CITY OF SUMMERSET
SUMMERSET, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2010

CITY OF SUMMERSET

TABLE OF CONTENTS

	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis	2-6
Government-wide Financial Statements:	
Statement of Net Assets – Cash Basis	7
Statement of Activities – Cash Basis	8
Fund Financial Statements:	
Governmental Funds Balance Sheet – Cash Basis	9
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances - Cash Basis	10-11
Proprietary Funds Balance Sheet – Cash Basis	12
Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets - Cash Basis	13
Notes to Financial Statements – Cash Basis	14-22
Required Supplementary Information:	
Budgetary Comparison Schedule – Budgetary Basis – General Fund	23-24
Notes to Required Supplementary Information	25
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	26-27
Auditor's Comments and Closing Conference	28-31

Ketel Thorstenson, LLP
Certified Public Accountants
810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

INDEPENDENT AUDITOR'S REPORT

City Commissioners
City of Summerset
Summerset, South Dakota

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the **CITY OF SUMMERSET** (the City), Meade County, South Dakota, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the City prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-cash basis of the governmental activities, the business-type activities, and each major fund of the City, as of December 31, 2010, and the respective changes in financial position-cash basis, thereof and for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 2 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 2 through 6 and 23 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

December 2, 2011

CITY OF SUMMERSET

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010

Our discussion and analysis of the City of Summerset's (the City) financial performance provides an overview of the City's financial activities for the year ended December 31, 2010, within the limitations of the City's cash basis of accounting. We encourage readers to consider it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

The City continued to work on Public Works projects during 2010. Those projects included street light installation, bus shelters, and drainage improvements (approximately $325,000).

The City continued work at local park (approximately $18,000).

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 cash basis of accounting.

Report Components

This annual report consists of four parts as follows:

Government-wide Financial Statements: The Statement of Net Assets 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.

Required Supplementary Information: This Management's Discussion and Analysis and the Budgetary Comparison Schedules represent financial information required to be presented by GASB. 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 statement"). The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, whereby capital outlay expenditures are reported within the respective functions rather than as a separate capital outlay function.

Basis of Accounting

The City has elected to present its financial statements on a cash basis of accounting. This 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 cash basis of accounting, revenues and expenses, and related assets are recorded when they result from cash transactions.

CITY OF SUMMERSET

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

USING THIS ANNUAL REPORT (CONTINUED)

Basis of Accounting (Continued)

As a result of the use of this 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 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 Summerset's City Commission 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 Summerset.

The Government-wide Statement of Net Assets 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 Assets 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 cash basis of accounting.

These two statements report the City's net assets and changes in them. Keeping in mind the limitations of the cash basis of accounting, you can think of the City's net assets as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets 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 Assets 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 sewer system is 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 two kinds of funds - *Governmental and Proprietary.*

CITY OF SUMMERSET

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

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, Tax Increment District #1 - Debt Service Fund and Tax Increment District #1 - Capital Projects Fund to be its significant or major governmental funds.

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 Sewer Fund is the only proprietary fund of the City.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets – Cash Basis

The City's combined net assets, resulting from cash basis transactions are as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
ASSETS:						
Cash and Cash Equivalents	$ 379,326	$ 266,491	$ 29,933	$ 27,412	$ 409,259	$ 293,903
Restricted Assets:						
Cash and Cash Equivalents	67,195	33,655	-	-	67,195	33,655
TOTAL ASSETS	$ 446,521	$ 300,146	$ 29,933	$ 27,412	$ 476,454	$ 327,558
NET ASSETS:						
Restricted	$ 67,195	$ 33,655	$ -	$ -	$ 67,195	$ 33,655
Unrestricted	379,326	266,491	29,933	27,412	409,259	293,903
TOTAL NET ASSETS	$ 446,521	$ 300,146	$ 29,933	$ 27,412	$ 476,454	$ 327,558

CITY OF SUMMERSET

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

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

Changes in Net Assets-Cash Basis

For the years ended December 31, 2010 and 2009, net assets of the primary government (resulting from cash basis transactions) are as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Program Revenues						
Charges for Services	$ 64,164	$ 64,964	$ 338,537	$ 307,316	$ 402,701	$ 372,280
General Revenues						
Property Tax	519,015	435,444	-	-	519,015	435,444
Sales Tax	257,505	240,571	-	-	257,505	240,571
State Shared Revenues	24,328	24,903	-	-	24,328	24,903
Investment Income	769	163	-	-	769	163
Debt Issued	857,503	83,367	-	-	857,503	83,367
Miscellaneous	25,970	31,436	-	-	25,970	31,436
Total Revenues	1,749,254	880,848	338,537	307,316	2,087,791	1,188,164
Expenses						
General Government	1,073,799	227,846	-	-	1,073,799	227,846
Public Safety	168,723	161,835	-	-	168,723	161,835
Public Works	292,034	350,798	-	-	292,034	350,798
Health and Welfare	4,063	-	-	-	4,063	-
Culture and Recreation	32,893	32	-	-	32,893	32
Conservation and Development	24,471	21,718	-	-	24,471	21,718
Sewer	-	-	190,481	200,626	190,481	200,626
Debt Service	152,431	92,200	-	-	152,431	92,200
Total Expenses	1,748,414	854,429	190,481	200,626	1,938,895	1,055,055
Transfers	145,535	91,127	(145,535)	(91,127)	-	-
Change in Net Assets	146,375	117,546	2,521	15,563	148,896	133,109
Ending Net Assets	$ 446,521	$ 300,146	$ 29,933	$ 27,412	$ 476,454	$ 327,558

CITY OF SUMMERSET

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2010

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 Assets. 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, 2010, total expenses for governmental activities, resulting from cash basis transactions, amounted to $1,748,414.

Business-Type Activities

For fiscal year 2010, the sewer fund reported net revenues over expenses of $2,521.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

- On the cash basis of accounting, the General Fund reported revenues and net transfers of $818,448 and expenditures and net transfers of $1,582,793. The General Fund also reported debt proceeds of $775,000.
- The Sewer Fund reported net assets of $29,933 at the end of 2010.

General Fund Budgetary Highlights

Significant budget variances were incurred as the City did not prepare or pass supplemental budget variances for certain items.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the upcoming year ending December 31, 2011, the City's budget is fairly consistent with the 2010 budget.

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 Summerset, Finance Officer, P.O. Box 783, Blackhawk, SD 57718.

CITY OF SUMMERSET

STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	$ 379,326	$ 29,933	$ 409,259
Restricted Assets:			
Cash and Cash Equivalents	67,195	-	67,195
TOTAL ASSETS	$ 446,521	$ 29,933	$ 476,454
NET ASSETS:			
Restricted for:			
Debt Service	$ 67,195	$ -	$ 67,195
Unrestricted	379,326	29,933	409,259
TOTAL NET ASSETS	$ 446,521	$ 29,933	$ 476,454

The accompanying notes are an integral part of this statement.

CITY OF SUMMERSET

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2010

Functions/Programs	Expenses	Program Revenue Charges for Services	----- Net (Expense) Revenue and Changes in Net Assets ----- Governmental Activities	Business-Type Activities	Total
Primary Government:					
Governmental Activities:					
General Government	$ 1,073,799	$ 2,600	$ (1,071,199)	$ -	$ (1,071,199)
Public Safety	168,723	4,604	(164,119)	-	(164,119)
Public Works	292,034	56,960	(235,074)	-	(235,074)
Health and Welfare	4,063	-	(4,063)	-	(4,063)
Culture and Recreation	32,893	-	(32,893)	-	(32,893)
Conservation and Development	24,471	-	(24,471)	-	(24,471)
Debt Service	152,431	-	(152,431)	-	(152,431)
Total Governmental Activities	**1,748,414**	**64,164**	**(1,684,250)**	**-**	**(1,684,250)**
Business-Type Activity:					
Sewer	190,481	338,537	-	148,056	148,056
Total Business-Type Activities	**190,481**	**338,537**	**-**	**148,056**	**148,056**
Total Primary Government	**$ 1,938,895**	**$ 402,701**	(1,684,250)	148,056	**(1,536,194)**
General Revenues:					
Taxes:					
Property Taxes			519,015	-	519,015
Sales Taxes			257,505	-	257,505
State Shared Revenues			24,328	-	24,328
Unrestricted Investment Earnings			769	-	769
Miscellaneous Revenue			25,970	-	25,970
Debt Issued			857,503	-	857,503
Transfers			145,535	(145,535)	-
Total General Revenues and Transfers			**1,830,625**	**(145,535)**	**1,685,090**
Change in Net Assets			**146,375**	**2,521**	**148,896**
Net Assets-December 31, 2009			**300,146**	**27,412**	**327,558**
Net Assets-December 31, 2010			**$ 446,521**	**$ 29,933**	**$ 476,454**

The accompanying notes are an integral part of this statement.

CITY OF SUMMERSET

GOVERNMENTAL FUNDS
BALANCE SHEET - CASH BASIS
DECEMBER 31, 2010

	General Fund	Tax Increment District #1 - Debt Service Fund	Total Governmental Funds
ASSETS:			
101 Cash and Cash Equivalents	$ 285,970	$ 93,356	$ 379,326
107.1 Restricted Cash and Cash Equivalents	-	67,195	67,195
TOTAL ASSETS	**$ 285,970**	**$ 160,551**	**$ 446,521**
FUND BALANCES:			
Unreserved Fund Balance			
262.09 Undesignated	$ 285,970	$ 160,551	$ 446,521
TOTAL FUND BALANCES	**$ 285,970**	**$ 160,551**	**$ 446,521**

The accompanying notes are an integral part of this statement.

CITY OF SUMMERSET

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2010

	General Fund	Tax Increment District #1 - Debt Service Fund	Tax Increment District #1 - Capital Projects Fund	Total Governmental Funds
Revenue:				
310 Taxes:				
311 General Property Taxes	$ 421,910	$ 72,762	$ -	$ 494,672
313 General Sales and Use Taxes	257,505	-	-	257,505
315 Amusement Taxes	23,901	-	-	23,901
319 Penalties and Interest on Delinquent Taxes	442	-	-	442
320 Licenses and Permits	39,435	-	-	39,435
330 Intergovernmental Revenue:				
335 State Shared Revenue:				
335.03 Liquor Tax Reversion	8,220	-	-	8,220
335.04 Motor Vehicle Licenses (5%)	16,108	-	-	16,108
338 County Shared Revenue:				
338.01 County Road Tax	1,310	-	-	1,310
338.99 Other	3,934	-	-	3,934
340 Charges for Goods and Services:				
341 General Government	2,600	-	-	2,600
350 Fines and Forfeits:				
351 Court Fines and Costs	4,604	-	-	4,604
360 Miscellaneous Revenue:				
361 Investment Earnings	112	657	-	769
363.01 Principal Collected by County	2,000	-	-	2,000
364.01 Maintenance Assessments	10,281	-	-	10,281
369 Other	25,970	-	-	25,970
Total Revenue	**818,332**	**73,419**	**-**	**891,751**

CITY OF SUMMERSET

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - CASH BASIS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2010

	General Fund	Tax Increment District #1 - Debt Service Fund	Tax Increment District #1 - Capital Projects Fund	Total Governmental Funds
Expenditures:				
410 General Government:				
411 Legislative	61,672	-	-	61,672
412 Executive	38,335	-	-	38,335
413 Elections	1,199	-	-	1,199
414 Financial Administration	157,445	-	-	157,445
419 Other	40,148	-	-	40,148
420 Public Safety:				
421 Police	150,119	-	-	150,119
423 Protective Inspection	18,604	-	-	18,604
430 Public Works:				
431 Highways and Streets	175,099	-	82,503	257,602
432 Sanitation	14,923	-	-	14,923
430 Health and Welfare:				
444 Humane Society	4,063	-	-	4,063
450 Culture and Recreation:				
451 Recreation	1,500	-	-	1,500
452 Parks	12,485	-	-	12,485
460 Conservation and Development:				
465 Planning and Zoning	24,471	-	-	24,471
470 Debt Service Costs	-	152,431	-	152,431
485 Capital Outlay	813,417	-	-	813,417
Total Expenditures	**1,513,480**	**152,431**	**82,503**	**1,748,414**
Other Financing Sources (Uses):				
391.01 Transfers In	116	230,902	-	231,018
391.20 Long-Term Debt Issued	775,000	-	82,503	857,503
511 Transfers Out	(69,313)	(16,170)	-	(85,483)
Total Other Financing Sources	**705,803**	**214,732**	**82,503**	**1,003,038**
Net Change in Fund Balances	**10,655**	**135,720**	-	**146,375**
Fund Balances - December 31, 2009	275,315	24,831	-	300,146
Fund Balances - December 31, 2010	**$ 285,970**	**$ 160,551**	**$ -**	**$ 446,521**

The accompanying notes are an integral part of this statement.

CITY OF SUMMERSET

PROPRIETARY FUNDS
BALANCE SHEET - CASH BASIS
DECEMBER 31, 2010

		Sewer Fund
ASSETS:		
Current Assets:		
101 Cash and Cash Equivalents	$	29,933
TOTAL ASSETS	**$**	**29,933**

NET ASSETS:		
253.90 Unrestricted Net Assets	$	29,933
TOTAL NET ASSETS	**$**	**29,933**

The accompanying notes are an integral part of this statement.

CITY OF SUMMERSET

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2010

		Sewer Fund
Operating Revenue:		
380 Charges for Goods and Services	$	338,537
Operating Expenses:		
410 Personal Services		72,937
420 Other Current Expense		117,544
Total Operating Expenses		**190,481**
Operating Income		**148,056**
Transfers		
391 Transfers In		82,917
511 Transfers Out		(228,452)
Total Transfers		**(145,535)**
Change in Net Assets		**2,521**
Net Assets - December 31, 2009		27,412
Net Assets - December 31, 2010	**$**	**29,933**

The accompanying notes are an integral part of this statement.

CITY OF SUMMERSET

NOTES TO FINANCIAL STATEMENTS – CASH BASIS
DECEMBER 31, 2010

1. Summary of Significant Accounting Policies

As discussed further in Note 1.c, these financial statements are presented on a cash basis of accounting. The 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. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued after November 30, 1989 have not been applied.

a. Financial Reporting Entity:

The reporting entity of the City of Summerset (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 Assets and Statement of Activities display information about the reporting entity as a whole. These statements include all funds of the reporting entity. 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 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, 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 SUMMERSET

NOTES TO FINANCIAL STATEMENTS – CASH BASIS (CONTINUED)
DECEMBER 31, 2010

1. Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued):

Fund Financial Statements (Continued):

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

Governmental Funds:

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

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

Tax Increment District #1 Debt Service Fund – this fund accounts for the property tax revenue received on the tax increment district to finance debt service related to infrastructure purchases made within the tax increment district. This fund is 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).

Tax Increment District #1 Capital Projects Fund – this fund accounts for financial resources to be used for the acquisition of a wastewater treatment plant. This 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 (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.

Sewer Fund - financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-48-2). This 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 revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

CITY OF SUMMERSET

NOTES TO FINANCIAL STATEMENTS – CASH BASIS (CONTINUED)
DECEMBER 31, 2010

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

c. Measurement Focus and Basis of Accounting (Continued):

Measurement Focus:
In the government-wide Statement of Net Assets and Statement of Activities, 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.

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

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 statement of financial position reports only cash and cash equivalents. Under the cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed.

Under GAAP, transactions are recorded in the accounts when revenue are earned and liabilities are incurred. As a result of reporting on the 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 asset 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.

e. 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.

f. Long-Term Liabilities:

Under the 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. Allocations are made where appropriate. 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 cash basis financial statements.

CITY OF SUMMERSET

NOTES TO FINANCIAL STATEMENTS – CASH BASIS (CONTINUED)
DECEMBER 31, 2010

1. Summary of Significant Accounting Policies (Concluded)

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 Assets – 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 assets and is displayed in two components under the cash basis:

1. Restricted net assets – Consists of net assets 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 assets – All other net assets that do not meet the definition of restricted.

Fund Financial Statements:
Governmental fund equity is classified as fund balance, and may distinguish between Reserved and Unreserved components. Proprietary fund equity is classified the same as in the government-wide financial statements.

j. Application of Net Assets:

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

CITY OF SUMMERSET

NOTES TO FINANCIAL STATEMENTS – CASH BASIS (CONTINUED)
DECEMBER 31, 2010

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 including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of 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) 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) and repurchase agreements described in (b).

The City has no investments at December 31, 2010.

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, 2010, 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.

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.

CITY OF SUMMERSET

NOTES TO FINANCIAL STATEMENTS – CASH BASIS (CONTINUED)
DECEMBER 31, 2010

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.

4. Long-Term Debt

Changes in long-term debt for the year ending December 31, 2010:

	Balance 12/31/09	Additions	Deletions	Balance 12/31/2010	Due Within One Year
Primary Government:					
Governmental Activities:					
Tax Increment Financing Note	$ 3,390,867	$ 82,503	$ -	$ 3,473,370	$ 49,525
Contract for Deed	-	775,000	-	775,000	791
Total Primary Government	**$ 3,390,867**	**$ 857,503**	**$ -**	**$ 4,248,370**	**$ 50,316**

Long-term debt at December 31, 2010 is comprised of the following:

Tax Increment Financing Note:	
Tax Increment Revenue and System Revenue Bond Series 2008, including interest at 4.5 percent, with an interest only payment due June 1, 2011, then semi-annual payments of $148,400. Secured by a mortgage on the wastewater treatment facility. Financed through Tax Increment District #1 Debt Service Fund.	$ 3,473,370
Contract for Deed bears interest at 5.0 percent, monthly payments of $3,300 starting January 2011 increasing by $1,000 annually, with a balloon payment of $153,532 in December 2020. Debt is secured by building and land purchased. Financed by the General Fund.	775,000
	$ 4,248,370

The City has a bond reserve that should total $67,195, which was recorded in the Statement of Net Assets – Cash Basis at December 31, 2010. Deposits maintained in the savings account totaled $64,629; therefore the City was not in compliance with this requirement at year end. The shortfall was deposited on August 25, 2011.

Pledged Revenues

Tax increment financing is a method of financing improvements and development in an area which has been determined to be blighted according to the criteria set forth in SDCL 11-9. In some instances, the City pledges future tax revenues generated by the tax increment district to acquire public improvements within the established district.

CITY OF SUMMERSET

NOTES TO FINANCIAL STATEMENTS – CASH BASIS (CONTINUED)
DECEMBER 31, 2010

4. Long-Term Debt (Continued)

Pledged Revenue (Continued)
The City has pledged future tax revenues generated by Tax Increment District #1 and future revenues of the Sewer Fund for the retirement of its Tax Increment Financing Note 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 (none in 2010) and interest payments and total pledged revenue for the current year:

Current Year Principal and Interest	$	152,431
Pledged Revenue:		
Tax Increment Revenue	$	72,762
Sewer Fund Revenue		338,537
Total Pledged Revenue	$	411,299

The annual requirements to amortize all debt outstanding as of December 31, 2010, are as follows:

	Tax Increment Financing Note		Contract for Deed		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2011	$ 248,405	$ 49,525	$ 38,809	$ 791	$ 287,214	$ 50,316
2012	152,890	143,910	38,599	13,001	191,489	156,911
2013	145,909	150,891	37,542	26,058	183,451	176,949
2014	139,043	157,757	35,927	39,673	174,970	197,430
2015	131,864	164,936	33,613	53,987	165,477	218,923
2016-2020	535,850	948,150	106,742	641,490	642,592	1,589,640
2021-2025	303,541	1,180,459	-	-	303,541	1,180,459
2026-2028	45,594	677,742	-	-	45,594	677,742
Total	$ 1,703,096	$ 3,473,370	$ 291,232	$ 775,000	**$ 1,994,328**	**$ 4,248,370**

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, 2010, 2009, 2008, 2007, and 2006 were **$8,132**, $7,407, $2,619, $2,609, and $2,200 (unaudited), respectively, equal to the required contributions each year.

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, 2010, 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, 2010, no claims were 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 based on their exposure or type of coverage to the pool to provide coverage for general liability, officials' liability, automobile liability and damage, property damage and law enforcement liability.

The agreement with the SDPAA provides that the above coverage will be provided to a $2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of $250,000 for property coverage and $500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund.

The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

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

As of the December 31, 2010, the City has a vested balance in the cumulative reserve fund of **$8,147**, which is not recorded in the cash basis financial statements of the City. The City is 80% vested and is in its fifth year.

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 SUMMERSET

NOTES TO FINANCIAL STATEMENTS – CASH BASIS (CONCLUDED)
DECEMBER 31, 2010

6. Risk Management (Continued)

Worker's Compensation:

The City joined 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 an additional $2,000,000 per individual per incident.

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

7. Interfund Transfers

Interfund transfers for the year ended December 31, 2010, were as follows:

	Transfer In	Transfer Out
Tax Increment District #1 - Debt Service Fund	$ 230,902	$ 16,170
Sewer Fund	82,917	228,452
General Fund	116	69,313
Total	**$ 313,935**	**$ 313,935**

A transfer was made during the year between the Tax Increment District #1 - Debt Service Fund and the Sewer Fund to make the interest payments on the wastewater treatment plant. An additional transfer was made between the Sewer and General Fund for operations.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SUMMERSET

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts Original	Budgeted Amounts Final	Budgetary Basis - Actual Amounts	Variance
Revenue:				
310 Taxes:				
311 General Property Taxes	$ 407,460	$ 438,230	$ 421,910	$ (16,320)
313 General Sales and Use Taxes	227,000	256,000	257,505	1,505
315 Amusement Taxes	23,960	23,960	23,901	(59)
319 Penalties and Interest on Delinquent Taxes	380	380	442	62
320 Licenses and Permits	37,610	38,340	39,435	1,095
330 Intergovernmental Revenue:				
335 State Shared Revenue:				
335.03 Liquor Tax Reversion	8,500	8,500	8,220	(280)
335.04 Motor Vehicle Licenses (5%)	13,840	15,500	16,108	608
338 County Shared Revenue				
338.01 County Road Tax	1,310	1,310	1,310	-
338.99 Other	4,000	4,000	3,934	(66)
340 Charges for Goods and Services:				
341 General Government	-	-	2,600	2,600
350 Fines and Forfeits:				
351 Court Fines and Costs	5,000	4,700	4,604	(96)
360 Miscellaneous Revenue:				
361 Investment Earnings	100	100	112	12
363.01 Principal Collected by County	2,000	2,000	2,000	-
364.01 Maintenance Assessments	365	5,365	10,281	4,916
369 Other	12,835	19,380	25,970	6,590
Total Revenue	**744,360**	**817,765**	**818,332**	**567**

CITY OF SUMMERSET

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts Original	Budgeted Amounts Final	Budgetary Basis - Actual Amounts	Variance
Expenditures:				
410 General Government:				
411 Legislative	50,950	62,703	61,672	1,031
412 Executive	28,800	38,988	38,335	653
413 Elections	1,040	1,202	1,199	3
414 Financial Administration	159,000	199,279	157,445	41,834
419 Other	-	-	815,148	(815,148)
420 Public Safety:				
421 Police	134,850	151,396	150,119	1,277
423 Protective Inspection	15,000	19,000	18,604	396
430 Public Works:				
431 Highways and Streets	270,170	201,822	194,608	7,214
432 Sanitation	10,000	14,984	14,923	61
430 Health and Welfare:				
444 Humane Society	-	4,064	4,063	1
450 Culture and Recreation:				
451 Recreation	2,500	1,500	1,500	-
452 Parks	35,000	31,406	31,393	13
460 Conservation and Development:				
465 Planning and Zoning	37,050	24,674	24,471	203
Total Expenditures	**744,360**	**751,018**	**1,513,480**	**(762,462)**
Other Financing Sources (Uses):				
391.01 Transfers In	-	-	116	116
391.20 Long-Term Debt Issued	-	-	775,000	775,000
511 Transfers Out	-	(66,747)	(69,313)	(2,566)
Total Other Financing Sources (Uses)	**-**	**(66,747)**	**705,803**	**772,550**
Net Change in Fund Balance	**-**	**-**	**10,655**	**10,655**
Fund Balance - December 31, 2009	275,315	275,315	275,315	-
Fund Balance - December 31, 2010	**$ 275,315**	**$ 275,315**	**$ 285,970**	**$ 10,655**

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

CITY OF SUMMERSET

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2010

(1) Budgets and Budgetary Accounting

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation 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 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, 2010.

7. Formal budgetary integration is employed as a management control device during the year for the general fund.

8. Budgets for the general fund and special revenue funds are adopted on a basis consistent with the cash basis of accounting.

(2) GAAP Budgetary Accounting Basis Differences

Financial statements prepared in conformity with the 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

Ketel Thorstenson, LLP
Certified Public Accountants
810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

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

City Commissioners
City of Summerset
Summerset, South Dakota

We have audited the cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the **CITY OF SUMMERSET** (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements, and have issued our unqualified report thereon dated December 2, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Auditor's Comments and Closing Conference, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompany Auditor's Comments and Closing Conference as Findings 2008-01, 2008-02 and 2009-01 to be material weaknesses.

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 consider the deficiencies described in the accompanying Auditor's Comments and Closing Conference as Findings 2008-04, 2009-02, and 2009-04 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, which are described in the accompanying Auditor's Comments and Closing Conference as Findings 2008-04, 2009-02 and 2009-04.

The City's responses to the findings identified in our audit are described in the accompanying Auditor's Comments and Closing Conference. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing board and management of the City of Summerset, federal awarding agencies and pass-through entities, the South Dakota Legislature, and state granting agencies, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

December 2, 2011

CITY OF SUMMERSET

AUDITOR'S COMMENTS AND CLOSING CONFERENCE
DECEMBER 31, 2010

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS

The City does not consider the additional costs of preparing its financial statements to be necessary, so Finding 2008-01 will be repeated for the year ending December 31, 2010.

The City has made some effort to improve the segregation of duties, where feasible. Finding 2008-02 will be repeated for the year ending December 31, 2010.

The City is aware that wages and raises for all employees need to be published in the Council minutes. The City is also aware that time studies should be performed to substantiate the allocation of wages between funds. Finding 2009-02 will be repeated for the year ending December 31, 2010.

The City is aware that minimum debt reserves must be maintained to comply with debt covenants. Finding 2009-04 will be repeated for the year ending December 31, 2010.

The City is aware that debt proceeds should be recorded within the year the debt is obtained. Finding 2009-01 will be repeated for the year ending December 31, 2010.

The City is aware that the budgeting process needs to be more diligent in completing supplemental appropriations, when necessary. Finding 2008-04 will be repeated for the year ending December 31, 2010.

The City has abstained from mailing checks prior to their appropriate date. Finding 2009-03 will *not* be repeated for the year ending December 31, 2010.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Significant Deficiencies – Material Weaknesses in Internal Control

Finding No. 2008-01: Financial Statement Preparation

Cause and Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited, including the related footnote disclosures. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in a City of your size.

Criteria and Effect: This control deficiency could result in a material misstatement to the financial statements that would not be prevented or detected by your City's internal control system.

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.

Response/Corrective Action Plan: Monthly financial statements are submitted to the City Commission on a regular basis for their review. At such time as the Commission would feel the necessity to require statements prepared by an outside source, the Finance Officer will contact appropriate resources for assistance.

CITY OF SUMMERSET

AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)
DECEMBER 31, 2010

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiencies – Material Weaknesses in Internal Control (Continued)

Finding No. 2008-02: Segregation of Duties
Cause and Condition: Proper segregation of duties assumes adequate internal control over the safeguarding of assets and the reliability of financial records and reporting. The City has a lack of segregation of duties in various areas. More specifically:

a. The Assistant Finance Officer has the ability to accept utility and other payments, prepares utility billings, posts utility payments and all City revenue, and makes adjustments to customer accounts.
b. Payroll is completed by the Finance Officer. During the current year, the City has implemented a process for the Mayor to review payroll before disbursement.

Criteria and Effect: This control deficiency could result in a material misstatement to the financial statements that would not be prevented or detected by your City's internal control system.

Recommendation:

a. The Assistant Finance Officer should not have the capability to post adjustments to customer accounts, as well as accepting payments. These duties should be separated between the Finance and Assistant Finance Officers. The City Commission should review the adjustment report on a monthly basis.
b. The Mayor should continue to review payroll prior to payment, in order to verify that individuals are being paid at the proper rate, hours, and are true employees of the City. The Mayor or Commissioner should review a bank statement to ensure that the amount of direct deposit approved was properly made.

Response/Corrective Action Plan: The Finance Officer will post all utility billing adjustments. The City Commission will review the same and approve at the City Commission meeting. All payrolls are signed and reviewed by the Mayor and approved by the City Commission during the regular meeting.

Finding No. 2009-1: Internal Control over Significant Accounts

Cause and Condition: During the course of our engagement, we proposed material audit adjustments to record debt proceeds and to adjust restricted debt service cash to actual.

Criteria and Effect: This control deficiency could result in a material misstatement to the financial statements that would not be prevented or detected by your City's internal control system.

Recommendation: We recommend that management consider the following:

a. Record contract for deed proceeds in the appropriate fund when received
b. Adjust the restricted cash balances within the appropriate fund

Response/Corrective Action Plan: The City Finance Officer will record all bond proceeds in the appropriate fund when received, record expenses within the proper function, and adjust the restricted cash balances within the appropriate fund.

CITY OF SUMMERSET

AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)
DECEMBER 31, 2010

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiencies – Not Considered Material Weaknesses in Internal Control

Finding No. 2008-04: Budgetary Overdraft

Cause and Condition: The City has a budgetary overdraft in violation of South Dakota Codified Law 9-21-9, in the following department:

	Overdraft
410 General Government:	
419 Other	$ (815,148)

Criteria and Effect: The City is not in compliance with State laws.

Recommendation: The City in the future should complete supplemental appropriations for unbudgeted expenditures.

Response/Corrective Action Plan: The Finance Officer will complete supplemental appropriations for unbudgeted expenditures. The City entered into a contract for deed for a Municipal Building in December 2010. Due to time constraints, the City was not able to prepare a second supplemental budget for this expense.

Finding No. 2009-02: Detail Testing Findings

Cause and Condition:

- Allocation of Payroll – Documentation did not exist supporting the allocation of payroll expenses for the Assistance Finance Officer to the General and Sewer Funds.
- Publishing Wages – The City did not publish the wages of one employee hired to clean the finance office. According to State Statute 6-1-10, a complete listing of all the salaries of all officers and employees and thereafter shall be published once any salary paid to any officer or employee has been added or whose salary has been increased, within 30 days thereafter.

Criteria and Effect: The City is not in compliance with State law.

Recommendation:

- Allocation of Payroll – Time studies should be performed on an annual basis to substantiate how payroll is allocated between funds.
- Publishing Wages - In order to comply with state law, we would recommend publishing any changes to wages in the City Commission minutes within 30 days of the change.

Response/Corrective Action Plan: The City Finance Officer will publish changes to wages in the City Commission minutes within 30 days of the change, as well as provide supporting documentation for allocation of payroll expenses.

CITY OF SUMMERSET

AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONCLUDED)
DECEMBER 31, 2010

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONCLUDED)

Significant Deficiencies – Not Considered Material Weaknesses in Internal Control (Continued)

Finding No. 2009-04: Debt Reserve Compliance Covenant

Cause and Condition: We noted that the City is out of compliance with its debt covenant to maintain debt reserves equal to 10 percent of the monthly payment each month over the life of the loan until one annual installment is accumulated. In addition, they must have an asset management reserve for short-lived assets by depositing a sum of $111 monthly. The City currently has a debt reserve balance of $64,629, but should have a balance totaling $67,195.

Criteria and Effect: This could cause difficulty obtaining borrowings in the future, and may cause current debt holders to require revenue bonds to be paid prior to maturity.

Recommendation: The City should transfer the appropriate amount to the debt reserve account to comply with covenants.

Response/Corrective Action Plan: The City Finance Officer has established appropriate savings accounts to which funds are transferred on a monthly basis to comply with debt reserves and asset management reserves.