

CITY OF PIEDMONT, SOUTH DAKOTA

INDEPENDENT AUDITOR'S REPORT,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2014



RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

City of Piedmont, South Dakota
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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*

To the Board of Trustees
City of Piedmont, South Dakota
Piedmont, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Piedmont, South Dakota (City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Piedmont, South Dakota's basic financial statements and have issued our report thereon dated December 09, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Piedmont, South Dakota'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 Piedmont, South Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Piedmont, South Dakota'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 or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and management's responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and management's responses as items 2014-001, 2014-002, 2014-003, and 2014-004 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Piedmont, South Dakota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and management's responses as item 2014-004.

City of Piedmont, South Dakota's Responses to Findings

The City of Piedmont, South Dakota's responses to the findings identified in our audit are described in the accompanying schedule of findings and management's responses. The City of Piedmont, South Dakota's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City'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.



Casey Peterson & Associates, LTD

Rapid City, South Dakota
December 09, 2015

City of Piedmont, South Dakota
Schedule of Findings and Management's Responses
December 31, 2014

Material Weakness

Internal Control Related to Adequate Segregation of Duties

2014-001 *Condition:* Internal controls are designed to safeguard assets and help prevent or detect losses from employee dishonesty or error. The City of Piedmont, South Dakota has a concentration of incompatible duties related to the water billing and cash receipts cycle. Specific items were noted as follows:

- The City did not maintain documentation to support review and approval of general journal entries.
- There was no review of water meter readings and water billing collections of customer payments by someone other than the preparer.
- Detailed review of bank reconciliations were not performed by someone other than the preparer.
- There was no support for review and approval of utility adjustments performed by the Board. Additionally, SDCL 9-22-4 requires that uncollectible amounts, write-offs, adjustments be approved by the governing Board.

Criteria: Internal controls are designed to safeguard assets and prevent or detect losses from employee dishonesty or error. The City has a general lack of segregation of duties, which is a fundamental concept in a good system of internal controls.

Cause: There are a limited number of office personnel, preventing proper segregation of duties related to the water billing and cash receipts cycles.

Effect: There is the potential that intentional or unintentional errors could be made and not be detected.

Auditor's Recommendation: We recommend the following procedures be considered:

- General journal entries should be reviewed and approved by someone, other than the preparer, with accounting knowledge of the general journal entry. Additionally, the general journal entries should be compared to the approvals at the end of each month by the individual that regularly approves journal entries as well as the Board of Trustees to ensure all journal entries have been approved and are proper. Documentation should be filed in the finance office that supports the propriety and approval of all journal entries.
- Water meter readings are performed by the Finance officer. The Deputy Finance Officer should create customer invoices based on the meter readings. The customer bills should be reviewed for reasonableness as they are prepared. Once prepared, the Finance Officer can review a list of current customer billings to ensure all customer bills appear accurate. At least monthly, the water usage by customers should be compared to water pumped and purchased. Monthly customer receivable agings should be reviewed by the Finance Officer and the Board and unpaid accounts should be handled in accordance with City shut off policies.
- Bank reconciliations should be reviewed by someone, other than the preparer. The reviewer should ensure that there are no unusual reconciling items and that the bank and book balances agree with bank statements and the general ledger, respectively.

City of Piedmont, South Dakota
Schedule of Findings and Management's Responses
December 31, 2014

Management's Response: The City will maintain support for all journal entries and will implement a formal review and approval process by the Board of Trustees. The Finance Officer will read meters and the Deputy Finance Officer will prepare invoices. Bank reconciliations will be reviewed monthly by the President of the Board of Trustees. The City will implement the audit recommendations where feasible.

Material Weakness

Internal Control Over Preparation of the Financial Statements and Related Notes

2014-002 *Condition:* As auditors, we were requested to draft the financial statements and the accompanying notes to the financial statements. Establishing internal controls over the preparation of the financial statements, and drafting the financial statements is the responsibility of management.

Criteria: Establishing internal controls over preparation of the financial statements and drafting the financial statements is the responsibility of management.

Cause: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Effect: The City engages its auditors to draft the financial statements.

Auditor's Recommendation: 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. If management is unwilling to accept risks associated with this condition, we recommend that management develop a system of internal controls to ensure proper reporting of the financial statements and notes to the financial statements. Management could also engage a separate accounting firm to assist in the preparation of the annual financial statements.

Management's Response: The City will accept the risk as the expense of having an outside financial statement prepared by a third party is not cost effective.

Material Weakness

Internal Control over Accounting for Governmental and Business-type Activities

2014-003 *Condition:* Material adjustments were necessary to correct beginning equity, for each fund and in whole, and to properly record activity between governmental and proprietary funds.

Criteria: Governmental and proprietary funds should be fully separated to ensure adequate reporting of each fund's activity.

Cause: The City does not have an internal control system designed to ensure that activity is reported accurately and in the proper fund.

Effect: Beginning equity was not correct and was not properly separated between funds. Activity for each fund was not adequately separated.

Auditor's Recommendation: The City should either improve the chart of account structure for each fund or obtain a different accounting system that is set up to handle multiple funds.

Management's Response: The City is in the process of researching municipal accounting packages designed to handle multiple funds. The City anticipates having this system in place for fiscal year 2016.

City of Piedmont, South Dakota
Schedule of Findings and Management's Responses
December 31, 2014

Material Weakness

Noncompliance

Failure to Comply with Debt Covenants

2014-004 *Condition:* During our review of compliance with debt covenants, we noted the following noncompliance with debt service requirements:

- the City did not maintain the reserves in an interest bearing account
- the City is not maintaining a rate schedule which provides adequate income to meet the minimum requirements for operation and maintenance, debt service, and reserves

Criteria: The City's bond agreement with Rural Development requires that the City deposit reserves into an interest bearing account on a monthly basis. The agreement also requires that the City maintain a rate schedule which provides adequate income to meet the minimum requirements for operation and maintenance, debt service, and reserves.

Cause: The City did not have adequate controls in place to monitor compliance with debt agreements.

Effect: The City is not in compliance with debt requirements.

Auditor's Recommendation: The City staff should review all debt agreements to gain an understanding of compliance requirements and the Board should monitor debt compliance regularly.

Management's Response: The City has transferred the reserve to an interest bearing account subsequent to year end.

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Piedmont, South Dakota
Piedmont, South Dakota

We have audited the accompanying cash basis financial statements of the governmental activities, business-type activities, and each major fund, of the City of Piedmont, South Dakota (City), as of and for the year ended December 31, 2014, and the related notes, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 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 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 cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Piedmont, South Dakota, as of December 31, 2014, and the respective changes in the cash basis financial position, thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Other Information

Our audit was conducted for the purpose of forming opinions on the cash basis financial statements that collectively comprise the City of Piedmont, South Dakota's basic financial statements. The budgetary comparison schedule and list of City Officials, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 09, 2015 on our consideration of the City of Piedmont, South Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Piedmont, South Dakota's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Casey Peterson & Associates, LTD". The signature is written in a cursive style.

Casey Peterson & Associates, LTD

Rapid City, South Dakota

December 09, 2015

BASIC FINANCIAL STATEMENTS

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City of Piedmont, South Dakota
Statement of Net Position - Cash Basis
December 31, 2014

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
ASSETS			
Cash and Cash Equivalents	\$ 579,895	\$ (100,216)	\$ 479,679
TOTAL ASSETS	<u>\$ 579,895</u>	<u>\$ (100,216)</u>	<u>\$ 479,679</u>
NET POSITION			
Restricted for:			
Amounts Owed to Others	\$ -	\$ 1,507	\$ 1,507
Unrestricted	<u>579,895</u>	<u>(101,723)</u>	<u>478,172</u>
TOTAL NET POSITION	<u>\$ 579,895</u>	<u>\$ (100,216)</u>	<u>\$ 479,679</u>

The accompanying notes are an integral part of this statement.

City of Piedmont, South Dakota
Statement of Activities - Cash Basis
December 31, 2014

Functions/Programs	Disbursements	Charges for Services	Capital Grants, Loans and Contributions
PRIMARY GOVERNMENT			
Governmental Activities:			
General Government	\$ 101,830	\$ 33,389	\$ 9,340
Public Works	109,554	-	-
Culture and Recreation	51,263	-	1,500
Total Governmental Activities	262,647	33,389	10,840
Business-type Activities:			
Water Expenses	152,201	99,881	-
Total Primary Government	414,848	133,270	10,840

GENERAL RECEIPTS

Property Taxes
Sales and Use Taxes
State Shared Revenue
County Shared Revenue
Miscellaneous Revenue

Total General Receipts

RECEIPTS OVER (UNDER) DISBURSEMENTS

NET POSITION, BEGINNING OF YEAR

NET POSITION, END OF YEAR

The accompanying notes are an integral part of this statement.

Net (Disbursements) Receipts and
Changes in Net Position

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (59,101)	\$ -	\$ (59,101)
(109,554)	-	(109,554)
(49,763)	-	(49,763)
<u>(218,418)</u>	<u>-</u>	<u>(218,418)</u>
<u>-</u>	<u>(52,320)</u>	<u>(52,320)</u>
<u>(218,418)</u>	<u>(52,320)</u>	<u>(270,738)</u>
130,241	-	130,241
175,034	-	175,034
206,745	-	206,745
11,735	-	11,735
1,864	-	1,864
<u>525,619</u>	<u>-</u>	<u>525,619</u>
307,201	(52,320)	254,881
<u>272,694</u>	<u>(47,896)</u>	<u>224,798</u>
<u>\$ 579,895</u>	<u>\$ (100,216)</u>	<u>\$ 479,679</u>

The accompanying notes are an integral part of this statement.

City of Piedmont, South Dakota
Balance Sheet - Cash Basis - Governmental Fund
December 31, 2014

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 579,895</u>
TOTAL ASSETS	<u><u>\$ 579,895</u></u>
FUND BALANCE	
Unassigned	<u>\$ 579,895</u>
TOTAL FUND BALANCE	<u><u>\$ 579,895</u></u>

The accompanying notes are an integral part of this statement.

City of Piedmont, South Dakota
Statement of Receipts, Disbursements, and Changes in Fund Balance -
Cash Basis - Governmental Fund
December 31, 2014

	General Fund
GENERAL RECEIPTS	
Taxes:	
Property Taxes	\$ 128,968
Sales and Use Taxes	175,034
Gross Receipts Business Taxes	914
Amusement Taxes	84
Penalties and Interest on Delinquent Taxes	359
Licenses and Permits	33,389
Intergovernmental Receipts:	
State Shared Revenue	206,745
County Shared Revenue	10,780
County Road Tax	955
Contributions and Donations from Private Sources	9,340
Miscellaneous	3,280
Total Receipts	569,848
DISBURSEMENTS	
General Government:	
Legislative	12,026
Executive	1,209
Financial Administration	79,838
Other	8,757
Public Works	12,145
Culture and Recreation:	
Parks	6,098
Libraries	26,865
Capital Outlay	115,709
Total Disbursements	262,647
NET CHANGE IN FUND BALANCE	307,201
FUND BALANCE, BEGINNING OF YEAR	272,694
FUND BALANCE, END OF YEAR	\$ 579,895

The accompanying notes are an integral part of this statement.

City of Piedmont, South Dakota
Balance Sheet - Cash Basis - Proprietary Fund
December 31, 2014

	<u>Water Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ (100,216)
TOTAL ASSETS	<u>\$ (100,216)</u>
NET POSITION	
Restricted	\$ 1,507
Unrestricted	<u>(101,723)</u>
TOTAL NET POSITION	<u>\$ (100,216)</u>

The accompanying notes are an integral part of this statement.

City of Piedmont, South Dakota
Statement of Receipts, Disbursements and Changes in Fund Net Position -
Cash Basis - Proprietary Fund
December 31, 2014

	<u>Water Fund</u>
OPERATING RECEIPTS	
Revenue Dedicated to Servicing Debt	\$ 99,881
Total Operating Receipts	<u>99,881</u>
OPERATING DISBURSEMENTS	
Other Current Disbursements	<u>60,666</u>
Total Operating Income	<u>39,215</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)	
Capital Outlay	22,647
Debt Service	<u>68,888</u>
Total Nonoperating Receipts (Disbursements)	<u>91,535</u>
RECEIPTS UNDER DISBURSEMENTS	(52,320)
NET POSITION, BEGINNING	<u>(47,896)</u>
NET POSITION, ENDING	<u>\$ (100,216)</u>

The accompanying notes are an integral part of this statement.

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The reporting entity of the City of Piedmont, South Dakota (the City) consists of the primary government which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal 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 - Cash Basis and the Statement of Activities - Cash Basis display information about the City. These statements include the financial activities of the overall government, except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities - Cash Basis presents a comparison between direct disbursements and program receipts for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct disbursements are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program receipts 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. Receipts that are not classified as program receipts, including all taxes, are presented as general receipts.

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, receipts, and disbursements. The funds of the City are organized into two major categories: governmental and proprietary. 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, receipts, or disbursements 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, receipts, or disbursements 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.

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The funds of the City 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 a major fund.

Proprietary Funds:

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, disbursements paid, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Water Fund - Financed primarily by user charges this fund accounts for the operation of the municipal waterworks system and related facilities (SDCL 9-47-1). This fund 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” receipts and expenditures are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The City’s basis of accounting is the cash basis, 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 cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus

Government-wide Financial Statements:

In the Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the cash basis of accounting as defined 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 cash basis of accounting.

Basis of Accounting

In the Statement of Net Position - Cash Basis, the Statement of Activities - Cash Basis, and the fund financial statements the governmental and business-type activities are presented using the cash basis of accounting.

The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the balance sheet reports only cash and cash equivalents (those investments with terms to maturity of 90 days or less at the date of acquisition). Under the 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 that cash has been received or disbursed. The City also presents negative cash balances rather than inter-fund loans.

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

If the City applied accounting principles generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. CASH AND CASH EQUIVALENTS

The City pools its cash resources for deposit purposes. The proprietary fund has access to its cash resources on demand.

E. RESTRICTED CASH DEPOSITS

The City maintains restricted cash deposits for the debt reserves required in the USDA debt agreement.

F. 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.

G. CAPITAL ASSETS

Under the cash basis of accounting, the City's capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash, in the government-wide financial statements, the fund financial statements and the proprietary financial statements.

H. LONG-TERM LIABILITIES

Long term liabilities include, but are not limited to, notes payable.

As discussed in Note 1.C. above, the government-wide Statement of Net Position - Cash Basis and Statement of Activities - Cash Basis are presented using a cash basis of accounting. The City has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not presented on the financial statements of the City. The City does report the principal and interest payments on long-term debt as Debt Service disbursements on the Statement of Activities - Cash Basis.

I. EQUITY CLASSIFICATIONS

Government-wide Financial Statements:

Equity is classified as net position and is displayed in two components under the cash basis:

1. 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.
2. Unrestricted Net Position - All other net assets that do not meet the definition of "restricted."

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

Governmental fund equity is classified as fund balance, which is distinguished between the following classifications:

Nonspendable - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted - Constraints are placed on the use of resources by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by resolutions of the City Commissioners.

Assigned - Amounts that are constrained by the City management and are intended to be used for specific purposes but are neither restricted nor committed. The City Commissioners have given management the authority to create assignments of fund equity.

Unassigned - Represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned.

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

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

Proprietary fund equity is classified the same as in the government-wide financial statements.

J. USE OF RESTRICTED/UNRESTRICTED NET POSITION

When a disbursement is issued for purposes for which both restricted and unrestricted net position is available, the City's policy is to apply restricted net position first.

K. REVENUE RECEIVED IN ADVANCE

Under the cash basis of accounting, cash may have been received in advance of the City's providing a good or service to a customer. These amounts are reported in the financial statements at the time of receipt, as applicable.

L. PROGRAM RECEIPTS

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 into three categories as follows:

1. Charges for Services - These arise from charges to customers, applicants or other 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.

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Program-specific Capital Grants, Loans 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.

M. PROPRIETARY FUNDS RECEIPTS AND DISBURSEMENTS CLASSIFICATION

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

NOTE 2 - DEPOSITS AND INVESTMENTS

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 as follows.

Deposits

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

Investments

In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government; provided that, for other than permanent, trust, retirement, building and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of and meeting the requirements of §4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities act of 1933 and whose only investments are in securities described in (a) above and repurchase agreements described in (b) above.

The City did not hold any investments as of December 31, 2014.

Custodial Credit Risk - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2014 the City's deposits in financial institutions were not exposed to custodial credit risk as all deposits were fully collateralized by pledged securities.

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2014

NOTE 3 - PROPERTY TAXES

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

NOTE 4 - COMMITMENTS

The following is a summary of the long-term commitments for the year ended December 31, 2014:

	Balance 12/31/13	Additions	Deletions	Balance 12/31/14	Due Within One Year
Business-type Activities:					
General Obligation Bond	\$ 419,210	\$ -	\$ (14,966)	\$ 404,244	\$ 8,659
Revolving Revenue Bond	600,000	-	(22,252)	577,748	22,928
Total Business-type Activities	<u>1,019,210</u>	<u>-</u>	<u>(37,218)</u>	<u>981,992</u>	<u>31,587</u>
Total	<u>\$ 1,019,210</u>	<u>\$ -</u>	<u>\$ (37,218)</u>	<u>\$ 981,992</u>	<u>\$ 31,587</u>

The General Obligation Bond, Series 2011, was issued to finance Phase I of a two-phase project for improvements to the City's water supply and distribution system. The Bond bears interest at 3.75% and is due in monthly installments of \$2,407 through April 1, 2051 and is financed by the Water Fund. The City has prepaid \$198,958 in debt principal resulting in a revised maturity schedule as the outstanding principal will be paid off prior to 2051. The prepaid principal has been applied to the ending years of the maturity schedule as the financing institution has not revised the payment schedule including principal and interest on the maturity schedule.

The 2010 State Revolving Fund Revenue Bond was issued to finance Phase II of the two-phase project for improvements to the City's water supply and distribution system. The Bond bears interest at 3.00% and is due in quarterly installments of \$10,001 through April 15, 2033 and is financed through the Water Fund.

The annual requirements to amortize the long-term liability outstanding as of December 31, 2014 including interest are as follows:

	Principal	Interest	Total
2015	\$ 31,587	\$ 37,301	\$ 68,888
2016	32,579	36,309	68,888
2017	33,603	35,285	68,888
2018	34,658	34,229	68,887
2019	35,748	33,139	68,887
2020-2024	196,319	148,120	344,439
2025-2029	229,190	115,248	344,438
2030-2034	227,129	77,232	304,361
2035-2039	90,980	53,440	144,420
2040-2044	70,199	36,741	106,940
	<u>\$ 981,992</u>	<u>\$ 607,044</u>	<u>\$ 1,589,036</u>

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2014

NOTE 5 - CONTINGENCIES

The City is in a disagreement related to a joint powers road maintenance agreement. There is a potential for liability; however, at this point the amount is unknown. Therefore, a liability has not been recorded.

NOTE 6 - RISK MANAGEMENT

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

Unemployment Benefits

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the two years ended December 31, 2014 and 2013, no claims for unemployment benefits were filed. Claims have resulted in the payment of benefits in the amount of \$0 for each of the years ended December 31, 2014, 2013, and 2012.

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 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 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 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, theft of or damage to property, and errors and omissions of public officials.

The agreement with the SDPAA provides that the above coverage will be provided up to a \$1,000,000 limit per occurrence. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$500,000 and \$250,000 to the upper limit for liability retention and property retention, respectively. 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%

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2014

NOTE 6 - RISK MANAGEMENT (CONTINUED)

As of December 31, 2014, the City had a balance of \$3,754 in the cumulative reserve fund, of which \$3,649 was vested.

The City has no deductible for general liability coverage, a \$5,000 deductible for errors and omissions of public officials, and a \$500 deductible for all other claims.

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.

Worker's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality'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 premium is 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 \$750,000 of any claim per occurrence. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

NOTE 7 - RESTRICTED NET POSITION

The purpose for the classification of restricted net position is due to the contractual agreement the City has in place with a sanitary district. The City bills and collects a surcharge from the sanitary district's customers and remits the collections to the sanitary district. The amount classified as restricted net position represents collections which have not yet been remitted to the sanitary district at December 31, 2014.

NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

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SUPPLEMENTARY INFORMATION

City of Piedmont, South Dakota
Budgetary Comparison Schedule - General Fund
December 31, 2014

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes				
General Property	\$ 150,200	\$ 128,985	\$ 129,327	\$ 342
General Sales and Use	150,000	150,000	175,034	25,034
Gross Receipts Business Taxes	-	-	914	914
Amusement Taxes	-	-	84	84
Licenses and Permits	4,250	4,250	33,389	29,139
Intergovernmental Receipts:				
State Shared Revenue	5,000	201,809	206,745	4,936
County Shared Revenue	9,000	9,000	10,780	1,780
County Road Tax	2,000	2,000	955	(1,045)
Contributions and Donations from Private Sources				
	-	-	9,340	9,340
Miscellaneous	500	500	3,280	2,780
TOTAL RECEIPTS	<u>320,950</u>	<u>496,544</u>	<u>569,848</u>	<u>73,304</u>
DISBURSEMENTS				
Current				
General Government:				
Legislative	8,100	12,250	12,026	224
Executive	-	1,350	1,209	141
Financial Administration	94,000	77,850	79,838	(1,988)
Other	10,000	7,500	8,757	(1,257)
Total General Government	<u>112,100</u>	<u>98,950</u>	<u>101,830</u>	<u>(2,880)</u>
Public Safety	5,000	-	-	-
Public Works	97,500	255,744	127,854	127,890
Culture and Recreation				
Parks	10,000	23,800	6,098	17,702
Libraries	15,000	26,600	26,865	(265)
Total Culture and Recreation	<u>25,000</u>	<u>50,400</u>	<u>32,963</u>	<u>17,437</u>
Contingency	15,000	25,000	-	25,000
TOTAL DISBURSEMENTS	<u>254,600</u>	<u>430,094</u>	<u>262,647</u>	<u>167,447</u>

See independent auditor's report and notes to supplementary information.

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
NET CHANGE IN FUND BALANCE	66,350	66,450	307,201	240,751
FUND BALANCE, BEGINNING OF YEAR	<u>272,694</u>	<u>272,694</u>	<u>272,694</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 339,044</u>	<u>\$ 339,144</u>	<u>\$ 579,895</u>	<u>\$ 240,751</u>

See independent auditor's report and notes to supplementary information.

City of Piedmont, South Dakota
Notes to Supplementary Information
December 31, 2014

NOTE 1 - BASIS OF PRESENTATION

The Budgetary Comparison Schedule has been prepared on the cash basis of accounting and presents capital outlay and debt service expenditures within each function similar to the Statement of Activities - Cash Basis.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

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

1. At the regular board meeting in June each year, the governing board introduces the annual appropriations ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements 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 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.
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 resolution of the governing board. The Town did not encumber any amounts at December 31, 2014.
6. The budget for the general fund is adopted on a basis consistent with that which is presented in the financial statements.

**City of Piedmont, South Dakota
City Officials
For the Years Ended December 31, 2014**

President

Philip C. Anderson

Vice President

Jack Parks

Trustees

Jim Runyon

Jeff Kottwitz

Bill Paris

David Murphy

Finance Officer

Diana L. Evans

Deputy Finance Officer

Karlene Silver