

MUNICIPALITY OF CASTLEWOOD

AUDIT REPORT

For the Two Years Ended December 31, 2012

**MUNICIPALITY OF CASTLEWOOD
MUNICIPAL OFFICIALS
December 31, 2012**

Council Members:

**Rick Trupe, Mayor
LeeAnne Dufek
Thomas McEldowney
Paul Friske
Greg Dobbs
LaRoy Wiersma
Lucas Mack**

Municipal Finance Officer:

Sheila Gerhold

Municipal Attorney:

**Todd Boyd
Gunderson, Evenson, Boyd, Knight & Stoltenburg**

MUNICIPALITY OF CASTLEWOOD
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	1
Schedule of Prior Audit Findings.....	3
Schedule of Current Audit Findings.....	3
Independent Auditor's Report.....	5
<i>Basic Financial Statements</i>	
<u>Government-wide Financial Statements:</u>	
As of December 31, 2012:	
Statement of Net Position--Modified Cash Basis.....	7
For the Year Ended December 31, 2012:	
Statement of Activities--Modified Cash Basis.....	8
For the Year Ended December 31, 2011:	
Statement of Activities--Modified Cash Basis.....	9
<u>Fund Financial Statements:</u>	
<u>Governmental Funds</u>	
As of December 31, 2012:	
Balance Sheet--Modified Cash Basis.....	10
For the Year Ended December 31, 2012:	
Statement of Revenues, Expenditures and Changes in Fund Balances--Modified Cash Basis.....	12
For the Year Ended December 31, 2011:	
Statement of Revenues, Expenditures and Changes in Fund Balances--Modified Cash Basis.....	14
<u>Proprietary Funds</u>	
As of December 31, 2012:	
Statement of Net Position--Modified Cash Basis.....	16
For the Year Ended December 31, 2012:	
Statement of Revenues, Expenses and Changes in Net Position--Modified Cash Basis.....	17

For the Year Ended December 31, 2011:

Statement of Revenues, Expenses and Changes in Net Position--Modified Cash Basis	18
Notes to the Modified Cash Basis Financial Statements	19

Supplementary Information:

For the Year Ended December 31, 2012:

Budgetary Comparison Schedule--Modified Cash Basis--General Fund	28
Budgetary Comparison Schedule--Modified Cash Basis--First Cent Sales Tax Fund	29
Budgetary Comparison Schedule--Modified Cash Basis--Additional Sales Tax Fund	30

For the Year Ended December 31, 2011:

Budgetary Comparison Schedule--Modified Cash Basis--General Fund	31
Budgetary Comparison Schedule--Modified Cash Basis--First Cent Sales Tax Fund	32
Budgetary Comparison Schedule--Modified Cash Basis--Additional Sales Tax Fund	33
Notes to the Supplementary Information – Budgetary Comparison Schedules	34
Schedule of Changes in Long-Term Debt	35



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595
FAX (605) 773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

Governing Board
Municipality of Castlewood
Castlewood, 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 modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Castlewood, South Dakota (Municipality), as of December 31, 2012 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated August 5, 2013.

Internal Control Over Financial Reporting

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

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 Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or 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.

Our consideration of internal control 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 or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings that we consider to be significant deficiencies.

We consider the deficiency described in the accompanying Schedule of Current Audit Findings as item No. 2012-01 to be a significant deficiency.

Compliance and Other Matters

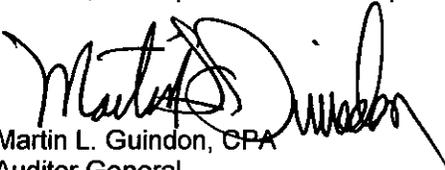
As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the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

Municipality's Response to Findings

The Municipality did not wish to respond to the finding identified in our audit as described in the accompanying Schedule of Current Audit Findings.

Purpose of this Report

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



Martin L. Guindon, CPA
Auditor General

August 5, 2013

MUNICIPALITY OF CASTLEWOOD
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Audit Findings:

Finding No. 2006-01:

The Municipality of Castlewood, as a second class municipality, was not using the uniform classification of accounts found in the Department of Legislative Audit's Municipal Accounting Manual as required by SDCL 9-21-6. This finding has been resolved.

Finding No. 2006-02:

The Municipality, through its First Cent Sales Tax Fund, made revolving loans to two council members when SDCL 3-16-7 and 6-1-1 generally bar elected or appointed officers of local governments from being interested in any contract with their respective entities. Once this was brought to the attention of the entity, the loans were repaid and this finding was resolved.

Finding No. 2006-03:

The Municipality of Castlewood incurred significant expenditures in excess of appropriations in violation of SDCL 9-21. This finding was not applicable to the current audit period.

Finding No. 2006-04:

There was a lack of segregation of duties over the revenue function. This finding has not been resolved and is restated as current audit finding No. 2012-01.

Finding No. 2006-05:

The Municipality of Castlewood elected not to have an internal control system designed to provide for the preparation of the financial statements being audited. The prior auditor was requested to draft these financial statements and the accompanying notes to the financial statements. The entity prepared their financial statements for the current audit period and therefore this finding has been resolved.

SCHEDULE OF CURRENT AUDIT FINDINGS

Current Audit Finding:

Internal Control-Related Finding - Significant Deficiency:

Segregation of Duties

Finding No. 2012-01:

A lack of proper segregation of duties existed for the revenue function resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

Analysis:

The finance officer processed all revenue transactions from beginning to end. The finance officer received money, issued receipts, recorded receipts in the accounting records, prepared bank deposits, reconciled bank statements, and prepared financial statements. As a result, an inadequate segregation of duties existed for the revenue function of the Municipality.

RECOMMENDATION:

We recommend that municipal officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever and wherever possible and practical.

Management's Response:

Management chose not to respond to this finding.



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595
FAX (605) 773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Castlewood
Castlewood, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Castlewood, South Dakota (Municipality), as of December 31, 2012 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality'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 Municipality'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 on a modified cash basis of accounting of the governmental activities, the business-type activities, and each major fund of the Municipality of Castlewood as of December 31, 2012, and the respective changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

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

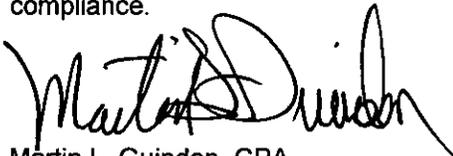
Other Matters

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2013 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

August 5, 2013

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 791,131.25	\$ 531,776.48	\$ 1,322,907.73
TOTAL ASSETS	<u>\$ 791,131.25</u>	<u>\$ 531,776.48</u>	<u>\$ 1,322,907.73</u>
NET POSITION:			
Restricted For: (See Note 4)			
Debt Service Purposes	\$	\$ 40,807.96	\$ 40,807.96
Unrestricted	791,131.25	490,968.52	1,282,099.77
TOTAL NET POSITION	<u>\$ 791,131.25</u>	<u>\$ 531,776.48</u>	<u>\$ 1,322,907.73</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
Primary Government:						
Governmental Activities:						
General Government	\$ 63,756.46	\$ 5,565.00	\$	\$ (58,191.46)	\$	\$ (58,191.46)
Public Safety	26,762.75	106.60		(26,656.15)		(26,656.15)
Public Works	222,274.41		33,286.00	(188,988.41)		(188,988.41)
Culture and Recreation	21,282.30	11,113.86		(10,168.44)		(10,168.44)
Conservation and Development	65,475.56	26,397.42		(39,078.14)		(39,078.14)
Miscellaneous Expenditures		15,028.39		15,028.39		15,028.39
Total Governmental Activities	399,551.48	58,211.27	33,286.00	(308,054.21)	0.00	(308,054.21)
Business-Type Activities:						
Water	68,062.15	120,179.99			52,117.84	52,117.84
Sewer	56,233.11	98,064.85	39,012.98		80,844.72	80,844.72
Solid Waste	46,662.62	46,430.01			(232.61)	(232.61)
Total Business-Type Activities	170,957.88	264,674.85	39,012.98	0.00	132,729.95	132,729.95
Total Primary Government	\$ 570,509.36	\$ 322,886.12	\$ 72,298.98	(308,054.21)	132,729.95	(175,324.26)
General Revenues:						
Taxes:						
Property Taxes				216,962.67		216,962.67
Sales Taxes				100,012.32		100,012.32
State Shared Revenues				5,526.58		5,526.58
Unrestricted Investment Earnings				12,926.53	52.72	12,979.25
Miscellaneous Revenue				3,053.14	575.75	3,628.89
Total General Revenues				338,481.24	628.47	339,109.71
Change in Net Position				30,427.03	133,358.42	163,785.45
Net Position - Beginning				760,704.22	398,418.06	1,159,122.28
NET POSITION - ENDING				\$ 791,131.25	\$ 531,776.48	\$ 1,322,907.73

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
Primary Government:						
Governmental Activities:						
General Government	\$ 65,471.11	\$ 7,544.00	\$	\$ (57,927.11)	\$	\$ (57,927.11)
Public Safety	26,224.42	42.90		(26,181.52)		(26,181.52)
Public Works	84,417.00		26,701.77	(57,715.23)		(57,715.23)
Culture and Recreation	17,549.75	3,546.79		(14,002.96)		(14,002.96)
Conservation and Development	135,892.50	12,542.16		(123,350.34)		(123,350.34)
Intergovernmental Expenditures	6,000.00			(6,000.00)		(6,000.00)
Miscellaneous Expenditures		12,091.67		12,091.67		12,091.67
Total Governmental Activities	335,554.78	35,767.52	26,701.77	(273,085.49)	0.00	(273,085.49)
Business-Type Activities:						
Water	65,658.04	93,367.02			27,708.98	27,708.98
Sewer	82,835.59	77,021.71	6,000.00		186.12	186.12
Solid Waste	44,215.53	44,285.92			70.39	70.39
Total Business-Type Activities	192,709.16	214,674.65	6,000.00	0.00	27,965.49	27,965.49
Total Primary Government	\$ 528,263.94	\$ 250,442.17	\$ 32,701.77	(273,085.49)	27,965.49	(245,120.00)
General Revenues:						
Taxes:						
Property Taxes				198,590.85		198,590.85
Sales Taxes				109,396.85		109,396.85
State Shared Revenues				5,162.36		5,162.36
Unrestricted Investment Earnings				12,757.87	68.91	12,826.78
Miscellaneous Revenue				5,104.82	546.84	5,651.66
Total General Revenues				331,012.75	615.75	331,628.50
Change in Net Position				57,927.26	28,581.24	86,508.50
Net Position - Beginning				702,776.96	369,836.82	1,072,613.78
NET POSITION - ENDING				\$ 760,704.22	\$ 398,418.06	\$ 1,159,122.28

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF CASTLEWOOD
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2012**

	<u>General Fund</u>	<u>First Cent Sales Tax Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Total Governmental Funds</u>
ASSETS:				
Cash and Cash Equivalents	\$ 455,286.88	\$ 162,882.81	\$ 172,961.56	\$ 791,131.25
TOTAL ASSETS	<u>\$ 455,286.88</u>	<u>\$ 162,882.81</u>	<u>\$ 172,961.56</u>	<u>\$ 791,131.25</u>
FUND BALANCES: (See Note 1. i.)				
Committed	\$	\$ 162,882.81	\$ 172,961.56	\$ 335,844.37
Unassigned	455,286.88			455,286.88
TOTAL FUND BALANCES	<u>\$ 455,286.88</u>	<u>\$ 162,882.81</u>	<u>\$ 172,961.56</u>	<u>\$ 791,131.25</u>

The notes to the financial statements are an integral part of this statement.

(blank page)

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	<u>General Fund</u>	<u>First Cent Sales Tax Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes:				
General Property Taxes	\$ 215,612.55	\$	\$	\$ 215,612.55
General Sales and Use Taxes		50,006.11	50,006.21	100,012.32
Amusement Taxes	120.00			120.00
Penalties and Interest on Delinquent Taxes	1,230.12			1,230.12
Licenses and Permits	2,290.00			2,290.00
Intergovernmental Revenue:				
State Shared Revenue:				
Bank Franchise Tax	1,094.32			1,094.32
Motor Vehicle Commercial Prorate	2,254.38			2,254.38
Liquor Tax Reversion	4,432.26			4,432.26
Motor Vehicle Licenses (5%)	10,264.93			10,264.93
Local Government Highway and Bridge Fund	19,087.91			19,087.91
County Shared Revenue:				
County Road Tax (25%)	1,554.60			1,554.60
County Wheel Tax	124.18			124.18
Charges for Goods and Services:				
Culture and Recreation	9,644.86			9,644.86
Fines and Forfeits:				
Court Fines and Costs	106.60			106.60

Miscellaneous Revenue:				
Investment Earnings	2,306.01	10,620.52		12,926.53
Rentals	3,275.00	1,469.00		4,744.00
Liquor Operating Agreement Income	15,028.39			15,028.39
Other	3,053.14	26,397.42		29,450.56
Total Revenues	<u>291,479.25</u>	<u>88,493.05</u>	<u>50,006.21</u>	<u>429,978.51</u>
Expenditures:				
General Government:				
Legislative	39,363.43			39,363.43
Financial Administration	21,323.23	3,069.80		24,393.03
Public Safety:				
Police	26,762.75			26,762.75
Public Works:				
Highways and Streets	121,683.47		100,590.94	222,274.41
Culture and Recreation:				
Recreation	12,952.25			12,952.25
Libraries	8,330.05			8,330.05
Conservation and Development:				
Economic Development and Assistance (Industrial Development)		65,475.56		65,475.56
Total Expenditures	<u>230,415.18</u>	<u>68,545.36</u>	<u>100,590.94</u>	<u>399,551.48</u>
Net Change in Fund Balance	61,064.07	19,947.69	(50,584.73)	30,427.03
Fund Balance - Beginning	<u>394,222.81</u>	<u>142,935.12</u>	<u>223,546.29</u>	<u>760,704.22</u>
FUND BALANCE - ENDING	<u>\$ 455,286.88</u>	<u>\$ 162,882.81</u>	<u>\$ 172,961.56</u>	<u>\$ 791,131.25</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011

	<u>General Fund</u>	<u>First Cent Sales Tax Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes:				
General Property Taxes	\$ 197,891.99	\$	\$	\$ 197,891.99
General Sales and Use Taxes		54,698.36	54,698.49	109,396.85
Amusement Taxes	120.00			120.00
Penalties and Interest on Delinquent Taxes	578.86			578.86
Licenses and Permits	4,769.00			4,769.00
Intergovernmental Revenue:				
State Shared Revenue:				
Bank Franchise Tax	997.14			997.14
Motor Vehicle Commercial Prorate	2,183.87			2,183.87
Liquor Tax Reversion	4,165.22			4,165.22
Motor Vehicle Licenses (5%)	7,850.54			7,850.54
Local Government Highway and Bridge Fund	15,016.57			15,016.57
County Shared Revenue:				
County Road Tax (25%)	1,554.60			1,554.60
County Wheel Tax	96.19			96.19
Charges for Goods and Services:				
Culture and Recreation	3,368.79			3,368.79
Fines and Forfeits:				
Court Fines and Costs	42.90			42.90

Miscellaneous Revenue:				
Investment Earnings	3,121.41	9,636.46		12,757.87
Rentals	2,775.00	178.00		2,953.00
Liquor Operating Agreement Income	12,091.67			12,091.67
Other	5,104.82	12,542.16		17,646.98
Total Revenues	<u>261,728.57</u>	<u>77,054.98</u>	<u>54,698.49</u>	<u>393,482.04</u>
Expenditures:				
General Government:				
Legislative	42,003.61			42,003.61
Financial Administration	20,535.42	2,932.08		23,467.50
Public Safety:				
Police	26,224.42			26,224.42
Public Works:				
Highways and Streets	84,417.00			84,417.00
Culture and Recreation:				
Recreation	7,064.46			7,064.46
Parks	2,200.00			2,200.00
Libraries	8,285.29			8,285.29
Conservation and Development:				
Economic Development and Assistance (Industrial Development)		135,892.50		135,892.50
Intergovernmental Expenditures	6,000.00			6,000.00
Total Expenditures	<u>196,730.20</u>	<u>138,824.58</u>	<u>0.00</u>	<u>335,554.78</u>
Net Change in Fund Balance	64,998.37	(61,769.60)	54,698.49	57,927.26
Fund Balance - Beginning	<u>329,224.44</u>	<u>204,704.72</u>	<u>168,847.80</u>	<u>702,776.96</u>
FUND BALANCE - ENDING	<u>\$ 394,222.81</u>	<u>\$ 142,935.12</u>	<u>\$ 223,546.29</u>	<u>\$ 760,704.22</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2012

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 301,481.51	\$ 230,059.81	\$ 235.16	\$ 531,776.48
TOTAL ASSETS	\$ 301,481.51	\$ 230,059.81	\$ 235.16	\$ 531,776.48
NET POSITION:				
Restricted For:				
Revenue Bond Debt Service	\$ 14,844.00	\$ 25,963.96	\$	\$ 40,807.96
Unrestricted	286,637.51	204,095.85	235.16	490,968.52
TOTAL NET POSITION	\$ 301,481.51	\$ 230,059.81	\$ 235.16	\$ 531,776.48

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
Operating Revenues:				
Charges for Goods and Services	\$ 120,179.99	\$ 98,064.85	\$ 46,430.01	\$ 264,674.85
Miscellaneous	575.75			575.75
Total Operating Revenues	120,755.74	98,064.85	46,430.01	265,250.60
Operating Expenses:				
Personal Services	32,778.20	11,587.97		44,366.17
Other Current Expense	20,439.95	18,681.18	46,662.62	85,783.75
Total Operating Expenses	53,218.15	30,269.15	46,662.62	130,149.92
Operating Income (Loss)	67,537.59	67,795.70	(232.61)	135,100.68
Nonoperating Revenues (Expenses):				
Operating Grants		39,012.98		39,012.98
Investment Earnings	26.35	26.37		52.72
Debt Service (Principal)	(3,555.10)	(16,869.05)		(20,424.15)
Interest Expense	(11,288.90)	(9,094.91)		(20,383.81)
Total Nonoperating Revenues (Expenses)	(14,817.65)	13,075.39	0.00	(1,742.26)
Change in Net Position	52,719.94	80,871.09	(232.61)	133,358.42
Net Position - Beginning	248,761.57	149,188.72	467.77	398,418.06
NET POSITION - ENDING	\$ 301,481.51	\$ 230,059.81	\$ 235.16	\$ 531,776.48

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
Operating Revenues:				
Charges for Goods and Services	\$ 93,367.02	\$ 77,021.71	\$ 44,285.92	\$ 214,674.65
Miscellaneous	546.84			546.84
Total Operating Revenues	93,913.86	77,021.71	44,285.92	215,221.49
Operating Expenses:				
Personal Services	31,282.84	8,756.10		40,038.94
Other Current Expense	19,531.20	48,115.53	44,215.53	111,862.26
Total Operating Expenses	50,814.04	56,871.63	44,215.53	151,901.20
Operating Income (Loss)	43,099.82	20,150.08	70.39	63,320.29
Nonoperating Revenues (Expenses):				
Operating Grants		6,000.00		6,000.00
Investment Earnings	34.46	34.45		68.91
Debt Service (Principal)	(3,390.47)	(16,307.49)		(19,697.96)
Interest Expense	(11,453.53)	(9,656.47)		(21,110.00)
Total Nonoperating Revenues (Expenses)	(14,809.54)	(19,929.51)	0.00	(34,739.05)
Change in Net Position	28,290.28	220.57	70.39	28,581.24
Net Position - Beginning	220,471.29	148,968.15	397.38	369,836.82
NET POSITION - ENDING	\$ 248,761.57	\$ 149,188.72	\$ 467.77	\$ 398,418.06

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CASTLEWOOD
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

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

b. Basis of Presentation:

Government-wide Financial Statements:

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality'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 Municipality 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.

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

Governmental Funds:

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

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

First Cent Sales Tax Fund – to account for the collection of 1% sales tax revenue committed by local ordinance to be used for economic development, including the placement of revolving loans to local businesses for expansion and businesses willing to locate in the Municipality of Castlewood. This is a major fund.

Additional Sales Tax Fund – to account for an additional 1% sales tax revenue committed by local ordinance to be used for capital improvement, land acquisition, the funding of public ambulances and medical emergency response vehicles, public hospitals or non-profit hospitals with fifty (50) or fewer licensed beds, the transfer to the special 911 fund authorized by SDCL 34-45-12, the purchasing of firefighting vehicles and equipment, debt retirement, and minor or major rehabilitation or reconstruction of streets as defined in the June, 1994, South Dakota Department of Transportation Pavement Condition Survey Guide for City Streets. These expenditures may be financed through a sale-lease back agreement. This is a major fund.

Proprietary Funds:

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

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

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

Solid Waste Fund – financed primarily by user charges this fund accounts for the collection and disposal of solid waste. (SDCL 9-32-11 and 34A-6) This is a major fund.

c. Measurement Focus and Basis of Accounting:

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

The Municipality’s basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, 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:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) 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. Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are

Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

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 Municipality 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 and fiduciary 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 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.

There are no investments classified in the financial statements.

e. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Municipality'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.

f. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified as operating activities or nonoperating activities. Operating activities generally result from providing services and producing and delivering goods, and include all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities. Cash flows from operating activities generally are the cash effects of transactions and other events that enter into the determination of operating income.

g. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in two components:

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".

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.

h. Application of Net Position:

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

i. Fund Balance Classification Policies and Procedures:

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

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

The Municipal Governing Board committed the following fund balance types by taking the following action:

Fund Balance Type	Amount	Action
First Cent Sales Tax	\$ 162,882.81	Ordinance
Additional Sales Tax	\$ 172,961.56	Ordinance

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

The Municipality *does not* have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

Major Special Revenue Fund	Revenue Source
First Cent Sales Tax Fund	1% Sales Tax
Additional Sales Tax Fund	1% Sales Tax

A schedule of fund balances is provided as follows:

**MUNICIPALITY OF CASTLEWOOD
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012**

	<u>General Fund</u>	<u>First Cent Sales Tax Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Total Governmental Funds</u>
Fund Balances:				
Committed For:				
Economic Development	\$	\$ 162,882.81	\$	\$ 162,882.81
Capital Improvements			172,961.56	172,961.56
Unassigned	<u>455,286.88</u>			<u>455,286.88</u>
Total Fund Balances	<u>\$ 455,286.88</u>	<u>\$ 162,882.81</u>	<u>\$ 172,961.56</u>	<u>\$ 791,131.25</u>

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

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

As of December 31, 2012, the Municipality had the following investments.

<u>Investment</u>	<u>Credit Rating</u>	<u>Fair Value</u>
External Investment Pools:		
SDFIT	Unrated	\$ 608,511.76

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

Concentration of Credit Risk – The Municipality places no limit on the amount that may be invested in any one issuer.

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

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Municipality's policy is to credit all income from deposits and investments to the General Fund, except for the investment income related to the revolving loans issued through the First Cent Sales Tax Fund for economic development and the interest income related to the savings account set up by the Municipality for the debt service requirements for the Water and Sewer Funds. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income except where legal or contractual requirements require investment income to be credited to a fund other than the one associated with the assets. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund would be reported. However, the financial statements did not reflect such transfers.

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

4. RESTRICTED NET POSITION

Restricted Net Position for the year ended December 31, 2012 was as follows:

Major Purposes:

Debt Service Purposes	<u>\$ 40,807.96</u>
-----------------------	---------------------

Total Restricted Net Position	<u>\$ 40,807.96</u>
--------------------------------------	----------------------------

These balances are restricted due to debt service requirements of the water fund and sewer fund.

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 Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2012, 2011, and 2010 were \$4,466.32, \$3,863.44, and \$4,161.07, respectively, equal to the required contributions each year.

6. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2012, the Municipality was not involved in any litigation.

7. RISK MANAGEMENT

The Municipality 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, 2012, the Municipality managed its risks as follows:

Employee Health Insurance:

The Municipality joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Municipality pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes a \$2,000,000 lifetime maximum payment per person.

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

Liability Insurance:

The Municipality 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 Municipality's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the Municipality. The Municipality pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The Municipality pays an annual premium to the pool to provide coverage for:

<u>Coverage</u>	<u>Deductible</u>
General Liability	\$ 0
Automobile Liability	\$ 0
Officials Liability	\$ 500

The agreement with the SDPAA provides that the above coverages will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The Municipality 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 Municipality's First Full Year	50%
End of Municipality's Second Full Year	60%
End of Municipality's Third Full Year	70%
End of Municipality's Fourth Full Year	80%
End of Municipality's Fifth Full Year	90%
End of Municipality's Sixth Full Year and Thereafter	100%

As of December 31, 2012, the Municipality has vested balance in the cumulative reserve fund of \$15,304.98.

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

Worker's Compensation:

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality 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 statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The Municipality 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 over the past three years.

Unemployment Benefits:

The Municipality has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the two years ended December 31, 2012 no claims for unemployment benefits were paid. At December 31, 2012 no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

**SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes	\$ 210,600.00	\$ 210,600.00	\$ 215,612.55	\$ 5,012.55
Amusement Taxes	60.00	60.00	120.00	60.00
Penalties and Interest on Delinquent Taxes	630.00	630.00	1,230.12	600.12
Licenses and Permits	3,000.00	3,000.00	2,290.00	(710.00)
Intergovernmental Revenue:				
State Shared Revenue:				
Bank Franchise Tax	2,000.00	2,000.00	1,094.32	(905.68)
Motor Vehicle Commercial Prorate	0.00	0.00	2,254.38	2,254.38
Liquor Tax Reversion	4,000.00	4,000.00	4,432.26	432.26
Motor Vehicle Licenses (5%)	20,000.00	20,000.00	10,264.93	(9,735.07)
Local Government Highway and Bridge Fund	0.00	0.00	19,087.91	19,087.91
County Shared Revenue:				
County Road Tax (25%)	1,500.00	1,500.00	1,554.60	54.60
County Wheel Tax	90.00	90.00	124.18	34.18
Charges for Goods and Services:				
Culture and Recreation	850.00	850.00	9,644.86	8,794.86
Fines and Forfeits:				
Court Fines and Costs	200.00	200.00	106.60	(93.40)
Miscellaneous Revenue:				
Investment Earnings	3,000.00	3,000.00	2,306.01	(693.99)
Rentals	3,000.00	3,000.00	3,275.00	275.00
Liquor Operating Agreement Income	13,000.00	13,000.00	15,028.69	2,028.69
Other	6,000.00	6,000.00	3,053.14	(2,946.86)
Total Revenues	267,930.00	267,930.00	291,479.55	23,549.55
Expenditures:				
General Government:				
Legislative	45,700.00	45,700.00	39,363.43	6,336.57
Contingency	3,000.00	3,000.00		
Amount Transferred		(2,500.00)		500.00
Elections	400.00	400.00	0.00	400.00
Financial Administration	22,000.00	22,000.00	21,323.23	676.77
Public Safety:				
Police	25,800.00	27,300.00	26,762.75	537.25
Public Works:				
Highways and Streets	142,700.00	142,700.00	121,683.47	21,016.53
Culture and Recreation:				
Recreation	13,950.00	13,950.00	12,952.25	997.75
Libraries	8,380.00	9,380.00	8,330.05	1,049.95
Miscellaneous:				
Liquor Operating Agreements	3,000.00	3,000.00	0.00	3,000.00
Total Expenditures	264,930.00	264,930.00	230,415.18	34,514.82
Net Change in Fund Balance	3,000.00	3,000.00	61,064.07	58,064.07
Fund Balance - Beginning	394,222.81	394,222.81	394,222.81	0.00
FUND BALANCE - ENDING	\$ 397,222.81	\$ 397,222.81	\$ 455,286.88	\$ 58,064.07

**SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
FIRST CENT SALES TAX FUND
For the Year Ended December 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	\$ 60,000.00	\$ 60,000.00	\$ 50,006.11	\$ (9,993.89)
Miscellaneous Revenue:				
Investment Earnings	6,000.00	6,000.00	10,620.52	4,620.52
Rentals	500.00	500.00	1,469.00	969.00
Other	0.00	0.00	26,397.42	26,397.42
Total Revenues	<u>66,500.00</u>	<u>66,500.00</u>	<u>88,493.05</u>	<u>21,993.05</u>
Expenditures:				
General Government:				
Financial Administration	2,945.00	2,945.00	3,069.80	(124.80)
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	<u>105,500.00</u>	<u>105,500.00</u>	<u>65,475.56</u>	<u>40,024.44</u>
Total Expenditures	<u>108,445.00</u>	<u>108,445.00</u>	<u>68,545.36</u>	<u>39,899.64</u>
Net Change in Fund Balance	(41,945.00)	(41,945.00)	19,947.69	61,892.69
Fund Balance - Beginning	<u>142,935.12</u>	<u>142,935.12</u>	<u>142,935.12</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>\$ 100,990.12</u>	<u>\$ 100,990.12</u>	<u>\$ 162,882.81</u>	<u>\$ 61,892.69</u>

**SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
ADDITIONAL SALES TAX FUND
For the Year Ended December 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	\$ 60,000.00	\$ 60,000.00	\$ 50,006.21	\$ (9,993.79)
Miscellaneous Revenue:				
Investment Earnings	400.00	400.00	0.00	(400.00)
Total Revenues	<u>60,400.00</u>	<u>60,400.00</u>	<u>50,006.21</u>	<u>(10,393.79)</u>
Expenditures:				
Public Works:				
Highways and Streets	190,000.00	190,000.00	100,590.94	89,409.06
Net Change in Fund Balance	(129,600.00)	(129,600.00)	(50,584.73)	79,015.27
Fund Balance - Beginning	<u>223,546.29</u>	<u>223,546.29</u>	<u>223,546.29</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>\$ 93,946.29</u>	<u>\$ 93,946.29</u>	<u>\$ 172,961.56</u>	<u>\$ 79,015.27</u>

**SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Property Taxes	\$ 202,900.00	\$ 202,900.00	\$ 197,891.99	\$ (5,008.01)
Amusement Taxes	60.00	60.00	120.00	60.00
Penalties and Interest on Delinquent Taxes	500.00	500.00	578.86	78.86
Licenses and Permits	3,000.00	3,000.00	4,769.00	1,769.00
Intergovernmental Revenue:				
State Shared Revenue:				
Bank Franchise Tax	3,000.00	3,000.00	997.14	(2,002.86)
Motor Vehicle Commercial Prorate	0.00	0.00	2,183.87	2,183.87
Liquor Tax Reversion	4,000.00	4,000.00	4,165.22	165.22
Motor Vehicle Licenses (5%)	19,500.00	19,500.00	7,850.54	(11,649.46)
Local Government Highway and Bridge Fund	0.00	0.00	15,016.57	15,016.57
County Shared Revenue:				
County Road Tax (25%)	1,500.00	1,500.00	1,554.60	54.60
County Wheel Tax	90.00	90.00	96.19	6.19
Charges for Goods and Services:				
Culture and Recreation	850.00	850.00	3,368.79	2,518.79
Fines and Forfeits:				
Court Fines and Costs	200.00	200.00	42.90	(157.10)
Miscellaneous Revenue:				
Investment Earnings	3,200.00	3,200.00	3,121.41	(78.59)
Rentals	3,000.00	3,000.00	2,775.00	(225.00)
Liquor Operating Agreement Income	14,000.00	14,000.00	12,091.67	(1,908.33)
Other	6,000.00	6,000.00	5,104.82	(895.18)
Total Revenues	<u>261,800.00</u>	<u>261,800.00</u>	<u>261,728.57</u>	<u>(71.43)</u>
Expenditures:				
General Government:				
Legislative	43,063.00	43,063.00	42,003.61	1,059.39
Contingency	3,000.00	3,000.00		
Amount Transferred		(1,000.00)		2,000.00
Elections	400.00	400.00	0.00	400.00
Financial Administration	22,000.00	22,000.00	20,535.42	1,464.58
Public Safety:				
Police	25,800.00	26,300.00	26,224.42	75.58
Public Works:				
Highways and Streets	138,007.00	138,507.00	84,417.00	54,090.00
Culture and Recreation:				
Recreation	6,950.00	7,150.00	7,064.46	85.54
Parks	500.00	2,300.00	2,200.00	100.00
Libraries	8,380.00	8,380.00	8,285.29	94.71
Intergovernmental Expenditures	0.00	6,000.00	6,000.00	0.00
Total Expenditures	<u>248,100.00</u>	<u>256,100.00</u>	<u>196,730.20</u>	<u>59,369.80</u>
Net Change in Fund Balance	13,700.00	5,700.00	64,998.37	59,298.37
Fund Balance - Beginning	<u>329,224.44</u>	<u>329,224.44</u>	<u>329,224.44</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>\$ 342,924.44</u>	<u>\$ 334,924.44</u>	<u>\$ 394,222.81</u>	<u>\$ 59,298.37</u>

**SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
FIRST CENT SALES TAX FUND
For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	\$ 50,000.00	\$ 50,000.00	\$ 54,698.36	\$ 4,698.36
Miscellaneous Revenue:				
Investment Earnings	3,000.00	3,000.00	9,636.46	6,636.46
Rentals	500.00	500.00	178.00	(322.00)
Other	0.00	0.00	12,542.16	12,542.16
Total Revenues	<u>53,500.00</u>	<u>53,500.00</u>	<u>77,054.98</u>	<u>23,554.98</u>
Expenditures:				
General Government:				
Financial Administration	2,895.00	2,895.00	2,932.08	(37.08)
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	<u>102,000.00</u>	<u>137,000.00</u>	<u>135,892.50</u>	<u>1,107.50</u>
Total Expenditures	<u>104,895.00</u>	<u>139,895.00</u>	<u>138,824.58</u>	<u>1,070.42</u>
Net Change in Fund Balance	(51,395.00)	(86,395.00)	(61,769.60)	24,625.40
Fund Balance - Beginning	<u>204,704.72</u>	<u>204,704.72</u>	<u>204,704.72</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>\$ 153,309.72</u>	<u>\$ 118,309.72</u>	<u>\$ 142,935.12</u>	<u>\$ 24,625.40</u>

**SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CASTLEWOOD
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
ADDITIONAL SALES TAX FUND
For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	\$ 50,000.00	\$ 50,000.00	\$ 54,698.49	\$ 4,698.49
Miscellaneous Revenue:				
Investment Earnings	400.00	400.00	0.00	(400.00)
Total Revenues	<u>50,400.00</u>	<u>50,400.00</u>	<u>54,698.49</u>	<u>4,298.49</u>
Expenditures:				
Public Works:				
Highways and Streets	<u>150,400.00</u>	<u>150,400.00</u>	<u>0.00</u>	<u>150,400.00</u>
Net Change in Fund Balance	(100,000.00)	(100,000.00)	54,698.49	154,698.49
Fund Balance - Beginning	<u>168,847.80</u>	<u>168,847.80</u>	<u>168,847.80</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>\$ 68,847.80</u>	<u>\$ 68,847.80</u>	<u>\$ 223,546.29</u>	<u>\$ 154,698.49</u>

NOTES TO THE SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

Note 1. Budgets and Budgetary Accounting:

The Municipality follows these procedures in establishing the budgetary data reflected in the schedules:

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

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 and special revenue funds.

The Municipality did not encumber any amounts at either December 31, 2011, or December 31, 2012.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.

**MUNICIPALITY OF CASTLEWOOD
 SCHEDULE OF CHANGES IN LONG-TERM DEBT
 For the Two Years Ended December 31, 2012**

<u>Indebtedness</u>	<u>Long-Term Debt January 1, 2011</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt December 31, 2012</u>
Enterprise Long-Term Debt:				
Revenue Bonds	\$ 534,282.83	\$	\$ 40,122.11	\$ 494,160.72