



Financial Statements  
December 31, 2012 and 2011  
**City of Ashton**

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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

To the City Council  
Ashton, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Ashton as of December 31, 2012, and for each of the fiscal years in the two year period then ended and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express 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 Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of December 31, 2012, and the respective changes in financial position and, where, applicable, cash flows thereof for each of the fiscal years in the two year period then ended in accordance with the modified cash basis of accounting described in Note 1.

As described in Note 1 to the financial statements, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise the City's financial statements. The budgetary comparison and long-term debt schedule are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the financial statements.

The budgetary comparison, long-term debt schedule and the schedules of expenditure of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2013 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.



Aberdeen, South Dakota  
June 20, 2013

City of Ashton  
Statement of Net Position--Modified Cash Basis  
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 60,383	\$ 103,281	\$ 163,664
Restricted assets:			
Cash and cash equivalents restricted for:			
Capital Project Purposes	-	600	600
Debt Service Purposes	-	620	620
	<u>\$ 60,383</u>	<u>\$ 104,501</u>	<u>\$ 164,884</u>
 <b>Net Position</b>			
Restricted for:			
Capital Project Purposes	\$ -	\$ 600	\$ 600
Debt Service Purposes	-	620	620
Unrestricted	<u>60,383</u>	<u>103,281</u>	<u>163,664</u>
	<u>\$ 60,383</u>	<u>\$ 104,501</u>	<u>\$ 164,884</u>

City of Ashton  
 Statements of Activities—Modified Cash Basis  
 Years Ended December 31, 2012 and 2011

Functions/Programs	2012						
	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Loan Proceeds	Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>							
Governmental activities:							
General government	\$ 22,581	\$ 681	\$ -	\$ -	\$ (21,900)	\$ (21,900)	
Public safety	2,500	-	-	-	(2,500)	(2,500)	
Public works	7,669	-	10,818	-	3,149	3,149	
Culture and recreation	677	-	-	-	(677)	(677)	
Miscellaneous	11,928	-	-	-	(11,928)	(11,928)	
Total governmental activities	<u>45,355</u>	<u>681</u>	<u>10,818</u>	<u>-</u>	<u>(33,856)</u>	<u>(33,856)</u>	
Business-type activities:							
Sewer	314,431	15,600	-	319,050	-	20,219	
Storm	230,482	9,683	-	221,274	-	475	
Total business-type activities	<u>544,913</u>	<u>25,283</u>	<u>-</u>	<u>540,324</u>	<u>-</u>	<u>20,694</u>	
	<u>\$ 590,268</u>	<u>\$ 25,964</u>	<u>\$ 10,818</u>	<u>\$ 540,324</u>	<u>(33,856)</u>	<u>(13,162)</u>	
<b>General Revenues</b>							
Taxes:							
Property taxes					36,202	-	
Sales and use taxes					7,984	-	
State shared revenues					1,080	-	
Unrestricted investment earnings					231	462	
Miscellaneous revenue					2,125	7,405	
Transfers					(3,456)	3,456	
Total general revenues and transfers					<u>44,166</u>	<u>11,323</u>	
Change in Net Position					10,310	32,017	
Net Position - Beginning					<u>50,073</u>	<u>72,484</u>	
Net Position - Ending					<u>\$ 60,383</u>	<u>\$ 104,501</u>	

See Notes to Financial Statements

City of Ashton  
 Statements of Activities—Modified Cash Basis  
 Years Ended December 31, 2012 and 2011

Functions/Programs	2011						
	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Loan Proceeds	Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>							
Governmental activities:							
General government	\$ 21,110	\$ 1,036	\$ -	\$ -	\$ (20,074)	\$ -	\$ (20,074)
Public safety	2,500	-	-	-	(2,500)	-	(2,500)
Public works	14,646	-	8,644	-	(6,002)	-	(6,002)
Culture and recreation	635	-	-	-	(635)	-	(635)
Miscellaneous	6,749	-	-	-	(6,749)	-	(6,749)
Total governmental activities	<u>45,640</u>	<u>1,036</u>	<u>8,644</u>	<u>-</u>	<u>(35,960)</u>	<u>-</u>	<u>(35,960)</u>
Business-type activities:							
Sewer	1,033,611	15,232	-	1,025,458	-	7,079	7,079
Storm	377,790	8,302	-	373,307	-	3,819	3,819
Total business-type activities	<u>1,411,401</u>	<u>23,534</u>	<u>-</u>	<u>1,398,765</u>	<u>-</u>	<u>10,898</u>	<u>10,898</u>
	<u>\$ 1,457,041</u>	<u>\$ 24,570</u>	<u>\$ 8,644</u>	<u>\$ 1,398,765</u>	<u>(35,960)</u>	<u>10,898</u>	<u>(25,062)</u>
<b>General Revenues</b>							
Taxes:							
Property taxes					29,684	-	29,684
Sales and use taxes					10,787	-	10,787
State shared revenues					1,009	-	1,009
Unrestricted investment earnings					254	483	737
Miscellaneous revenue					3,423	6,435	9,858
Transfers					4,875	(4,875)	-
Total general revenues and transfers					<u>50,032</u>	<u>2,043</u>	<u>52,075</u>
Change in Net Position					14,072	12,941	27,013
Net Position - Beginning					<u>36,001</u>	<u>59,543</u>	<u>95,544</u>
Net Position - Ending					<u>\$ 50,073</u>	<u>\$ 72,484</u>	<u>\$ 122,557</u>

City of Ashton  
Balance Sheet--Modified Cash Basis--Governmental Funds  
December 31, 2012

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	<u>General Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 60,383</u>
	<u>\$ 60,383</u>
Fund Balances	
266 Assigned for:	
Capital outlay accumulations	\$ 26,283
267 Unassigned	<u>34,100</u>
	<u>\$ 60,383</u>

City of Ashton

Statements of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis Governmental Funds  
 Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
	<u>General Fund</u>	<u>General Fund</u>
<b>Revenues</b>		
310 Taxes		
311 General property taxes	\$ 34,493	\$ 29,223
313 General sales and use taxes	7,984	10,787
314 Gross receipts business taxes	-	-
319 Penalties and interest on delinquent taxes	1,709	461
	<u>44,186</u>	<u>40,471</u>
Total taxes		
320 Licenses and permits	<u>681</u>	<u>486</u>
330 Intergovernmental revenue		
335 State shared revenue:		
335.01 Bank franchise tax	68	58
335.02 Motor vehicle commercial prorated	1,097	1,171
335.03 Liquor tax reversion	1,012	951
335.04 Motor vehicle licenses (5%)	3,643	2,619
335.08 Local government highway and bridge fund	5,661	4,453
338 County shared revenue		
338.1 County road tax (25%)	68	68
338.2 County highway and bridge reserve tax (25%)	193	193
338.3 County wheel tax	156	140
	<u>11,898</u>	<u>9,653</u>
Total intergovernmental revenue		
350 Fines and forfeits		
351 Court fines and costs	<u>-</u>	<u>550</u>
360 Miscellaneous revenue		
361 Investment earnings	231	254
362 Rentals	975	900
369 Other	1,150	2,523
	<u>2,356</u>	<u>3,677</u>
Total miscellaneous revenue		
Total revenues	<u>59,121</u>	<u>54,837</u>
<b>Expenditures</b>		
410 General government		
411 Legislative	17,721	16,220
414 Financial administration	4,860	4,890
	<u>22,581</u>	<u>21,110</u>
Total general government		

City of Ashton

Statements of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis Governmental Funds  
Years Ended December 31, 2012 and 2011

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	2012	2011
	General Fund	General Fund
420 Public safety		
422 Fire	2,500	2,500
430 Public works		
431 Highways and streets	6,167	7,872
437 Cemeteries	1,502	6,774
Total public works	7,669	14,646
450 Culture and recreation		
452 Parks	677	635
480 Intergovernmental expenditures	999	1,001
485 Capital outlay	4,500	-
490 Miscellaneous		
491 Miscellaneous expenses	6,429	5,748
Total expenditures	45,355	45,640
Other Financing Sources (Uses)		
391.01 Transfers in	44	4,875
511 Transfers out	(3,500)	-
Total other financing sources (uses)	(3,456)	4,875
Net Change in Fund Balance	10,310	14,072
Fund Balance - Beginning	50,073	36,001
Fund Balance - Ending	\$ 60,383	\$ 50,073

City of Ashton  
Statement of Net Position -Modified Cash Basis-Proprietary Funds  
December 31, 2012

	Enterprise Funds		
	Sewer Fund	Storm Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ 95,483	\$ 7,798	\$ 103,281
107.1 Restricted cash	612	608	1,220
Total assets	<u>\$ 96,095</u>	<u>\$ 8,406</u>	<u>\$ 104,501</u>
Net Position			
253.20 Restricted for			
253.21 Debt service	\$ 312	\$ 308	\$ 620
253.26 Equipment repair	300	300	600
253.90 Unrestricted	<u>95,483</u>	<u>7,798</u>	<u>103,281</u>
Total net position	<u>\$ 96,095</u>	<u>\$ 8,406</u>	<u>\$ 104,501</u>

City of Ashton

Statements of Revenues, Expenses and Changes in Fund Net Position—Modified Cash Basis—Proprietary Funds  
Years Ended December 31, 2012 and 2011

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	2012		
	Enterprise Funds		
	Sewer Fund	Storm Fund	Totals
Operating Revenue			
380 Charges for goods and services	\$ 15,600	\$ 9,683	\$ 25,283
Operating Expenses			
430 Capital assets	303,870	221,254	525,124
Operating Income (Loss)	(288,270)	(211,571)	(499,841)
Nonoperating Revenue			
330 Operating grants	319,050	221,274	540,324
361 Investment earnings	462	-	462
441 Debt Service (principal)	(3,910)	(3,691)	(7,601)
442 Interest expense	(5,414)	(5,537)	(10,951)
396.01 Other	6,130	1,275	7,405
429 Other	(1,237)	-	(1,237)
Total nonoperating revenue	315,081	213,321	528,402
Income Before Transfers	26,811	1,750	28,561
391.1 Transfer in	3,500	75	3,575
511 Transfers out	(119)	-	(119)
Total nonoperating revenue (expense)	3,381	75	3,456
Change in Net Position	30,192	1,825	32,017
Net Position - Beginning	65,903	6,581	72,484
Net Position- Ending	\$ 96,095	\$ 8,406	\$ 104,501

City of Ashton

Statements of Revenues, Expenses and Changes in Fund Net Position—Modified Cash Basis—Proprietary Funds  
Years Ended December 31, 2012 and 2011

	2011		
	Enterprise Funds		
	Sewer Fund	Storm Fund	Totals
Operating Revenue			
380 Charges for goods and services	\$ 15,232	\$ 8,302	\$ 23,534
Operating Expenses			
430 Capital assets	1,025,216	373,176	1,398,392
Operating Loss	(1,009,984)	(364,874)	(1,374,858)
Nonoperating Revenue			
330 Operating grants	780,458	135,307	915,765
361 Investment earnings	464	19	483
391.2 Money received from borrowing	245,000	238,000	483,000
441 Debt Service (principal)	(2,570)	(3,111)	(5,681)
442 Interest expense	(2,092)	(1,503)	(3,595)
396.01 Other	6,435	-	6,435
429 Other	(3,733)	-	(3,733)
Total nonoperating revenue	1,023,962	368,712	1,392,674
Income Before Transfers	13,978	3,838	17,816
391.1 Transfer in	752	6,616	7,368
511 Transfers out	(8,370)	(3,873)	(12,243)
Total nonoperating revenue (expense)	(7,618)	2,743	(4,875)
Change in Net Position	6,360	6,581	12,941
Net Position - Beginning	59,543	-	59,543
Net Position - Ending	\$ 65,903	\$ 6,581	\$ 72,484

City of Ashton  
 Statements of Cash Flows—Modified Cash Basis—Proprietary Funds  
 Years Ended December 31, 2012 and 2011

	2012		
	Enterprise Funds		
	Sewer Fund	Storm Fund	Totals
Cash Flows from Operating Activities			
Receipt from customers	\$ 15,600	\$ 9,683	\$ 25,283
Cash Flows from Noncapital Financing Activities			
Transfer In	3,500	75	3,575
Transfer Out	(119)	-	(119)
Net Cash from Noncapital Financing Activities	3,381	75	3,456
Cash Flows from (used for) Capital and Related Financing Activities			
Federal grants	319,050	221,274	540,324
Purchase of capital assets	(303,870)	(221,254)	(525,124)
Principal paid on capital debt	(3,910)	(3,691)	(7,601)
Interest paid on capital debt	(5,414)	(5,537)	(10,951)
Other receipts (payments)	4,893	1,275	6,168
Net Cash from (used for) Capital and Related Financing Activities	10,749	(7,933)	2,816
Cash Flows from Investing Activities			
Interest earnings	462	-	462
Net Change in Cash and Cash Equivalents	30,192	1,825	32,017
Cash and Cash Equivalents - Beginning	65,903	6,581	72,484
Cash and Cash Equivalents - Ending	\$ 96,095	\$ 8,406	\$ 104,501
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	\$ 96,095	\$ 8,406	\$ 104,501
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (288,270)	\$ (211,571)	\$ (499,841)
Adjustments to reconcile operating loss to net cash from operating activities:			
Purchase of capital assets	303,870	221,254	525,124
Net Cash from Operating Activities	\$ 15,600	\$ 9,683	\$ 25,283

City of Ashton  
 Statements of Cash Flows—Modified Cash Basis—Proprietary Funds  
 Years Ended December 31, 2012 and 2011

	2011		
	Enterprise Funds		
	Sewer Fund	Storm Fund	Totals
Cash Flows from Operating Activities			
Receipt from customers	\$ 15,232	\$ 8,302	\$ 23,534
Cash Flows from (used for) Noncapital Financing Activities			
Transfer In	752	6,616	7,368
Transfer Out	(8,370)	(3,873)	(12,243)
Net Cash from (used for) noncapital financing activities	(7,618)	2,743	(4,875)
Cash Flows used for Capital and Related Financing Activities			
Federal grants	780,458	135,307	915,765
Proceeds from capital debt	245,000	238,000	483,000
Purchase of capital assets	(1,025,216)	(373,176)	(1,398,392)
Principal paid on capital debt	(2,570)	(3,111)	(5,681)
Interest paid on capital debt	(2,092)	(1,503)	(3,595)
Other receipts (payments)	2,702	-	2,702
Net Cash used for Capital and Related Financing Activities	(1,718)	(4,483)	(6,201)
Cash Flows from Investing Activities			
Interest earnings	464	19	483
Net Change in Cash and Cash Equivalents	6,360	6,581	12,941
Cash and Cash Equivalents - Beginning	59,543	-	59,543
Cash and Cash Equivalents - Ending	\$ 65,903	\$ 6,581	\$ 72,484
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	\$ 65,903	\$ 6,581	\$ 72,484
Reconciliation of Operating Loss to			
Net Cash from Operating Activities			
Operating loss	\$ (1,009,984)	\$ (364,874)	\$ (1,374,858)
Adjustments to reconcile operating loss to net cash from operating activities:			
Purchase of capital assets	1,025,216	373,176	1,398,392
Net Cash from Operating Activities	\$ 15,232	\$ 8,302	\$ 23,534

## **Note 1 - Summary of Significant Accounting Policies**

As discussed further in Note 1.C, the 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 Ashton (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, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the City's financial statements to be misleading or incomplete.

### **B. Basis of Presentation**

#### **Government-Wide Financial Statements**

The statement of net position and statements of activities display information about the City as a whole. They include all funds of the City except for fiduciary. 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 statements of activities present 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 City 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% 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% of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year or because of public interest in the fund's operations.

The funds of the City 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.

### **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.

The City reports the following major enterprise funds:

- **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).
- **Storm Fund** – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal storm sewer system and related facilities (SDCL 9-48-2).

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **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.

The City uses modified cash basis for financial reporting. Modified cash basis is a basis of accounting other than US GAAP. Under US GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

### **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 applied within the limitations of the modified cash basis of accounting.

### **Basis of Accounting**

In the government-wide statement of net position and statements of activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The only modification to the cash basis of accounting implemented by the City in these financial statements is the recording of long-term investments in certificates of deposit (those with maturities more than 90 days from the date of acquisition) acquired with cash assets at cost and interfund advances and borrowings arising from the use of a pooled cash account.

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

If the City applied USGAAP, 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.

The City has changed accounting policies due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement redefines the elements of fund balance in governmental funds and more clearly describes the different types of governmental funds.

#### **D. Deposits and Investments**

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

Investments classified in the financial statements consist entirely of certificates of deposits whose term to maturity date of acquisition exceeds three months and/or those types of investments authorized by the South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

#### **E. Interfund Eliminations and Reclassifications**

##### **Government-Wide Financial Statements**

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

- The City did not have internal service fund activity which required elimination as of December 31, 2012 and 2011.

#### **F. Capital Assets**

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs.

#### **G. Long-Term Liabilities**

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances is 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 governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. Under the modified cash basis, the accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

#### **H. Program Revenues**

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

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

#### **I. Proprietary Funds Revenue and Expense Classifications**

In the proprietary fund's statements of revenues, expenses and changes in fund net position, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

#### **J. Cash and Cash Equivalents**

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

#### **K. Equity Classifications**

##### **Government-Wide Statements**

Equity is classified as net position and is comprised of two components, restricted net position and unrestricted net position. Because capital assets are not reported by the City under the modified cash basis of accounting, only the following components are displayed:

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 position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

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

Governmental fund equity is classified as fund balance, and may distinguish between nonspendable, restricted, committed, assigned and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

#### **L. Application of Net Position**

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 grant agreements 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.

#### **M. Fund Balance Classification Policies and Procedures**

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable Fund Balance** – Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- **Restricted Fund Balance** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed Fund Balance** – Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- **Assigned Fund Balance** – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- **Unassigned Fund Balance** – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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

#### **N. Rounding**

Computer generated rounding variances exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

**Note 2 - Violations of Finance Related Legal and Contractual Provision**

The City is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations:

	2012	2011
General Fund		
Activity		
General government	\$ 5,481	\$ 5,990
Public works	-	2,391
Culture and recreation	677	635

**Note 3 - 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 as follows:

**Deposits**

The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% 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 the 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.

**Custodial Credit Risk – Deposits** – 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, 2012 and 2011, the City maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

The actual bank balances at December 31, 2012 and 2011 are as follows:

	2012	2011
Insured (FDIC/NCUA)	\$ 164,701	\$ 223,872

The City's carrying amount of deposits at December 31, 2012 and 2011 is as follows:

	2012	2011
Cash and cash equivalents	\$ 164,884	\$ 122,557

**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).

As of December 31, 2012 and 2011, the City did not hold any investments as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. The City also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

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

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

**Note 4 - Property Taxes**

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

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

**Note 5 - Significant Contingencies - Litigation**

At December 31, 2012 and 2011, the City was not involved in any litigation that would be material to the financial statements.

**Note 6 - Restricted Net Position**

Restricted net position for the year ended December 31, 2012 was as follows:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Storm Fund	Contractual Agreement	\$ 612
Sewer Fund	Contractual Agreement	608

**Note 7 - 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 years ended December 31, 2012 and 2011, the City managed its risks as follows:

**Employee Health Insurance**

The City does not offer employee health insurance or health insurance reimbursement.

**Liability Insurance**

The City purchases liability insurance for risks related to torts, theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims from these risks have not exceeded the liability coverage during the past three years.

**Worker's Compensation**

The City purchases worker's compensation insurance from a commercial carrier.

**Unemployment Benefits**

The City contributes to the South Dakota Unemployment Insurance Fund. Contributions are made on qualifying wages based on an experience rate. Claims for any unemployment benefits are made to this fund. Benefits claimed have never exceeded the funds ability to pay.

**Note 8 - Interfund Transfers**

The City transferred funds to the Sewer and Storm Funds to help supplement operations. The City transferred funds to the General Fund to reimburse the fund for costs incurred on the Storm and Sewer projects. Interfund transfers are comprised of the following:

	Transfers to Governmental Activities General Fund	Transfers to Business-Type Activities Sewer Fund	Transfers to Business-Type Activities Storm Fund
2012 Transfers from:			
Major Funds:			
General Funds	\$ -	\$ 3,500	\$ -
Sewer Fund	44	-	75
2011 Transfers from:			
Major Funds:			
Sewer Fund	\$ 1,754	\$ -	\$ 6,616
Storm Fund	3,121	752	-



Supplementary Information  
December 31, 2012 and 2011  
**City of Ashton**

City of Ashton  
Schedules of Changes in Long-Term Debt  
Years Ended December 31, 2012 and 2011

<u>Indebtedness</u>	<u>Long-Term Debt 1/1/11</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 12/31/11</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 12/31/12</u>
Enterprise Long-Term Debt							
231.02 Revenue bonds (sewer)	\$ -	\$ 245,000	\$ 2,570	\$ 242,430	\$ -	\$ 3,910	\$ 238,520
(storm)	-	238,000	3,111	234,889	-	3,691	231,198
	<u>\$ -</u>	<u>\$ 483,000</u>	<u>\$ 5,681</u>	<u>\$ 477,319</u>	<u>\$ -</u>	<u>\$ 7,601</u>	<u>\$ 469,718</u>

City of Ashton  
 Budgetary Comparison Schedules—General Fund  
 Years Ended December 31, 2012 and 2011

	2012			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 5,000	\$ 30,929	\$ 34,493	\$ 3,564
313 General sales and use taxes	7,500	7,500	7,984	484
319 Penalties and interest on delinquent taxes	5,000	5,000	1,709	(3,291)
Total taxes	17,500	43,429	44,186	757
320 Licenses and permits	-	-	681	681
330 Intergovernmental revenue				
335 State shared revenue				
335.01 Bank franchise tax	-	-	68	68
335.02 Motor vehicle commercial prorate	-	-	1,097	1,097
335.03 Liquor tax reversion	450	450	1,012	562
335.04 Motor vehicle licenses (5%)	-	-	3,643	3,643
335.08 Local government highway and bridge fund	-	-	5,661	5,661
338 County shared revenue				
338.1 County road tax (25%)	-	-	68	68
338.2 County highway and bridge reserve tax (25%)	-	-	193	193
338.3 County wheel tax	-	-	156	156
Total intergovernmental revenue	450	450	11,898	11,448
360 Miscellaneous revenue				
361 Investment earnings	725	725	231	(494)
362 Rentals	900	900	975	75
369 Other	2,000	2,000	1,150	(850)
Total miscellaneous revenue	3,625	3,625	2,356	(1,269)
Total revenues	21,575	47,504	59,121	11,617

City of Ashton  
Budgetary Comparison Schedules—General Fund  
Years Ended December 31, 2012 and 2011

	2012			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	13,600	13,600	17,721	(4,121)
411.5 Contingency	1,000	1,000	-	1,000
414 Financial administration	-	-	4,860	(4,860)
419 Other	2,500	2,500	-	2,500
Total general government	17,100	17,100	22,581	(5,481)
420 Public safety				
422 Fire	2,500	2,500	2,500	-
430 Public works				
431 Highways and streets	7,500	7,500	6,167	1,333
433 Water	5,700	5,700	-	5,700
437 Cemeteries	-	-	1,502	(1,502)
Total public works	13,200	13,200	7,669	5,531
450 Culture and recreation				
452 Parks	-	-	677	(677)
460 Conservation and Development				
463 Urban Redevelopment and Housing	500	500	-	500
480 Intergovernmental expenditures	6,500	6,500	999	5,501
490 Miscellaneous				
491 Miscellaneous expenses	19,069	29,069	10,929	18,140
Total expenditures	58,869	68,869	45,355	23,514
Other Financing Sources (Uses)				
391.01 Transfers in	-	-	44	44
511 Transfers out	-	(3,500)	(3,500)	-
Total other financing sources (uses)	-	(3,500)	(3,456)	44
Excess of Revenue over (Under) Expenditures	(37,294)	(24,865)	10,310	35,175
Fund Balance - Beginning	50,073	50,073	50,073	-
Fund Balance - Ending	\$ 12,779	\$ 25,208	\$ 60,383	\$ 35,175

City of Ashton  
Budgetary Comparison Schedules—General Fund  
Years Ended December 31, 2012 and 2011

	2011			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 35,000	\$ 35,000	\$ 29,223	\$ (5,777)
313 General sales and use taxes	7,500	7,500	10,787	3,287
319 Penalties and interest on delinquent taxes	5,000	5,000	461	(4,539)
Total taxes	47,500	47,500	40,471	(7,029)
320 Licenses and permits	-	-	486	486
330 Intergovernmental revenue				
335 State shared revenue				
335.01 Bank franchise tax	-	-	58	58
335.02 Motor vehicle commercial prorate	-	-	1,171	1,171
335.03 Liquor tax reversion	450	450	951	501
335.04 Motor vehicle licenses (5%)	-	-	2,619	2,619
335.08 Local government highway and bridge fund	-	-	4,453	4,453
338 County shared revenue				
338.1 County road tax (25%)	-	-	68	68
338.2 County highway and bridge reserve tax (25%)	-	-	193	193
338.3 County wheel tax	-	-	140	140
Total intergovernmental revenue	450	450	9,653	9,203
340 Charges for goods and services				
341 General government	-	-	550	550
Total charges for goods and services	-	-	550	550
360 Miscellaneous revenue				
361 Investment earnings	275	275	254	(21)
362 Rentals	900	900	900	-
369 Other	1,000	1,000	2,523	1,523
Total miscellaneous revenue	2,175	2,175	3,677	1,502
Total revenues	50,125	50,125	54,837	4,712

City of Ashton  
 Budgetary Comparison Schedules—General Fund  
 Years Ended December 31, 2012 and 2011

	2011			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Expenditures				
410 General government				
411 Legislative	12,620	12,620	16,220	(3,600)
411.5 Contingency	1,000	1,000	-	1,000
Amount transferred		(1,000)	-	(1,000)
414 Financial administration	-	-	4,890	(4,890)
419 Other	2,500	2,500	-	2,500
Total general government	16,120	15,120	21,110	(5,990)
420 Public safety				
422 Fire	2,500	2,500	2,500	-
430 Public works				
431 Highways and streets	6,000	6,000	7,872	(1,872)
433 Water	5,700	6,255	-	6,255
437 Cemeteries	-	-	6,774	(6,774)
Total public works	11,700	12,255	14,646	(2,391)
450 Culture and recreation				
452 Parks	-	-	635	(635)
460 Conservation and Development				
463 Urban Redevelopment and Housing	500	500	-	500
480 Intergovernmental expenditures	1,000	1,083	1,001	82
490 Miscellaneous				
491 Miscellaneous expenses	17,299	17,661	5,748	11,913
Total expenditures	49,119	49,119	45,640	3,479
Other Financing Sources (Uses)				
391.01 Transfers in	-	-	4,875	4,875
Total other financing sources (uses)	-	-	4,875	4,875
Excess of Revenue over (Under) Expenditures	1,006	1,006	14,072	13,066
Fund Balance - Beginning	36,001	36,001	36,001	-
Fund Balance - Ending	<u>\$ 37,007</u>	<u>\$ 37,007</u>	<u>\$ 50,073</u>	<u>\$ 13,066</u>

**Note 1 - Budgets and Budgetary Accounting**

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

1. At the first regular Council meeting in September of each year or within ten days thereafter, the City Council introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City Council, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in Number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total municipal budget and may be transferred by resolution of the City Council 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 City Council.

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

The City did not encumber any amounts at December 31, 2012 and 2011.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. Budget for the General Fund is adopted on a basis consistent with a modified cash basis of accounting.

**Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences**

The financial statements prepared on the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the governmental funds statements of revenues, expenditures and changes in fund balances; however, in the budgetary schedules, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

City of Ashton  
Schedule of Expenditures of Federal Awards  
Years Ended December 31, 2012 and 2011

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Pass-Through Identification Number</u>	<u>CFDA Number</u>	<u>2012 Amount</u>	<u>2011 Amount</u>
U.S. Department of Agriculture				
Rural Utilities Services				
Water and Waste Disposal Loans and Grants	*****	10.760	\$ 303,796	\$ 825,465
ARRA - Water and Waste Disposal Loans and Grants	*****	10.760	-	296,000
Total US Department of Agriculture			<u>303,796</u>	<u>1,121,465</u>
Grand Total			<u>\$ 303,796</u>	<u>\$ 1,121,465</u>

\*\*\*\*\* No Pass-Through Entity Identifying Number Given

**Note 1 - Schedule of Federal Expenditures**

The accompanying schedule of federal expenditures of federal awards includes the federal grant activity of the City and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Findings Relating to the Federal Award Programs**

There are no prior year audit findings related to federal award programs.



CPAs & BUSINESS ADVISORS

**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***

The City Council  
City of Ashton  
Ashton, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ashton as of December 31, 2012, and for each of the fiscal years in the two year period then ended, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 20, 2013. The statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 material weaknesses or significant deficiencies and; therefore, material weaknesses and significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2011-1, 2011-2, 2011-3, 2012-1, 2012-2 and 2012-3 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.

**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 no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*.

**City of Ashton's Response to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Aberdeen, South Dakota  
June 20, 2013



CPAs & BUSINESS ADVISORS

## **Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by OMB Circular A-133**

The City Council  
City of Ashton  
Ashton, South Dakota

### **Report on Compliance for Each Major Federal Program**

We have audited the City of Ashton's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Ashton's major federal programs for the two years ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

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

Our responsibility is to express an opinion on the compliance for each of City of Ashton's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

#### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on to each of its major federal programs for the years ended December 31, 2012.

## Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that area appropriate in circumstances for the purpose of expressing an opinion on compliance, and to test and report on internal control over compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiency in internal control over compliance that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Aberdeen, South Dakota  
June 20, 2013

**Part I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  X  yes   no
- Significant deficiencies (formerly known as reportable condition(s)) identified that are not considered to be material weaknesses?   yes  X  none reported

Noncompliance material to financial statements noted?   yes  X  no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?   yes  X  no
- Significant deficiencies (formerly known as reportable condition(s)) identified that are not considered to be material weaknesses?   yes  X  none reported

Type of Auditor's Report Issued on Compliance for Major Programs:

Unmodified

Any Audit Findings Disclosed That Are Required to be Reported in Accordance with Section 510(a) of OMB Circular A-133?   yes  X  no

Identification of major programs:

CFDA Number(s)

10.760  
10.760

Name of Federal Program or Cluster

Water and Waste Disposal Loans and Grants  
ARRA - Water and Waste Disposal Loans and Grants

Dollar Threshold used to Distinguish Between Type A and Type B Programs:

\$ 300,000

Auditee Qualified as Low-Risk Auditee?   yes  X  no

## **Part II – Findings Relating to the Financial Statements**

### **2011-1 and 2012-1 - Preparation of Financial Statements, Footnotes and Schedule of Expenditures of Federal Awards and Adjusting Journal Entries**

**Condition:** The City of Ashton does not have an internal control system designed to provide for the preparation of the financial statements being audited. As part of the financial statement preparation process, at times, we propose material audit adjustments that are not identified as a result of the City's existing internal controls and; therefore, could result in a misstatement of the City's financial statements.

**Criteria:** The City's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

**Cause:** The City does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to at times propose material journal entries.

**Effect:** This condition may affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

**Recommendation:** This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

**Management Response:** Due to the City's size, we will accept the risk associated with this condition based on cost and other considerations.

### **2011-2 and 2012-2 - Lack of Segregation of Duties within the Accounting Function**

**Condition:** The City of Ashton has a limited number of office personnel, and accordingly, does not have an adequate segregation of duties within the accounting function to ensure adequate internal controls in revenue, expenditures, and payroll functions.

**Criteria:** A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

**Cause:** The City has insufficient number of staff to adequately separate duties.

**Effect:** This condition may affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

**Recommendation:** This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. We also recommend that the City Council adequately review the accounting transactions and reports prepared by the Finance Manager on a regular basis.

**Management Response:** Management accepts the risk associated with the lack of segregation of duties within the accounting function of the City. As part of its duties, the City Council will continue to provide oversight and review of financial transactions to mitigate the risk associated with this condition as much as possible.

### **2011-3 and 2012-3 – Compliance with South Dakota Codified Law**

**Condition:** The City of Ashton overspent the General Fund Budget appropriations for each of the two fiscal years ended December 31, 2012 and 2011.

**Criteria:** South Dakota Codified Law (SDCL) 9-21-9 requires the City spending to be within the amounts budgeted for each fund.

**Cause:** The City accounted for expenditures based on the incorrect functions which caused certain budgeted areas to be overspent.

**Effect:** The budgeting process provides an oversight of the City's annual expenditures. By not adopting a properly categorized budget in accordance with South Dakota Codified Law, this control measure was not properly utilized and expenses were not properly budgeted.

**Recommendation:** We recommend the City properly budget expenditures according by the correct functions and adopt supplemental budgets prior to incurring expenditures to ensure the City remains in compliance with South Dakota Codified Law 9-21-9.

**Management Response:** Management use more care in adopting budgets, recording expenditures to appropriate functions, and, if needed, will adopt supplemental budgets in a timely manner for any additional expenditures.

## **Cognizant or Oversight Agency for Audit**

The City of Ashton respectfully submits the following corrective action plan for the two years ended December 31, 2012.

Name and address of independent public accounting firm:           Eide Bailly LLP  
24 Second Avenue SW  
PO Box 430  
Aberdeen, SD 57402-0430

Audit Period: January 1, 2011 to December 31, 2012

The findings from the December 31, 2012 and 2011 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

## **Findings – Financial Statement Audit**

### **Material Weakness**

#### **2011-1 and 2012-1 - Preparation of Financial Statements and Related Footnotes**

**Condition:** The City of Ashton does not have an internal control system designed to provide for the preparation of the financial statements being audited. As part of the financial statement preparation process, at times, we propose material audit adjustments that are not identified as a result of the City's existing internal controls and; therefore, could result in a misstatement of the City's financial statements.

**Criteria:** The City's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

**Cause:** The City does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to at times propose material journal entries.

**Effect:** This condition may affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

**Recommendation:** This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

**Planned Action:** Management did provide an electronic version of the annual report submitted to the South Dakota Department of Legislative Audit and discussed audit recommendations with the auditor. Management accepts the risk associated with preparation of the final audited financial statements by the independent auditor.

### **2011-2 and 2012-2 - Lack of Segregation of Duties within the Accounting Function**

**Condition:** The City of Ashton has a limited number of office personnel, and accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

**Criteria:** A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

**Cause:** The City has an insufficient number of staff to adequately separate duties.

**Effect:** This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

**Recommendation:** Although it is recognized that number of office staff may not be large enough to permit adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the City Council exercise adequate oversight of the accounting function.

**Planned Action:** Management accepts the risk associated with lack of segregation of duties in the City.

### **2011-3 and 2012-3 – Compliance with South Dakota Codified Law**

**Condition:** The City of Ashton overspent the General Fund Budget appropriations for each of the two fiscal years ended December 31, 2012 and 2011.

**Criteria:** South Dakota Codified Law (SDCL) 9-21-9 requires the City spending to be within the amounts budgeted for each fund.

**Cause:** The City accounted for expenditures based on the incorrect functions which caused certain budgeted areas to be overspent.

**Effect:** The budgeting process provides an oversight of the City's annual expenditures. By not adopting a properly categorized budget in accordance with South Dakota Codified Law, this control measure was not properly utilized and expenses were not properly budgeted.

**Recommendation:** We recommend the City properly budget expenditures according by the correct functions and adopt supplemental budgets prior to incurring expenditures to ensure the City remains in compliance with South Dakota Codified Law 9-21-9.

**Planned Action:** Management will determine the proper functions that expenses belong to and will create budgets based on correct functions. Management will also monitor budgets and create supplements when necessary to stay in compliance with SDCL 9-21-9.