

CITY OF EAGLE BUTTE  
EAGLE BUTTE, SOUTH DAKOTA

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FINANCIAL STATEMENTS – MODIFIED CASH BASIS AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2013

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**CITY OF EAGLE BUTTE**

**TABLE OF CONTENTS**

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT .....	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3-7
<b>BASIC FINANCIAL STATEMENTS</b>	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position – Modified Cash Basis.....	8
Statement of Activities – Modified Cash Basis .....	9
<i>Fund Financial Statements:</i>	
Governmental Funds Balance Sheet – Modified Cash Basis.....	10
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis .....	11-12
Proprietary Funds Statement of Net Position – Modified Cash Basis .....	13
Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis.....	14
Statement of Fiduciary Net Position – Modified Cash Basis .....	15
Statement of Changes in Fiduciary Net Position – Modified Cash Basis.....	16
Notes to Financial Statements – Modified Cash Basis .....	17-26
<b>OTHER INFORMATION</b>	
<i>Budgetary Comparison Schedule:</i>	
Budgetary Comparison Schedule – Budgetary Basis – General Fund.....	27-28
Notes to Other Information.....	29
<b>OTHER REPORTS</b>	
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 <i>Government Auditing Standards</i> .....	30-31
Summary Schedule of Prior Audit Findings .....	32
Schedule of Auditor’s Findings and Recommendations.....	33

## INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council  
City of Eagle Butte, South Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the related notes to the financial statements of the City of Eagle Butte, South Dakota (the City), as of and for the year ended December 31, 2013, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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 misstatements 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 previously present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2013, and the respective changes in financial position – modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

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

**Other Matters**

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of Eagle Butte's financial statements as a whole. The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 27 to 28 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 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 November 17, 2014, on our consideration of the City of Eagle Butte, South Dakota's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

  
Donna Denker & Associates  
Certified Public Accountants

November 17, 2014

## CITY OF EAGLE BUTTE

### MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013

Our discussion and analysis of the City of Eagle Butte's (the City) financial performance provides an overview of the City's financial activities for the year ended December 31, 2013, within the limitations of the City's modified cash basis of accounting. We encourage readers to consider it in conjunction with the City's financial statements.

#### FINANCIAL HIGHLIGHTS

- The City purchased two snow plows in 2013 for \$109,778 with the General Fund, which was financed partially with a bank note payable.
- The City spent \$55,350 in engineering fees related to a sidewalk project that will be completed in 2014. The project is accounted for in the Capital Projects Fund and will be partially funded by a State grant.
- The City began a water meter replacement project expending \$574,205, which is financed with a Drinking Water State Revolving Fund (SRF) loan. The SRF loan includes 80 percent of principal forgiveness.
- The Liquor Fund transferred \$245,742 to the General Fund to eliminate the General Fund's 2013 operating deficit.

#### USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the City's modified cash basis of accounting.

#### Report Components

This annual report consists of four parts as follows:

**Government-wide Financial Statements:** The Statement of Net Position and the Statement of Activities provide information about the activities of the City using a government-wide focus (or "as a whole").

**Fund Financial Statements:** Fund financial statements focus on the individual parts of City government. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant ("major") funds. For *governmental activities*, these statements tell how these services were financed in the short term, as well as what remains for future spending. For *proprietary activities*, these statements offer financial information about the activities the City operates like businesses, such as water, sewer, and solid waste services.

**Notes to the Financial Statements:** The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and details regarding the information reported in the statements.

**Other Information:** This Management's Discussion and Analysis and the Budgetary Comparison Schedule represent financial information that may be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

#### Basis of Accounting

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

## CITY OF EAGLE BUTTE

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

#### USING THIS ANNUAL REPORT (CONTINUED)

##### **Basis of Accounting (Continued)**

Acceptable modifications to the cash basis of accounting implemented by the City in these financial include the recording of investments arising from cash transactions. The City also presents negative cash balances rather than interfund loans.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues, (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (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. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

##### **Reporting the City as a Whole**

###### *The City's Reporting Entity Presentation*

This annual report includes all activities for which the City of Eagle Butte's City Council is fiscally responsible. These activities, defined as the City's reporting entity, are operated within separate legal entities that make up the primary government. The primary government includes the legal entity of the City of Eagle Butte.

###### *The Government-wide Statement of Net Position and the Statement of Activities*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all of the City's assets resulting from the use of the modified cash basis of accounting.

These two statements report the City's net position and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the City's net position as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's sales tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

*Governmental activities.* Most of the City's basic services are reported here, including the police, general government, streets and parks. Sales taxes, property taxes and state and federal grants finance most of these activities.

*Business-type activities.* The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's liquor store, water system, and sewer system are reported here.

##### **Reporting the City's Most Significant Funds**

###### *The Fund Financial Statements*

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Commission establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City has three kinds of funds – *Governmental, Proprietary, and Fiduciary.*

**CITY OF EAGLE BUTTE**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2013**

**USING THIS ANNUAL REPORT (CONCLUDED)**

**Reporting the City’s Most Significant Funds (Continued)**

*The Fund Financial Statements (Continued)*

*Governmental funds* - Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. The City considers the General Fund to be its significant or major governmental fund.

*Proprietary funds* - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. The City’s proprietary (enterprise) fund financial statements are essentially the same as the business-type activities we report in the government-wide statements, but the fund statements provide more detail and additional information. The Liquor, Water and Sewer Funds are major proprietary funds of the City.

*Fiduciary funds* – Funds used to account for assets that are held in trustee or fiduciary capacity. The private-purpose trust retirement fund is the only fiduciary fund maintained by the City. This fund was closed during 2013.

**A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Net Position – Modified Cash Basis**

The City’s combined net position, resulting from modified cash basis transactions are as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
<b>ASSETS:</b>						
Cash	\$ (55,350)	\$ -	\$ 661,220	\$ 575,017	\$ 605,870	\$ 575,017
Investments	-	-	376,688	314,380	376,688	314,380
<b>TOTAL POSITION</b>	<b>\$ (55,350)</b>	<b>\$ -</b>	<b>\$ 1,037,908</b>	<b>\$ 889,397</b>	<b>\$ 982,558</b>	<b>\$ 889,397</b>
<b>NET POSITION:</b>						
Restricted	\$ -	\$ -	\$ 28,441	\$ 28,440	\$ 28,441	\$ 28,440
Unrestricted	(55,350)	-	1,009,467	860,957	954,117	860,957
<b>TOTAL NET POSITION</b>	<b>\$ (55,350)</b>	<b>\$ -</b>	<b>\$ 1,037,908</b>	<b>\$ 889,397</b>	<b>\$ 982,558</b>	<b>\$ 889,397</b>

CITY OF EAGLE BUTTE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2013

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position-Modified Cash Basis

For the years ended December 31, 2013 and 2012, net position of the primary government (resulting from modified cash basis transactions) are as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
<b>Program Revenues</b>						
Charges for Services	\$ 60,986	\$ 90,618	\$ 2,576,098	\$ 2,523,698	\$ 2,637,084	\$ 2,614,316
Operating Grants and Contributions	27,384	25,719	-	-	27,384	25,719
Capital Grants and Contributions	86,201	306,491	518,592	18,000	604,793	324,491
<b>General Revenues</b>						
Property Tax	64,457	67,837	-	-	64,457	67,837
Gross Receipts Tax	30,184	-	-	-	30,184	-
Sales Tax	477,372	455,755	-	-	477,372	455,755
State Shared Revenues	4,409	4,494	-	-	4,409	4,494
Investment Income (Losses)	2,628	1,953	64,654	11,288	67,282	13,241
Miscellaneous	1,632	1,640	-	-	1,632	1,640
<b>Total Revenues</b>	<b>755,253</b>	<b>954,507</b>	<b>3,159,344</b>	<b>2,552,986</b>	<b>3,914,597</b>	<b>3,507,493</b>
<b>Expenses</b>						
General Government	283,342	268,183	-	-	283,342	268,183
Public Safety	227,270	196,980	-	-	227,270	196,980
Public Works	307,437	394,978	-	-	307,437	394,978
Health and Welfare	1,879	13,836	-	-	1,879	13,836
Culture and Recreation	161,110	195,981	-	-	161,110	195,981
Conservation and Development	13,463	32,011	-	-	13,463	32,011
Debt Service	61,844	-	-	-	61,844	-
Liquor	-	-	1,274,260	1,234,761	1,274,260	1,234,761
Water	-	-	1,230,376	655,351	1,230,376	655,351
Sewer	-	-	260,455	278,580	260,455	278,580
<b>Total Expenses</b>	<b>1,056,345</b>	<b>1,101,969</b>	<b>2,765,091</b>	<b>2,168,692</b>	<b>3,821,436</b>	<b>3,270,661</b>
<b>Transfers</b>	<b>245,742</b>	<b>147,462</b>	<b>(245,742)</b>	<b>(147,462)</b>	<b>-</b>	<b>-</b>
<b>Beginning Balance</b>	<b>-</b>	<b>-</b>	<b>889,397</b>	<b>652,565</b>	<b>889,397</b>	<b>652,565</b>
<b>Change in Net Position</b>	<b>(55,350)</b>	<b>-</b>	<b>148,511</b>	<b>236,832</b>	<b>93,161</b>	<b>236,832</b>
<b>Ending Net Position</b>	<b>\$ (55,350)</b>	<b>\$ -</b>	<b>\$ 1,037,908</b>	<b>\$ 889,397</b>	<b>\$ 982,558</b>	<b>\$ 889,397</b>

## **CITY OF EAGLE BUTTE**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2013**

#### **A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)**

##### **Governmental Activities**

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenue, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net Change in Net Position. This type of format highlights the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

For the year ended December 31, 2013, total expenses for governmental activities, resulting from modified cash basis transactions, amounted to \$1,056,345, a decrease from 2012 of 4.1 percent. A significant portion of the decrease in expenditures was due to the airport projects being completed. Revenues decreased in 2013 by nearly 21 percent, primarily due to a decrease in airport grant revenue.

##### **Business-Type Activities**

For fiscal year 2013, the business-type activities reported net revenues over expenses of \$148,511, after transfers. The net revenues over expenses is down approximately \$88,000 from 2012 due to an increase in the operating transfer from the Liquor Fund to the General Fund. The Water Fund spent \$574,205 on a water meter project, which was funded with an SRF loan and grant (principal forgiveness).

#### **A FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

Certain funds experienced noteworthy changes from the prior year and are highlighted as follows:

- On the modified cash basis of accounting, the General Fund reported revenues, transfers in, and long-term debt proceeds of \$1,000,995, which matched the Fund's expenditures.
- The Liquor Fund, Water Fund, and Sewer Fund reported net position of \$295,058, \$406,317 and \$336,533 at the end of 2013, respectively.

##### **General Fund Budgetary Highlights**

The City adopted supplemental appropriations to cover unexpected expenditures, primarily equipment purchases.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

For the upcoming year ending December 31, 2014, the City has adopted a formal budget based on expected revenues and expenses. In 2012, the City was awarded the following:

- A \$1,244,000 Drinking Water SRF Loan with \$995,000 in principal forgiveness was awarded for water distribution system improvements with terms of zero percent for 30 years.
- A \$1,561,000 Clean Water SRF loan and a \$173,000 Consolidate Water Facilities Construction Program grant for its wastewater facilities improvements project. The loan terms are 3 percent interest for 20 years.

The City expended approximately \$30,000 for planning and engineering in the prior year for these projects and is evaluating the City's financial ability to complete the projects.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designated to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Eagle Butte, Finance Officer, P.O. Box 150, Eagle Butte, SD 57625.

**CITY OF EAGLE BUTTE**

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
DECEMBER 31, 2013**

	<b><u>Governmental</u></b> <b><u>Activities</u></b>	<b><u>Business-Type</u></b> <b><u>Activities</u></b>	<b><u>Total</u></b>
<b>ASSETS:</b>			
Cash	\$ (55,350)	\$ 661,220	\$ <b>605,870</b>
Investments	-	348,247	<b>348,247</b>
Restricted Investments	-	28,441	<b>28,441</b>
<b>TOTAL ASSETS</b>	<b>\$ (55,350)</b>	<b>\$ 1,037,908</b>	<b>\$ 982,558</b>
<b>NET POSITION:</b>			
Restricted for:			
Debt Service	\$ -	\$ 28,441	\$ <b>28,441</b>
Unrestricted (Deficit)	(55,350)	1,009,467	<b>954,117</b>
<b>TOTAL NET POSITION</b>	<b>\$ (55,350)</b>	<b>\$ 1,037,908</b>	<b>\$ 982,558</b>

The accompanying notes are an integral part of this statement.

CITY OF EAGLE BUTTE

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>--- Program Revenues ---</u>			<u>----- Net (Expense) Revenue and -----</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Primary Government:</b>							
<b>Governmental Activities:</b>							
General Government	\$ 283,342	\$ 8,472	\$ -	\$ -	\$ (274,870)	\$ -	\$ (274,870)
Public Safety	227,270	-	-	-	(227,270)	-	(227,270)
Public Works	307,437	-	27,384	86,201	(193,852)	-	(193,852)
Health and Welfare	1,879	-	-	-	(1,879)	-	(1,879)
Culture and Recreation	161,110	52,514	-	-	(108,596)	-	(108,596)
Conservation and Development	13,463	-	-	-	(13,463)	-	(13,463)
Debt Service	61,844	-	-	-	(61,844)	-	(61,844)
<b>Total Governmental Activities</b>	<b>1,056,345</b>	<b>60,986</b>	<b>27,384</b>	<b>86,201</b>	<b>(881,774)</b>	<b>-</b>	<b>(881,774)</b>
<b>Business-Type Activities</b>							
Liquor	1,274,260	1,525,365	-	-	-	251,105	251,105
Water	1,230,376	726,494	-	518,592	-	14,710	14,710
Sewer	260,455	324,239	-	-	-	63,784	63,784
<b>Total Business-Type Activities</b>	<b>2,765,091</b>	<b>2,576,098</b>	<b>-</b>	<b>518,592</b>	<b>-</b>	<b>329,599</b>	<b>329,599</b>
<b>Total Primary Government</b>	<b>\$ 3,821,436</b>	<b>\$ 2,637,084</b>	<b>\$ 27,384</b>	<b>\$ 604,793</b>	<b>(881,774)</b>	<b>329,599</b>	<b>(552,175)</b>
<b>General Revenues:</b>							
Taxes:							
Property Taxes					64,457	-	64,457
Gross Receipts Tax					30,184	-	30,184
Sales Taxes					477,372	-	477,372
State Shared Revenues					4,409	-	4,409
Unrestricted Investment Earnings					2,628	64,654	67,282
Miscellaneous Revenue					1,632	-	1,632
<b>Transfers</b>					245,742	(245,742)	-
<b>Total General Revenues and Transfers</b>					<b>826,424</b>	<b>(181,088)</b>	<b>645,336</b>
<b>Change in Net Position</b>					<b>(55,350)</b>	<b>148,511</b>	<b>93,161</b>
Net Position-December 31, 2012					-	889,397	889,397
<b>Net Position-December 31, 2013</b>					<b>\$ (55,350)</b>	<b>\$ 1,037,908</b>	<b>\$ 982,558</b>

The accompanying notes are an integral part of this statement.

**CITY OF EAGLE BUTTE**

**GOVERNMENTAL FUNDS BALANCE SHEET - MODIFIED CASH BASIS  
DECEMBER 31, 2013**

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>
<b>Assets:</b>			
101 Cash	\$ -	\$ (55,350)	\$ (55,350)
<b>TOTAL ASSETS</b>	<b>\$ -</b>	<b>\$ (55,350)</b>	<b>\$ (55,350)</b>
262 Fund Balance - Unassigned	\$ -	\$ (55,350)	\$ (55,350)
<b>Total Fund Balance</b>	<b>\$ -</b>	<b>\$ (55,350)</b>	<b>\$ (55,350)</b>

The accompanying notes are an integral part of this statement.

**CITY OF EAGLE BUTTE**

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE -MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>Revenue:</b>	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>
310 <i>Taxes:</i>			
311 Property Taxes	\$ 63,384	\$ -	\$ 63,384
313 Sales Taxes	477,372	-	477,372
314 Gross Receipts	30,184	-	30,184
315 Amusement Taxes	708	-	708
319 Penalties and Interest on Delinquent Taxes	365	-	365
320 Licenses and Permits	325	-	325
330 <i>Intergovernmental Revenue:</i>			
331 Federal Grants - Airport Project	6,201	-	6,201
335.01 Bank Franchise Tax	424	-	424
335.02 Motor Vehicle Commercial Prorate	744	-	744
335.03 Liquor Tax Reversion	3,985	-	3,985
335.04 Motor Vehicle Licenses (5%)	1,508	-	1,508
335.08 Local Government Highway and Bridge	14,325	-	14,325
338.01 County Road Tax (25%)	10,807	-	10,807
340 <i>Charges for Goods and Services:</i>			
346 Culture and Recreation - Golf Course	52,514	-	52,514
360 <i>Miscellaneous Revenue:</i>			
361 Investment Earnings	2,628	-	2,628
362 Rentals	3,215	-	3,215
368 Liquor Operating Agreements	4,932	-	4,932
369 Other	1,632	-	1,632
<b>Total Revenue</b>	<b>675,253</b>	<b>-</b>	<b>675,253</b>

**CITY OF EAGLE BUTTE**

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - MODIFIED CASH BASIS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

		<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>
<b>Expenditures:</b>				
410	<i>General Government:</i>			
411	Legislative	47,625	-	47,625
412	Executive	17,342	-	17,342
413	Elections	883	-	883
414	Financial Administration	184,670	-	184,670
419	Other	25,822	-	25,822
420	<i>Public Safety:</i>			
421	Police	198,954	-	198,954
422	Fire	28,316	-	28,316
430	<i>Public Works:</i>			
431	Highway and Streets	132,796	55,350	188,146
432	Sanitation	412	-	412
435	Airport	9,101	-	9,101
440	<i>Health and Welfare:</i>			
441	Health	1,879	-	1,879
450	<i>Culture and Recreation:</i>			
451	Recreation - Ballparks and Other	13,090	-	13,090
451	Recreation - Golf Course and Restaurant	68,007	-	68,007
452	Parks	32,304	-	32,304
460	<i>Conservation and Development:</i>			
465.3	Promoting the City	13,463	-	13,463
470	<i>Debt Service</i>	61,844	-	61,844
485	<i>Capital Outlay</i>	164,487	-	164,487
<b>Total Expenditures</b>		<b>1,000,995</b>	<b>55,350</b>	<b>1,056,345</b>
<b>Excess Expenditures Over Revenues</b>		<b>(325,742)</b>	<b>(55,350)</b>	<b>(381,092)</b>
<b>Other Financing Sources</b>				
391.01	Transfer In	245,742	-	245,742
391.2	Long-Term Debt Issued	80,000	-	80,000
<b>Total Other Financing Sources</b>		<b>325,742</b>	<b>-</b>	<b>325,742</b>
<b>Net Change in Fund Balance - Modified Cash Basis</b>		<b>-</b>	<b>(55,350)</b>	<b>(55,350)</b>
Fund Balance - December 31, 2012		-	-	-
<b>262 Fund Balance - December 31, 2013</b>		<b>\$ -</b>	<b>\$ (55,350)</b>	<b>\$ (55,350)</b>

The accompanying notes are an integral part of this statement.

**CITY OF EAGLE BUTTE**

**PROPRIETARY FUNDS STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
DECEMBER 31, 2013**

	<b>Liquor Fund</b>	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Totals</b>
<b>Assets:</b>				
<b>Current Assets:</b>				
101 Cash	\$ 190,046	\$ 301,306	\$ 169,868	\$ 661,220
105.2 Savings Certificate - Investments	105,012	105,011	14,604	224,627
107.2 Restricted Savings Certificate - Investments	-	-	28,441	28,441
151 Investments	-	-	123,620	123,620
<b>Total Current Assets</b>	<b>\$ 295,058</b>	<b>\$ 406,317</b>	<b>\$ 336,533</b>	<b>\$ 1,037,908</b>
<b>Net Position:</b>				
253.2 Restricted for Debt Service	\$ -	\$ -	\$ 28,441	\$ 28,441
253.9 Unrestricted	295,058	406,317	308,092	1,009,467
<b>Total Net Position</b>	<b>\$ 295,058</b>	<b>\$ 406,317</b>	<b>\$ 336,533</b>	<b>\$ 1,037,908</b>

The accompanying notes are an intergral part of this statement.

**CITY OF EAGLE BUTTE**

**PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
NET POSITION -MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Liquor Fund</b>	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Totals</b>
<b>Operating Revenue:</b>				
380 Charges for Goods and Services and Operating Agreement	\$ 1,525,365	\$ 722,002	\$ 324,239	\$ 2,571,606
Customer Deposits Received (Net)	-	4,492	-	4,492
<b>Total Operating Revenue</b>	<b>1,525,365</b>	<b>726,494</b>	<b>324,239</b>	<b>2,576,098</b>
<b>Operating Expenses:</b>				
410 Personal Services	121,849	147,759	165,697	435,305
420 Operating Expenses	69,206	108,099	67,335	244,640
426.2 Materials (Cost of Goods Sold)	1,083,467	381,943	-	1,465,410
429 Taxes Collected to be Remitted	(262)	-	-	(262)
<b>Total Operating Expenses</b>	<b>1,274,260</b>	<b>637,801</b>	<b>233,032</b>	<b>2,145,093</b>
<b>Operating Income</b>	<b>251,105</b>	<b>88,693</b>	<b>91,207</b>	<b>431,005</b>
<b>Nonoperating Revenue (Expenses):</b>				
361 Investment Earnings	5,012	5,011	54,631	64,654
391.2 Long-Term Debt Issued - SRF Loan	-	103,718	-	103,718
441 Principal and Interest Payments on Debt	-	-	(27,423)	(27,423)
470 Debt Issuance Costs	-	(18,370)	-	(18,370)
485 Capital Outlay	-	(574,205)	-	(574,205)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>5,012</b>	<b>(483,846)</b>	<b>27,208</b>	<b>(451,626)</b>
<b>Income (Loss) Before Capital Grant and Transfers</b>	<b>256,117</b>	<b>(395,153)</b>	<b>118,415</b>	<b>(20,621)</b>
<b>Capital Grants and Transfers:</b>				
331 Capital Grants - SRF Loan Forgiveness	-	414,874	-	414,874
511 Transfers Out	(245,742)	-	-	(245,742)
<b>Capital Grants and Transfers</b>	<b>(245,742)</b>	<b>414,874</b>	<b>-</b>	<b>169,132</b>
<b>Change in Net Position - Modified Cash Basis</b>	<b>10,375</b>	<b>19,721</b>	<b>118,415</b>	<b>148,511</b>
Net Position - December 31, 2012	284,683	386,596	218,118	889,397
<b>Net Position - December 31, 2013</b>	<b>\$ 295,058</b>	<b>\$ 406,317</b>	<b>\$ 336,533</b>	<b>\$ 1,037,908</b>

The accompanying notes are an integral part of this statement.

**CITY OF EAGLE BUTTE**

**STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS  
DECEMBER 31, 2013**

	<b>Private- Purpose Trust Fund</b>
	<hr/>
<b>Assets:</b>	
104 Investments - Governmental Mutual Funds	\$ -
<b>Total Assets</b>	<hr/> <b>\$ -</b> <hr/>
<b>Net Position</b>	
Restricted for Retirement	\$ -
<b>Total Net Position</b>	<hr/> <b>\$ -</b> <hr/>

The accompanying notes are an integral part of this statement.

**CITY OF EAGLE BUTTE**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Private- Purpose Trust Fund</u>
<b>Additions:</b>	
361 Investment Loss	\$ (2)
<b>Total Additions</b>	<b>(2)</b>
<b>Deductions</b>	
455 Pension and Pension Refunds	615
<b>Total Deductions</b>	<b>615</b>
<b>Change in Net Position - Modified Cash Basis</b>	<b>(617)</b>
Net Position - December 31, 2012	617
<b>Net Position - December 31, 2013</b>	<b>\$ -</b>

The accompanying notes are an integral part of this statement.

## CITY OF EAGLE BUTTE

### NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS DECEMBER 31, 2013

#### 1. Summary of Significant Accounting Policies

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

a. Financial Reporting Entity:

The reporting entity of the City of Eagle Butte (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 and Statement of Activities display information about the reporting entity as a whole. These statements include all funds of the reporting entity, except 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, liabilities, 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, liabilities, 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.

**CITY OF EAGLE BUTTE**

**NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED)  
DECEMBER 31, 2013**

**1. Summary of Significant Accounting Policies (Continued)**

b. Basis of Presentation (Continued):

*Fund Financial Statements (Continued):*

The funds of the City's 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.

Capital Projects Funds – capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Capital Projects Fund - to account for financial resources to be used for the construction of a sidewalk project. This 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 (expenses, including depreciation) 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, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Liquor Fund – Financed primarily by customer charges for goods and services and operating agreements, this fund accounts for the construction and operation of the off-sale municipal liquor store (SDCL 35-3-21). The liquor fund is a major fund.

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). The water fund 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). The sewer fund is a major fund.

**Fiduciary Funds:**

Fiduciary fund types are used to account for assets held by a government unit in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. Fiduciary funds are never considered major. The retirement fund is the only fiduciary fund of the City and is a private-purpose trust fund.

CITY OF EAGLE BUTTE

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED)  
DECEMBER 31, 2013

1. Summary of Significant Accounting Policies (Continued)

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:*

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

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

*Basis of Accounting:*

The government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting, which is a basis of accounting other than GAAP.

The modified 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 modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements include the recording of investments arising from cash transactions. The City also present negative cash balances rather than interfund loans.

Under GAAP, transactions are recorded in the accounts when revenue is earned and liabilities are incurred. As a result of reporting on the modified cash basis of accounting, certain assets (i.e. capital assets) and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, accrued expenses and liabilities, and capital assets and their related debt) are not recorded in these financial statements.

If the City applied GAAP, 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. Deposits and Investments:

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and investments with a term to maturity at the date of acquisition of three months or less. Investments are recorded at fair market value.

e. Capital Assets:

Under the modified 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.

CITY OF EAGLE BUTTE

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED)  
DECEMBER 31, 2013

1. Summary of Significant Accounting Policies (Continued)

f. Long-Term Liabilities:

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances are recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Interest costs are not allocated, but are reported as a separate program cost category. Long-term debts arising from cash transactions of all funds are not reported as liabilities in these modified cash basis financial statements.

g. 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.

h. Proprietary Funds Revenue and Expense Classifications:

In the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position – Modified Cash Basis, revenues and expenses are classified as operating revenues and expenses unless the transactions relate to capital and related financing activities, noncapital financing activities, or investing activities.

i. Equity Classifications:

*Government-wide Statements:*

Equity is classified as net position and is displayed in two components under the modified 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 positions that do not meet the definition of restricted.

*Fund Financial Statements:*

Governmental fund equity is classified as fund balance, and may distinguish between Nonspendable, Restricted, Committed, Assigned, or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

j. Application of Net Position:

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

## CITY OF EAGLE BUTTE

### NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED) DECEMBER 31, 2013

#### 1. Summary of Significant Accounting Policies (Concluded)

##### k. Fund Balance Classification Policies and Procedures

The City classifies governmental fund balances as follows:

*Nonspendable* – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

*Restricted* – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

*Committed* – includes fund balance amounts that are constrained for specific purposes that are internally imposed 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, Mayor, or Finance Officer.

*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.

#### 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 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.

**CITY OF EAGLE BUTTE**

**NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED)  
DECEMBER 31, 2013**

**2. Deposits and Investments (Continued)**

The City is invested in 2,507 shares of the Principal Financial Group stock with a fair market value of \$123,620 at December 31, 2013. Such investment violates state law as noted above. The City received the stock due to a demutualization of the City's previous health insurance provider. The stock was not purchased by the City.

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, 2013, none of the City's deposits were exposed to custodial credit risk.

Interest Rate Risk:

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

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.

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 investments to the fund making the investment.

**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.

CITY OF EAGLE BUTTE

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED)  
DECEMBER 31, 2013

4. Long-Term Debt

Changes in long-term debt for the year ending December 31, 2013:

	Balance 12/31/2012	Additions	Retirements	Balance 12/31/2013	Due Within One Year
<b>Governmental Activities:</b>					
Bank Note Payable - Equipment	\$ -	\$ 80,000	\$ 3,135	\$ 76,865	\$ 18,713
Capital Lease - Street Sweeper	55,000	-	55,000	-	-
<b>Total Governmental</b>	<b>55,000</b>	<b>80,000</b>	<b>58,135</b>	<b>76,865</b>	<b>18,713</b>
<b>Business-Type Activities:</b>					
2001 Sewer Revenue Bonds	195,271	-	3,489	191,782	3,648
2002 Sewer Revenue Bonds	136,745	-	2,997	133,748	3,282
2002 Sewer and Storm Utility Revenue Bonds	103,017	-	2,272	100,745	2,488
State Revolving Fund #1	-	103,718	-	103,718	-
<b>Total Business-Type</b>	<b>435,033</b>	<b>103,718</b>	<b>8,758</b>	<b>529,993</b>	<b>9,418</b>
<b>Total Primary Government</b>	<b>\$ 490,033</b>	<b>\$ 183,718</b>	<b>\$ 66,893</b>	<b>\$ 606,858</b>	<b>\$ 28,131</b>

Long-term debt at December 31, 2013, is comprised of the following:

*Revenue Bonds*

2001 Sewer Revenue Bonds due in monthly installments of \$1,017, including interest at 4.5 percent, through July 2041. Sewer revenues are pledged for these bonds. Financed through the Sewer Fund. \$ 191,782

2002 Sewer Revenue Bonds due in monthly installments of \$771, including interest at 4.5 percent, through June 2037. Sewer revenues are pledged for these bonds. Financed through the Sewer Fund. 133,748

2002 Sewer and Storm Utility Revenue Bonds due in monthly installments of \$582, including interest at 4.5 percent through May 2037. Sewer revenues are pledged for these bonds. Financed through the Sewer Fund. 100,745

Drinking Water State Revolving Fund loan totaling \$593,000 with \$474,400 of principal forgiveness. At December 31, 2013, \$518,592 had been drawn down and \$414,874 had been forgiven. The loan balance will be repaid over 10 years including interest at 0 percent beginning on the earlier of the date the project is certified or February 15, 2015. The loan will be financed through the Water Fund. 103,718

*Bank Note Payable*

Bank Note Payable due in monthly installments of \$1,833, including interest at 4.8 percent through October 2017. Secured by equipment purchased. Financed through the General Fund. 76,865

**Total Long-Term Debt** **\$ 606,858**

The City has a bond reserve of \$28,441 at December 31, 2013, in compliance with their debt covenants.

CITY OF EAGLE BUTTE

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED)  
DECEMBER 31, 2013

4. Long-Term Debt (Continued)

Pledged Revenue

The City has pledged future revenues of the Sewer Fund for the retirement of its revenue bonds listed above. This debt was used to fund capital projects. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison of principal and interest payments and total pledged revenue for the current year:

Current Year Principal and Interest	\$ 27,423
Pledged Sewer Fund Revenue	324,239

The annual requirements to amortize debt outstanding as of December 31, 2013 are as follows.

	Revenue Bonds		Bank Note Payable		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 9,418	\$ 19,023	\$ 18,713	\$ 3,281	<b>\$ 28,131</b>	<b>\$ 22,304</b>
2015	20,222	18,590	19,631	2,363	<b>39,853</b>	<b>20,953</b>
2016	20,623	18,189	20,589	1,404	<b>41,212</b>	<b>19,593</b>
2017	21,145	17,666	17,932	396	<b>39,077</b>	<b>18,062</b>
2018	21,640	17,172	-	-	<b>21,640</b>	<b>17,172</b>
2019-2023	116,405	77,653	-	-	<b>116,405</b>	<b>77,653</b>
2024-2028	91,147	61,426	-	-	<b>91,147</b>	<b>61,426</b>
2029-2033	101,168	41,032	-	-	<b>101,168</b>	<b>41,032</b>
2034-2038	100,902	16,331	-	-	<b>100,902</b>	<b>16,331</b>
2039-2041	27,323	1,535	-	-	<b>27,323</b>	<b>1,535</b>
<b>Total</b>	<b>\$ 529,993</b>	<b>\$ 288,617</b>	<b>\$ 76,865</b>	<b>\$ 7,444</b>	<b>\$ 606,858</b>	<b>\$ 296,061</b>

The total interest paid for the year ending December 31, 2013, was \$23,390.

5. 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, 2013, 2012, and 2011 were **\$94,345**, \$82,973, and \$99,045, respectively. The contributions during the years ended December 31, 2013, 2012 and 2011, included additional contributions of **\$69,383**, \$60,000 and \$76,430, respectively, to provide a contribution equal to one year of retirement for employees with five years of consecutive full-time employment. These additional contributions were made in installments starting in 2011 and ended in 2013.

**CITY OF EAGLE BUTTE**

**NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED)  
DECEMBER 31, 2013**

**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 period ended December 31, 2013, the City managed its 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 year ended December 31, 2013, the City paid unemployment benefits totaling \$-0-. At December 31, 2013, no claims had been filed for unemployment benefits.

Health Insurance:

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

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The 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 general liability, errors and omissions, property, auto (liability and physical damage), pollution liability, and police professional liability.

The agreement with the SDPAA provides that the above coverages will be provided up to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a 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, 2013, the City has a vested balance in the cumulative reserve fund of \$-0-. 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.

**CITY OF EAGLE BUTTE**

**NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONCLUDED)  
DECEMBER 31, 2013**

**6. Risk Management (Continued)**

Worker's Compensation:

The City participates in the South Dakota Municipal 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 behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. 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 the statutory limit in addition to a separate combined employee 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.

**7. Interfund Transfers**

Interfund transfers for the year ended December 31, 2013, were as follows:

	Transfer In	Transfer Out
General Fund	\$ 245,742	\$ -
Liquor Fund	-	245,742
<b>Total</b>	<b>\$ 245,742</b>	<b>\$ 245,742</b>

The Liquor Fund transferred funds to the General Fund to eliminate a deficit cash balance in the General Fund primarily due to normal budgetary deficits of the General Fund.

## OTHER INFORMATION

**CITY OF EAGLE BUTTE**

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Budgeted Amounts</b>		<b>Budgetary</b>	<b>Variance</b>
	<b><u>Original</u></b>	<b><u>Final</u></b>	<b><u>Basis Actual Amounts</u></b>	
<b>Revenue:</b>				
<i>310 Taxes:</i>				
311 General Property Taxes	\$ -	\$ 65,000	\$ 63,384	\$ (1,616)
313 Sales Taxes	562,395	455,000	477,372	22,372
314 Gross Receipts	-	-	30,184	30,184
315 Amusement Taxes	-	750	708	(42)
319 Penalties and Interest on Delinquent Taxes	-	-	365	365
320 Licenses and Permits	-	400	325	(75)
<i>330 Intergovernmental Revenue</i>				
331 Federal Grants - Airport Project	-	-	6,201	6,201
335.01 Bank Franchise Tax	-	375	424	49
335.02 Motor Vehicle Commercial Prorate	-	650	744	94
335.03 Liquor Tax Reversion	-	4,000	3,985	(15)
335.04 Motor Vehicle Licenses (5%)	-	1,300	1,508	208
335.08 Local Government Highway and Bridge	-	14,000	14,325	325
338.01 County Road Tax (25%)	-	9,500	10,807	1,307
<i>340 Charges for Goods and Services:</i>				
346 Culture and Recreation - Golf Course	-	53,129	52,514	(615)
<i>360 Miscellaneous Revenue:</i>				
361 Investment Earnings	-	1,925	2,628	703
362 Rentals	-	1,575	3,215	1,640
368 Liquor Operating Agreements	-	5,000	4,932	(68)
369 Other	-	1,600	1,632	32
<b>Total Revenue</b>	<b>562,395</b>	<b>614,204</b>	<b>675,253</b>	<b>61,049</b>

CITY OF EAGLE BUTTE

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Budgeted Amounts</b>		<b>Budgetary</b>	<b>Variance</b>
	<b><u>Original</u></b>	<b><u>Final</u></b>	<b>Basis - Actual Amounts</b>	
<b>Expenditures:</b>				
<i>410 General Government:</i>				
411 Legislative	50,000	50,000	47,625	2,375
412 Executive	17,250	17,342	17,342	-
413 Elections	2,700	2,700	883	1,817
414 Financial Administration	220,000	220,000	184,670	35,330
419 Other	59,000	59,000	32,822	26,178
<i>420 Public Safety:</i>				
421 Police	190,000	198,954	198,954	-
422 Fire	25,000	28,316	28,316	-
<i>430 Public Works:</i>				
431 Highways and Streets	180,000	257,044	242,574	14,470
432 Sanitation	1,500	1,500	412	1,088
435 Airport	5,000	9,101	9,101	-
<i>440 Health and Welfare:</i>				
441 Health	2,500	2,500	1,879	621
<i>450 Culture and Recreation</i>				
451 Recreation - Ballparks and Other	17,000	18,869	13,090	5,779
451 Recreation - Golf Course and Restaurant	15,000	68,007	68,007	-
452 Parks	65,050	85,744	80,013	5,731
<i>460 Conservation and Development:</i>				
465.3 Promoting the City	15,000	15,000	13,463	1,537
470 Debt Service	-	61,844	61,844	-
<b>Total Expenditures</b>	<b>865,000</b>	<b>1,095,921</b>	<b>1,000,995</b>	<b>94,926</b>
<b>Other Financing Sources (Uses):</b>				
391.01 Transfers In	302,605	302,675	245,742	(56,933)
391.2 Long-Term Debt Issued	-	200,000	80,000	(120,000)
<b>Total Other Financing Sources</b>	<b>302,605</b>	<b>502,675</b>	<b>325,742</b>	<b>(176,933)</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>20,958</b>	<b>-</b>	<b>(20,958)</b>
Fund Balance - December 31, 2012	-	-	-	-
<b>Fund Balance - December 31, 2013</b>	<b>\$ -</b>	<b>\$ 20,958</b>	<b>\$ -</b>	<b>\$ (20,958)</b>

The notes to the other information are an integral part of this statement.

## **CITY OF EAGLE BUTTE**

### **NOTES TO OTHER INFORMATION DECEMBER 31, 2013**

#### **(1) Budgets and Budgetary Accounting**

The City's policy is to follow 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 introduces the annual appropriation ordinance for the ensuing fiscal year. The City approved the original 2013 budget during the September 12, 2012 council meeting.
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 item 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 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.
6. The City did not encumber any amounts at December 31, 2013 and 2012.
7. Formal budgetary integration is employed as a management control device during the year for the general fund.
8. A budget for the general fund is adopted on a basis consistent with the modified cash basis of accounting.

#### **(2) GAAP Budgetary Accounting Basis Differences**

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

## OTHER REPORTS

**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 Mayor and City Council  
City of Eagle Butte, 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eagle Butte, South Dakota (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Eagle Butte, South Dakota's basic financial statements and have issued our report thereon dated November 17, 2014.

**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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 recommendations, we identified a deficiency in internal control that we consider to be a material weakness and a significant deficiency.

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 deficiency 1-2010, described in the accompanying schedule of findings and recommendations, to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any significant deficiencies other than the material weakness noted in the prior paragraph.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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 result of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as item 1-2010.

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City of Eagle Butte  
Page 2

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We noted certain other matters that we reported to the management of the City in a separate letter dated November 17, 2014.

**Eagle Butte, South Dakota's Response to Findings**

The Municipality did not wish to respond to the findings identified in our audit as described in the accompanying schedule of auditor's findings and recommendations.

**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 Municipality'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 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.

  
Donna Denker & Associates  
Certified Public Accountants

November 17, 2014

**CITY OF EAGLE BUTTE**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2013**

**Finding 1-2010: Investment in Public Funds**

This finding is repeated as current year Finding 1-2010: Investment in Public Funds

**Finding 2-2012: Internal Control over Disbursements**

This finding was resolved during the current year.

**CITY OF EAGLE BUTTE**

**SCHEDULE OF AUDITOR'S FINDINGS AND RECOMMENDATIONS  
DECEMBER 31, 2013**

**MATERIAL WEAKNESS**

**1-2010 Investment in Public Funds**

**Condition:** The City has \$123,620 invested in common stock.

**Criteria:** Public funds are required to be invested in qualified public depositories as defined in SDCL 4-6A or specific types of investment as defined in SDCL 4-5-6. Common stock investments are not allowed within the statutes.

**Cause:** The City received common stock due to the demutualization of the City's prior health insurance provider. No action has been taken by the City Council to move the funds to an allowable account.

**Result:** The City is not in compliance with State statutes.

**Recommendation:** We recommend the city invest these funds in a public depository as allowed by SDCL 4-6A or in investments allowed by SDCL 4-5-6.