518.72
Parks	547,790.75	632,050.75	170,336.63	461,714.12
Libraries	8,055.00	3,055.00	3,055.00	
<b>Total Culture and Recreation</b>	<u>724,875.75</u>	<u>844,704.21</u>	<u>256,471.37</u>	<u>588,232.84</u>
Conservation and Development:				
Economic Development and Assistance	139,332.50	139,332.50	110,744.33	28,588.17
<b>Total Conservation and Development</b>	<u>139,332.50</u>	<u>139,332.50</u>	<u>110,744.33</u>	<u>28,588.17</u>
Debt Service	231,943.71	250,170.97	249,602.31	568.66
Contingency	70,000.00	6,305.90		6,305.90
<b>Total Expenditures</b>	<u>2,097,833.96</u>	<u>2,295,020.18</u>	<u>1,626,952.50</u>	<u>668,067.68</u>
Excess of Revenue Over (Under) Expenditures	<u>(36,757.17)</u>	<u>(233,943.39)</u>	<u>256,849.39</u>	<u>490,792.78</u>
<b><u>Other Financing Sources (Uses):</u></b>				
Sale of Municipal Property			21,198.00	21,198.00
Transfers In			67,243.31	67,243.31
Transfers (Out)			(115,568.46)	(115,568.46)
<b>Total Other Financing Sources (Uses)</b>			<u>(27,127.15)</u>	<u>(27,127.15)</u>
Net Change in Fund Balances	<u>(36,757.17)</u>	<u>(233,943.39)</u>	<u>229,722.24</u>	<u>463,665.63</u>
Fund Balance - Beginning	1,410,775.24	1,410,775.24	1,410,775.24	
Prior Period Adjustment			93,056.43	
Fund Balance - Adjusted Beginning	<u>1,410,775.24</u>	<u>1,410,775.24</u>	<u>1,503,831.67</u>	<u>93,056.43</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 1,374,018.07</u>	<u>\$ 1,176,831.85</u>	<u>\$ 1,733,553.91</u>	<u>\$ 556,722.06</u>

CITY OF HARTFORD  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
Schedules of Budgetary Comparisons for the General Fund

Note 1: Budgets and Budgetary Accounting:

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

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

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

6. Formal budgetary integration is employed as a management control device during the year for the General Fund, special revenue funds and capital project funds.
7. Budgets for the General Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America (USGAAP).

Note 2: GAAP/ Budgetary Accounting Basis Differences

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

CITY OF HARTFORD  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2014

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>			<u>Total Nonmajor Governmental Funds</u>
	3rd Penny Sales Tax Fund	2007 Special Assessments Debt Service	Sports Complex Fund	Pool Fund	Diamond Trail East Fund	
<b>ASSETS:</b>						
Cash and Cash Equivalents	\$ 93,839.07	\$ 100,166.64	\$ 2,035.78	\$ 104,551.99	\$ 2,619.85	\$ 303,213.33
Special Assessments Receivable - Current		21,736.79				21,736.79
Special Assessments Receivable - Delinquent		12,867.87				12,867.87
Special Assessments Receivable - Deferred		36,731.65				36,731.65
Due From Government	2,721.62					2,721.62
<b>TOTAL ASSETS</b>	<u>\$ 96,560.69</u>	<u>\$ 171,502.95</u>	<u>\$ 2,035.78</u>	<u>\$ 104,551.99</u>	<u>\$ 2,619.85</u>	<u>\$ 377,271.26</u>
<b>LIABILITIES AND FUND BALANCES:</b>						
Liabilities:						
Accounts Payable	\$	\$	\$ 5,848.00	\$	\$ 2,497.90	\$ 8,345.90
Total Liabilities			<u>5,848.00</u>		<u>2,497.90</u>	<u>8,345.90</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue - Special Assessments		<u>71,336.31</u>				<u>71,336.31</u>
Fund Balances:						
Restricted	96,560.69	100,166.64		104,551.99	121.95	301,401.27
Unassigned			<u>(3,812.22)</u>			<u>(3,812.22)</u>
Total Fund Balances	<u>96,560.69</u>	<u>100,166.64</u>	<u>(3,812.22)</u>	<u>104,551.99</u>	<u>121.95</u>	<u>297,589.05</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 96,560.69</u>	<u>\$ 171,502.95</u>	<u>\$ 2,035.78</u>	<u>\$ 104,551.99</u>	<u>\$ 2,619.85</u>	<u>\$ 377,271.26</u>

**CITY OF HARTFORD**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Capital Projects</u>			<u>Total</u>
	<u>Additional</u>	<u>3rd Penny</u>	<u>2007 Special</u>	<u>Sports</u>	<u>Pool</u>	<u>Diamond</u>	<u>Nonmajor</u>
	<u>Sales Tax</u>	<u>Sales Tax</u>	<u>Assessments</u>	<u>Complex</u>	<u>Fund</u>	<u>Trail East</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Debt Service</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
<b>Revenues:</b>							
Taxes:							
General Sales and Use Taxes	\$	\$ 41,130.95	\$	\$	\$	\$	\$ 41,130.95
Contributions and Donations				11,698.27			11,698.27
Miscellaneous Revenue:							
Investment Earnings	243.31	107.87		43.38	99.90		494.46
Special Assessments			18,187.57				18,187.57
<b>Total Revenue</b>	<u>243.31</u>	<u>41,238.82</u>	<u>18,187.57</u>	<u>11,741.65</u>	<u>99.90</u>		<u>71,511.25</u>
<b>Expenditures:</b>							
Culture and Recreation							
Recreation					1,269.65		1,269.65
Conservation and Development:							
Economic Development and Assistance		72,000.00					72,000.00
Debt Service			83,305.13				83,305.13
Capital Outlay				82,176.01		31,764.84	113,940.85
<b>Total Expenditures</b>		<u>72,000.00</u>	<u>83,305.13</u>	<u>82,176.01</u>	<u>1,269.65</u>	<u>31,764.84</u>	<u>270,515.63</u>
Excess of Revenue Over (Under)							
Expenditures	<u>243.31</u>	<u>(30,761.18)</u>	<u>(65,117.56)</u>	<u>(70,434.36)</u>	<u>(1,169.75)</u>	<u>(31,764.84)</u>	<u>(199,004.38)</u>
<b>Other Financing Sources (Uses):</b>							
Transfer In				33,681.67	50,000.00	31,886.79	115,568.46
Transfer (Out)	(67,243.31)						(67,243.31)
<b>Total Other Financing Sources (Uses)</b>	<u>(67,243.31)</u>			<u>33,681.67</u>	<u>50,000.00</u>	<u>31,886.79</u>	<u>48,325.15</u>
Net Change in Fund Balances	<u>(67,000.00)</u>	<u>(30,761.18)</u>	<u>(65,117.56)</u>	<u>(36,752.69)</u>	<u>48,830.25</u>	<u>121.95</u>	<u>(150,679.23)</u>
Fund Balance - Beginning	67,000.00	127,321.87		32,940.47	55,721.74		282,984.08
Prior Period Adjustment			165,284.20				165,284.20
Fund Balance - Adjusted Beginning	<u>67,000.00</u>	<u>127,321.87</u>	<u>165,284.20</u>	<u>32,940.47</u>	<u>55,721.74</u>		<u>448,268.28</u>
Fund Balance - Ending	<u>\$</u>	<u>\$ 96,560.69</u>	<u>\$ 100,166.64</u>	<u>\$ (3,812.22)</u>	<u>\$ 104,551.99</u>	<u>\$ 121.95</u>	<u>\$ 297,589.05</u>

# QUAM & BERGLIN, P.C.

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

City Council  
The City of Hartford  
Minnehaha County, South Dakota

We 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 the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hartford, South Dakota, as of December 31, 2014, and for the year then ended, and the related notes to the financial statements, which collectively comprise the City of Hartford's basic financial statements and have issued our report thereon dated November 4, 2015.

### Internal Control Over Financial Reporting

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

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

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

## **Compliance and Other Matters**

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

### **City of Hartford, South Dakota's Response to Finding**

The City of Hartford's response to the finding identified in our audit is on page 38. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Quam & Berglin, P.C.*

Quam and Berglin, P.C.  
Certified Public Accountants

Elk Point, South Dakota

November 4, 2015

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

**STATUS OF PRIOR AUDIT FINDINGS:**

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

**CURRENT AUDIT FINDINGS:**

***Internal Control-Related Findings – Material Weakness:***

**AUDIT FINDING NUMBER 2014-001:**

There is a material weakness resulting from lack of segregation of duties for revenues and expenditures.

**Criteria:**

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

**Condition, Cause and Effect:**

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

**Recommendations:**

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

**Corrective Action Plan:**

The City of Hartford's officials are aware of this problem, which is a result of the size of the entity which precludes staffing at a level sufficient to provide an ideal environment for internal controls. They have included a response to the finding on page 38.



# CITY OF HARTFORD

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CITY OF HARTFORD  
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HARTFORD, SD 57033

Corrective Action Plan  
For the year ended December 31, 2014

The City of Hartford has considered the lack of segregation of duties for the revenue and expenditure functions.

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

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
Finance Officer/City Administrator