

CITY OF CLEAR LAKE
CLEAR LAKE, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE TWO YEARS ENDING DECEMBER 31, 2013
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

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NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, PC

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Clear Lake, South Dakota 57042
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To the Honorable Mayor and
Members of Clear Lake City Council
Clear Lake, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of governmental activities, business-type activities, and each major fund of the City of Clear Lake (City), Deuel County, South Dakota, as of December 31, 2013, and for each of the years in the biennial period then ended, and related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

I did not audit financial statements of the Clear Lake Housing and Redevelopment Commission, which represents 100% of the assets, liabilities, net position, revenue and expenses of the discretely presented component unit on the government-wide statement of net position and statement of activities.

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 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 risk 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified audit opinions on governmental activities and business-type activities; a disclaimer of opinion on the discretely presented component unit; and unqualified opinions on each major fund.

Summary of Opinions	Type of	Reason
Opinion Unit:	Opinion	
Governmental Activities	Unqualified	
Business-Type Activities	Unqualified	
Discretely Presented Component Unit	Disclaimer	(1)
Each Major Fund	Unqualified	

(1) Clear Lake Housing and Redevelopment Commission was not audited.

Basis for Disclaimer Opinion on the Discretely Presented Component Unit

Clear Lake Housing and Redevelopment Commission was not audited by me or another auditor.

Disclaimer Opinion on the Discretely Presented Component Unit

The financial statements, referred to above, of the financial position of the discretely presented component unit of the City of Clear Lake, South Dakota as of December 31, 2013, and changes in its financial position for each of the years in the biennial period then ended were not audited by me and, accordingly, I do not express an opinion on them.

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the City of Clear Lake, South Dakota, as of December 31, 2013, and the respective changes in its financial position and, where applicable, cash flows thereof for each of the years in the biennial period then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (page 3 to 9) and the budgetary comparison schedule (page 38 to 43) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the formation and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 44) dated July 14, 2014 on my tests of City of Clear Lake's compliance with certain provisions of laws, regulations, and contracts, and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota



July 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the City of Clear Lake's (City) annual financial report presents our discussion and analysis of the City's financial performance for the two years ending December 31, 2013. Please read it in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS	2013	2012
Revenue:		
Charges for goods and services	506,392	496,668
Operating grants	25,109	0
Capital grants, contributions	0	0
General revenue	1,032,031	1,101,295
	-----	-----
Total	1,563,532	1,597,963
	-----	-----
Expenses:		
Governmental	971,082	1,037,643
Business-type	372,148	336,934
	-----	-----
Total	1,343,230	1,374,577
	-----	-----
Increase in Net Position	220,302	223,386
Net Position:		
December 31, 2011		3,964,185

December 31, 2012	4,187,571	4,187,571
	-----	=====
December 31, 2013	4,407,873	
	=====	
Governmental Funds:		
General	1,185,167	1,035,860
3rd Cent	10,294	4,116
Health Care	25,348	31,186
Library Fines	4,602	4,226
Sale Tax Debt Service	95,039	89,041
Capital Assets	1,016,837	1,029,251
Long-term Debt	(169,435)	(198,563)
Business-Type Funds:		
Water	895,944	845,057
Sewer	1,344,077	1,347,397
	-----	-----
Total	4,407,873	4,187,571
	=====	=====

During the year ending December 31, 2013, the City:

- * Completed construction of a bath house for a total cost of \$27,990.
- * Purchased a Kabuta tractor for \$43,700.
- * Purchased water meters for \$12,559.
- * Installed a sewer line for \$18,467.
- * Paid down governmental debt by \$28,821.
- * Paid down business-type debt by \$46,548.

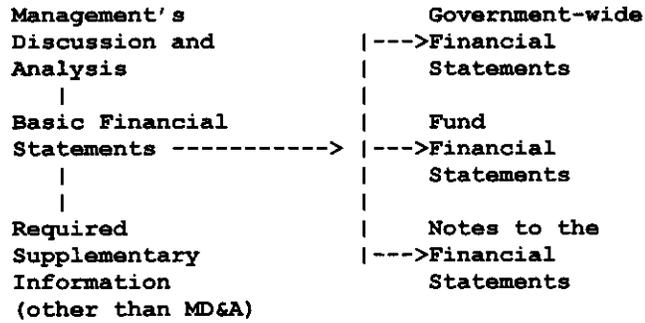
During the year ending December 31, 2012, the City:

- * Purchased a lot for \$15,890.
- * Purchased water meters and meter reader for \$11,080.
- * Paid down governmental debt by \$27,392.
- * Paid down business-type debt by \$45,105.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This financial report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement-34.

Here is an overview of the City's financial statements.



The financial report consists of three parts: (1) management's discussion and analysis (page 3 to 9), (2) the basic financial statements (page 10 to 37) and (3) required supplementary information (page 38 to 43). The basic financial statements include two types of statements that present the City from two different financial points of view.

Government-wide financial statements (View #1):

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

Fund financial statements (View #2):

The remaining financial statements are fund financial statements that focus on significant operations of the governmental, enterprise, and fiduciary (if any) activities of the City.

The governmental fund financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. Governmental funds operated by the City are the general fund, 3rd cent fund, health care fund, library fines fund, and the sales tax revenue bond debt service fund.

The enterprise fund financial statements offer short-term and long-term financial information about the activities of the City that operate like a business. Enterprise funds operated by the City are the water and sewer funds.

The fiduciary fund financial statements provide information about the financial status of activities (like a Sec. 125 Cafeteria Plan) in which the City acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. In 2012 and 2013 the City did not maintain any fiduciary funds.

The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of required supplementary information that presents a budgetary analysis for the general fund, 3rd cent fund, health care fund, and library fines fund.

Required Supplementary Information:

This Management's Discussion and Analysis (page 3 to 9) and the Budgetary Comparison Schedules (page 38 to 43) are financial information required to be presented by GASB. Such information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

This is a summary of the major features of these financial statement.

	Government-wide Statements	Fund Statements		
		Governmental Funds	Enterprise Funds	Fiduciary Funds (if any)
Scope	Entire City (except fiduciary funds)	City activities except Enterprise (ie: water) and Fiduciary	Activities operated like a private business (ie: water)	City's custody of money that belongs to others
Required Financial Statements	Statement of Net Position	Balance Sheet	Statement of Net Position	Statement of Fiduciary Net position
	Statement of Activities	Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Revenues, Expenses and Changes in Net Position Statement of Cash Flows	
Basis of Accounting	Accrual	Modified accrual	Accrual	Accrual
Measurement Focus	Economic resources	Current financial resources	Economic resources	Economic resources
Types of Assets & Liabilities	All - financial and capital, short- and long-term	Only current financial assets and liabilities No capital assets	All - financial and capital, short- and long-term	All - financial and capital (if any), short- and long-term
Types of Revenue and Expenditures or Expense	All - regardless of when cash is received	Revenues when cash is received during year or within 30 days of year-end Expenditures when goods or services are received and payment is due during year or soon after year-end	All - regardless of when cash is received	All - regardless of when cash is received

GOVERNMENT-WIDE STATEMENTS
(Reporting the City as a whole)

The government-wide statements (page 10 and 12) report information about the City as a whole using accounting methods similar to those used for private companies. There are two government-wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position includes all of the government's assets and liabilities. Net position is the difference between assets and liabilities. Changes in these accounts is one way to measure the City's financial health. Increases or decreases in net position measures improvements or declines in the City's financial health. To assess the City's overall financial health you also need to consider other factors such as changes in the, property tax base and sales tax revenue, sales tax revenue and/or grant activity.

The Statement of Activities includes all of the year's revenues and expenses. You will notice that expenses are listed in the first column by program. Revenues related each program are reported to the right of the expense. The result is a net revenue/expense for each program. After listing program activity, general receipts of the City are listed, which include all taxes and interest earned.

The government-wide financial statements have two broad categories of information: governmental activity and business-type activity.

The governmental activities include operation of the government such and City Council, public safety, streets and highway, snow removal, debt service, and recreational programs. Property taxes, sales taxes, revenue from the state, user fees and interest earnings finance most of these activities.

Business-type activities account for the City's water and sewer operations. These operations are financed by user fees and grants for certain capital projects.

FUND FINANCIAL STATEMENTS

(Reporting the City's most significant funds)

The fund financial statements (page 13 to 20) provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting tools used to keep track of the receipt and disbursement of City's resources. State law requires the use of some funds and the City Council establishes other funds to manage money for a specific purpose, like a capital project fund for infrastructure improvements.

The fund financial statements show information in three broad categories: governmental, enterprise (business-type), and fiduciary (if any).

Governmental funds: Most of the City's basic services are included in the governmental funds, which focus on (1) how cash, and other financial assets which can readily be converted into cash, flow in and out of that fund, and (2) the balances left at year-end that are available for spending in the next year. Consequently, governmental funds statements provide you a detailed short-term view to help you determine whether there are more or fewer financial resources available for spending in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements to reconcile the differences between the governmental fund statements and the government-wide statements.

Enterprise fund: Services for which the City charges the customer a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both short-term and a long-term financial information. Water and sewer funds are the enterprise fund maintained by the City.

Fiduciary funds: The City can be the agent (or fiduciary) for various internal and external parties. As such, the City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position. Fiduciary funds are excluded from the City's government-wide financial statements because the City can not use these assets to finance City operations. In 2012 and 2013 the City did not have any fiduciary funds.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

Year Ending December 31, 2013

(Material changes for governmental activities = changes greater than \$100,000)
(Material changes for business-type activities = changes greater than \$ 25,000)

	Increase (Decrease)	Principal Reason
Governmental Activities:		
Current assets	157,000	Excess revenues.
Business-type Activities:		
Long-term debt	(48,000)	Debt reduction.
Charges for services	29,000	Revenue back to 2011 level.
Sewer expenses	36,000	Expenses back to 2011 level.

Year Ending December 31, 2012

(Material changes for governmental activities = changes greater than \$100,000)
(Material changes for business-type activities = changes greater than \$ 25,000)

	Increase (Decrease)	Reason
Governmental Activities:		
Current assets	179,000	Excess revenue.
Business-type Activities:		
Current assets	60,000	Excess revenue.
Capital assets	(54,000)	Depreciation of \$59,741.
Long-term liabilities	(46,000)	Debt reduction.
Sewer expenses	(30,000)	Fewer repair and maintenance costs.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

The City's 2013 general fund budget of \$871,453 is an increase of \$14,152 or 1.65% from 2012. The increase was spread across several budget line items. There was one supplemental appropriation affecting streets and the airport. See page 38 for information.

The City's 2012 general fund budget of \$857,301 is an increase of \$3,162 or 0.37% from 2011. The increase was spread across several budget line items. There was one supplemental appropriation affecting financial administration and the Community Center. See page 39 for information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

At December 31, 2013, the City had invested \$3,162,340 in a broad range of capital assets, including land, buildings, improvements, and equipment. This amount represents a net decrease (including additions and deductions) of \$16,162 or 0.51% from December 31, 2012.

At December 31, 2012, the City had invested \$3,178,502 in a broad range of capital assets, including land, buildings, improvements, and equipment. This amount represents a net decrease (including additions and deductions) of \$85,216 or 2.62% from December 31, 2011.

Significant capital asset activity is reported above. See page 36 for more information.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

Significant long-term debt activity is reported above. The City is current on all long-term debt. See page 37 for more information.

The City has guaranteed 25% of Clear Lake Housing & Redevelopment Commission's Essential Function Housing Development Revenue Bond, Series 2000, which had a balance of \$413,927 at December 31, 2013.

CURRENTLY KNOWN FACTS

In March 2014 the City approved the purchase of Challenger System playground equipment for \$18,587.

In May 2014 the City received funding approval to reline its sanitary sewer clay pipes for a total project cost of \$3,264,000. Funding consist of a Rural Development loan of \$2,056,000 and grant of \$308,000; a Department of Environment and Natural Resources grant of \$700,000; and local funds of \$200,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City of Clear Lake finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact: City of Clear Lake Finance Office, P.O. Box 107, Clear Lake, SD 57226.

Complete financial statements for the Clear Lake Housing and Redevelopment Commission may be obtained at Clear Lake City Hall.

CITY OF CLEAR LAKE

TABLE 1 - NET POSITION (condensed and in thousands)
 BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 AS OF DECEMBER 31, 2013, 2012 AND 2011

	Governmental Activities			Business-Type Activities			Total Government		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Assets:									
Current assets	1,342	1,185	1,006	1,009	997	937	2,351	2,182	1,943
Capital assets	1,017	1,029	1,061	2,145	2,149	2,203	3,162	3,178	3,264
Total assets	2,359	2,214	2,067	3,154	3,146	3,140	5,513	5,360	5,207
Liabilities:									
Current liabilities	53	50	45	111	103	104	164	153	149
Long-term debt	138	168	197	803	851	897	941	1,019	1,094
Total liabilities	191	218	242	914	954	1,001	1,105	1,172	1,243
Net position:									
Capital assets, net of debt	849	832	836	1,288	1,245	1,253	2,137	2,077	2,089
Restricted	125	113	106	23	23	23	148	136	129
Unrestricted	1,194	1,051	883	929	924	863	2,123	1,975	1,746
Total net position	2,168	1,996	1,825	2,240	2,192	2,139	4,408	4,188	3,964

TABLE 2 - CHANGES IN NET POSITION (condensed and in thousands)
 BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 FOR THE THREE YEARS ENDING DECEMBER 31, 2013

	Governmental Activities			Business-Type Activities			Total Government		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Revenues:									
Program revenues:									
Charges for services	98	118	95	408	379	386	506	497	481
Operating grants and contri.	25		10			18	25	0	28
Capital grants and contri.							0	0	0
General revenues:									
Revenue from taxes	906	996	1,008				906	996	1,008
Revenue from state sources	51	51	42				51	51	42
Revenue from county sources	2	2	2				2	2	2
Interest earnings	2	2	2	4	4	4	6	6	6
Rents and franchise fees	24	23	23				24	23	23
Other general revenue	35	16	17	8	7		43	23	17
Total revenues	1,143	1,208	1,199	420	390	408	1,563	1,598	1,607
Expenses:									
General government	104	133	121				104	133	121
Public safety	98	97	95				98	97	95
Public works	361	310	306				361	310	306
Health and welfare	239	274	348				239	274	348
Culture and recreation	147	189	123				147	189	123
Economic development	12	23	35				12	23	35
Interest and fees	10	11	13				10	11	13
Water				207	208	215	207	208	215
Sewer				165	129	159	165	129	159
Total expenses	971	1,037	1,041	372	337	374	1,343	1,374	1,415
Excess of revenues over (under) expenses	172	171	158	48	53	34	220	224	192
Transfers	0	0	0	0	0	0	0	0	0
Change in net position	172	171	158	48	53	34	220	224	192
Net position:									
December 31, 2010			1,667			2,105			3,772
December 31, 2011		1,825	1,825		2,139	2,139		3,964	3,964
December 31, 2012	1,996	1,996		2,192	2,192		4,188	4,188	
December 31, 2013	2,168			2,240			4,408		

CITY OF CLEAR LAKE

GOVERNMENT-WIDE
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2013

	Primary Government			Component Unit UNAUDITED
	Governmental Activities	Business- Type Activities	Total	
Assets:				
Current assets:				
Cash and cash equivalents	1,051,663	866,702	1,918,365	7,441
Certificates of deposit	215,000	118,000	333,000	
Receivables:				
Property taxes - delinquent	24,243		24,243	
Other governments	2,754		2,754	
Accounts	11,321	2,578	13,899	
Note receivable - HRC	15,071		15,071	
Inventories	7,178	12,924	20,102	
Deposits (insurance)	15,204	4,542	19,746	
Prepaid expenses	2,191	1,390	3,581	
Internal balances	(2,717)	2,717	0	
Total current assets	1,341,908	1,008,853	2,350,761	7,441
Capital assets:				
Land	137,731	71,922	209,653	25,165
Buildings	1,128,735	3,500	1,132,235	443,941
Improvements	130,990	2,752,661	2,883,651	5,777
Equipment	603,410	198,378	801,788	16,618
Accumulated depreciation	(984,029)	(880,958)	(1,864,987)	(156,571)
Total capital assets	1,016,837	2,145,503	3,162,340	334,930
Total assets	2,358,745	3,154,356	5,513,101	342,371
Liabilities:				
Current liabilities:				
Accounts payable	19,058	6,888	25,946	15,071
Customer deposits	2,400	41,766	44,166	4,230
Leave liability	1,150	8,239	9,389	
Current portion of:				
Accrued interest payable		6,686	6,686	
Long-term obligations	30,324	48,038	78,362	16,531
Total current liabilities	52,932	111,617	164,549	35,832
Noncurrent liabilities:				
Noncurrent portion of:				
Long-term obligations	137,961	802,718	940,679	397,396
Total liabilities	190,893	914,335	1,105,228	433,228
Net position:				
Net invested in capital assets,	848,552	1,288,061	2,136,613	(78,997)
Restricted for:				
Debt service	95,039	18,553	113,592	
3rd cent activities	10,294		10,294	
Library activities	4,602		4,602	
Deposits	15,204	4,542	19,746	
Unrestricted	1,194,161	928,865	2,123,026	(11,860)
Total net position	2,167,852	2,240,021	4,407,873	(90,857)

See accompanying notes.

CITY OF CLEAR LAKE

GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING DECEMBER 31, 2012

Functions/Programs:	Program Revenues				Net Revenue (Expense) and Changes in Net Position			Component Unit UNAUDITED
	Expenses	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Primary government:								
Governmental activities:								
General government	133,012	4,448			(128,564)		(128,564)	
Public safety	96,554				(96,554)		(96,554)	
Public works	310,290	86,052			(224,238)		(224,238)	
Health and welfare	274,089				(274,089)		(274,089)	
Culture and recreation	189,185	27,368			(161,817)		(161,817)	
Economic development	23,300				(23,300)		(23,300)	
Interest (all)	11,213				(11,213)		(11,213)	
Total governmental activities	1,037,643	117,868	0	0	(919,775)	0	(919,775)	0
Business-type activities:								
Water	207,621	234,722				27,101	27,101	
Sewer	129,313	144,078				14,765	14,765	
Total business-type activities	336,934	378,800	0	0	0	41,866	41,866	0
Total primary government	1,374,577	496,668	0	0	(919,775)	41,866	(877,909)	0
Component Unit:								
Housing and Redevelopment Comm.	49,155	50,544						1,389
General revenues:								
Taxes:								
Property taxes					446,191		446,191	
Sales taxes					546,320		546,320	
Gross receipts tax					3,044		3,044	
Amusement taxes					204		204	
State shared revenue					50,852		50,852	
County shared revenue					2,484		2,484	
Interest earnings					2,059	3,739	5,798	
Rents and franchise fee					22,648		22,648	
Donations					1,741		1,741	
Liquor operating agreement					13,662		13,662	
Sale of surplus property					0	7,114	7,114	
Miscellaneous revenue					1,237		1,237	
Total general revenues					1,090,442	10,853	1,101,295	0
Change in net position					170,667	52,719	223,386	1,389
Net position:								
January 1, 2012					1,824,450	2,139,735	3,964,185	(90,162)
December 31, 2012					1,995,117	2,192,454	4,187,571	(88,773)

See accompanying notes.

CITY OF CLEAR LAKE

BALANCE SHEET -- GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2013

	General Fund	3rd Cent Fund	Health Care Fund	Library Fines Fund	Sales Tax Revenue Bond Debt Service Fund	Total Governmental Funds
Assets:						
Cash and cash equivalents	916,380	10,294	25,348	4,602	95,039	1,051,663
Certificates of deposit	215,000					215,000
Property taxes - delinquent	24,243					24,243
Due from other governments	2,754					2,754
Accounts receivable	11,321					11,321
Note receivable - HRC	15,071					15,071
Inventories	7,178					7,178
Deposits (insurance)	15,204					15,204
Prepaid expenses	2,191					2,191
Total assets	1,209,342	10,294	25,348	4,602	95,039	1,344,625
Deferred outflow of resources:						
None	0	0	0	0	0	0
Total assets and deferred outflow of resources	1,209,342	10,294	25,348	4,602	95,039	1,344,625
Liabilities:						
Accounts payable	19,058					19,058
Due to water fund	2,717					2,717
Customer deposits	2,400					2,400
Total liabilities	24,175	0	0	0	0	24,175
Deferred inflow of resources:						
Unavailable revenue:						
Property taxes	24,243					24,243
Total deferred inflow of resources	24,243	0	0	0	0	24,243
Fund balances:						
Nonspendable:						
Restricted		10,294		4,602	95,039	109,935
Committed			25,348			25,348
Assigned	109,037					109,037
Unassigned	1,027,314					1,027,314
Total fund balance	1,160,924	10,294	25,348	4,602	95,039	1,296,207
Total liabilities, deferred inflow of resources and fund balance	1,209,342	10,294	25,348	4,602	95,039	1,344,625
Reconciliation of the above governmental funds balance sheet to the government-wide statement of net position:						
Total fund balance - governmental funds (above)						1,296,207
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Therefore: Add the cost of capital assets						2,000,866
Subtract related accumulated depreciation						(984,029)
Long-term liabilities are not due and payable in the current period. Therefore: Subtract sales tax revenue bond						(168,285)
Subtract accrued leave						(1,150)
Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and are deferred in the funds. Therefore: Add property taxes receivable						24,243
Total net position on government-wide statement of net position						2,167,852

See accompanying notes.

CITY OF CLEAR LAKE

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2013

	General Fund	3rd Cent Fund	Health Care Fund	Library Fines Fund	Sales Tax Revenue Bond Debt Service Fund	Total Governmental Funds
Revenue:						
Revenue from local sources:						
Taxes:						
Ad valorem taxes	424,408					424,408
General sales and use taxes	183,252	11,178	227,820		44,568	466,818
Gross receipts tax	2,845					2,845
Amusement taxes	204					204
Penalties and interest	920					920
Licenses and permits:	3,638					3,638
Intergovernmental revenue:						
Federal shared revenue:	22,155					22,155
State shared revenue:						
Grants	2,954					2,954
Bank franchise tax	706					706
Motor vehicle - commercial	3,500					3,500
Liquor tax reversion	9,340					9,340
Motor vehicle licenses (5%)	14,450					14,450
Highway and bridge	21,192					21,192
PILOT	2,047					2,047
County shared revenue:	2,484					2,484
Charges for goods and services:						
Highway and streets	5,172					5,172
Solid waste collection	67,591					67,591
Rubble site	4,126					4,126
Recreation - pool	10,505					10,505
Park fees	6,422					6,422
Fines and forfeits:	332			485		817
Miscellaneous revenue:						
Interest earned	1,984				35	2,019
Rental and franchise	23,563					23,563
Donations	175			3,358		3,533
Liquor operating agreement	13,696					13,696
Other	2,605					2,605
Total revenues	830,266	11,178	227,820	3,843	44,603	1,117,710
Expenditures:						
General government:						
Mayor and Council	19,372					19,372
Elections	23					23
Financial administration	64,187					64,187
Government buildings	17,983					17,983
Public safety:						
Police	64,867					64,867
Fire	31,903					31,903
Inspections	41					41
Public works:						
Highways and streets	230,175					230,175
Solid waste disposal	83,611					83,611
Airport	10,735					10,735
Transit	2,350					2,350
Health and welfare:						
Health	2,874		233,658			236,532
Ambulance	2,725					2,725
Culture and recreation:						
Recreation	10,301					10,301
Recreation - pool	36,799					36,799
Parks	32,700					32,700
Library	26,541			3,467		30,008
Community center	17,667					17,667
Historic preservation	2,500					2,500
Economic development	7,000	5,000				12,000
Debt service: principal					28,821	28,821
interest					9,784	9,784
Capital outlay:	42,712					42,712
Total expenditures	707,066	5,000	233,658	3,467	38,605	987,796

CITY OF CLEAR LAKE

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2012

	General Fund	3rd Cent Fund	Health Care Fund	Library Fines Fund	Sales Tax Revenue Bond Debt Service Fund	Total Governmental Funds
Revenue:						
Revenue from local sources:						
Taxes:						
Ad valorem taxes	446,426					446,426
General sales and use taxes	216,986	11,736	267,292		50,306	546,320
Gross receipts tax	3,044					3,044
Amusement taxes	204					204
Penalties and interest	1,509					1,509
Licenses and permits:	4,133					4,133
Intergovernmental revenue:						
State shared revenue:						
Bank franchise tax	359					359
Motor vehicle - commercial	3,399					3,399
Liquor tax reversion	10,894					10,894
Motor vehicle licenses (5%)	13,334					13,334
Highway and bridge	20,783					20,783
PILOT	2,083					2,083
County shared revenue:	2,484					2,484
Charges for goods and services:						
Highway and streets	3,290					3,290
Solid waste collection	66,770					66,770
Rubble site	16,243					16,243
Recreation - pool	13,310					13,310
Park fees	13,551					13,551
Fines and forfeits:	65			507		572
Miscellaneous revenue:						
Interest earned	2,028				31	2,059
Rental and franchise	22,647					22,647
Donations	37			1,704		1,741
Liquor operating agreement	13,662					13,662
Other	1,237					1,237
Total revenues	878,478	11,736	267,292	2,211	50,337	1,210,054
Expenditures:						
General government:						
Mayor and Council	33,179					33,179
Elections	663					663
Financial administration	81,621					81,621
Government buildings	17,890					17,890
Public safety:						
Police	64,867					64,867
Fire	30,975					30,975
Inspections	61					61
Public works:						
Highways and streets	205,996					205,996
Solid waste disposal	78,165					78,165
Airport	5,016					5,016
Transit	1,100					1,100
Health and welfare:						
Health	2,778		267,633			270,411
Ambulance	3,678					3,678
Culture and recreation:						
Recreation	10,983					10,983
Recreation - pool	52,730					52,730
Parks	39,199					39,199
Library	24,937			2,030		26,967
Community center	14,973					14,973
Historic preservation	5,000					5,000
Economic development	11,300	12,000				23,300
Debt service: principal					27,392	27,392
interest					11,213	11,213
Capital outlay:	33,164					33,164
Total expenditures	718,275	12,000	267,633	2,030	38,605	1,038,543

CITY OF CLEAR LAKE

STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS (continued)
 FOR THE YEAR ENDING DECEMBER 31, 2012

	General Fund	3rd Cent Fund	Health Care Fund	Library Fines Fund	Sales Tax Revenue Bond Debt Service Fund	Total Governmental Funds
Excess of revenues over (under) expenditures	160,203	(264)	(341)	181	11,732	171,511
Other financing sources (uses): None						0
Net change in fund balance	160,203	(264)	(341)	181	11,732	171,511
Fund balance:						
January 1, 2012	861,998	4,380	31,527	4,045	77,309	979,259
December 31, 2012	1,022,201	4,116	31,186	4,226	89,041	1,150,770

Reconciliation of the above statement of revenues, expenditures, and
 changes in fund balances to the government-wide statement of activities:

Net change in fund balances - total governmental funds (above)	171,511
Governmental funds report capitalized cost as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation: 2012 capitalized cost are	33,164
2012 depreciation is	(55,891)
2012 loss on disposal of library books	(7,833)
2012 loss on trade-in of Dixon mower	(902)
Some property taxes will not be collected for several months after the City's year-end. Therefore, they are not considered "available" revenues and are deferred in the governmental funds statement.	(1,744)
Repayment of debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Therefore:	
Add reduction on Sales tax revenue bond	27,392
Add reduction in accrued leave	4,970
Change in net assets on government-wide statement of activities	170,667

See accompanying notes.

CITY OF CLEAR LAKE

STATEMENT OF NET POSITION - ENTERPRISE FUNDS
AS OF DECEMBER 31, 2013

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
Assets:			
Current assets:			
Cash and cash equivalents	426,249	440,453	866,702
Certificates of deposit	78,000	40,000	118,000
Receivables:			
Accounts	663	1,915	2,578
Due from other funds	3,527		3,527
Inventories	7,382	5,542	12,924
Deposits (insurance)	2,567	1,975	4,542
Prepaid expenses	746	644	1,390
	-----	-----	-----
Total current assets	519,134	490,529	1,009,663
	-----	-----	-----
Capital assets:			
Land	5,830	66,092	71,922
Buildings	3,500		3,500
Improvements	983,990	1,768,671	2,752,661
Equipment	144,909	53,469	198,378
Accumulated depreciation	(341,728)	(539,230)	(880,958)
	-----	-----	-----
Total capital assets	796,501	1,349,002	2,145,503
	-----	-----	-----
Total assets	1,315,635	1,839,531	3,155,166
	=====	=====	=====
Liabilities:			
Current liabilities:			
Accounts payable	6,870	18	6,888
Due to water fund		810	810
Customer deposits	41,766		41,766
Leave liability	5,170	3,069	8,239
Current portion of:			
Accrued interest payable	2,724	3,962	6,686
Long-term obligations	16,640	31,398	48,038
	-----	-----	-----
Total current liabilities	73,170	39,257	112,427
	-----	-----	-----
Noncurrent liabilities:			
Noncurrent portion of long-term obligations	346,521	456,197	802,718
	-----	-----	-----
Total liabilities	419,691	495,454	915,145
	=====	=====	=====
Net position:			
Net invested in capital assets	430,616	857,445	1,288,061
Restricted:			
Debt service	6,837	11,716	18,553
Deposits	2,567	1,975	4,542
Unrestricted	455,924	472,941	928,865
	-----	-----	-----
Total net position	895,944	1,344,077	2,240,021
	=====	=====	=====

See accompanying notes.

CITY OF CLEAR LAKE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET POSITION - ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2013
 FOR THE YEAR ENDING DECEMBER 31, 2012

	2013			2012		
	Water Fund	Sewer Fund	Total Enterprise Funds	Water Fund	Sewer Fund	Total Enterprise Funds
Operating revenue:						
Charges for goods and services	248,211	159,910	408,121	234,722	144,078	378,800
Total operating revenue	248,211	159,910	408,121	234,722	144,078	378,800
Operating expenses:						
Personal services	50,699	53,460	104,159	56,187	44,076	100,263
Other current services	55,570	53,621	109,191	49,193	27,184	76,377
Cost of goods sold	69,910		69,910	71,800		71,800
Depreciation	20,026	41,564	61,590	18,884	40,857	59,741
Total operating expense	196,205	148,645	344,850	196,064	112,117	308,181
Total operating income	52,006	11,265	63,271	38,658	31,961	70,619
Nonoperating revenue (expense):						
Interest earnings	1,893	1,635	3,528	2,078	1,661	3,739
Interest expense and fees	(11,078)	(16,220)	(27,298)	(11,557)	(17,196)	(28,753)
Sale of surplus property	1,151		1,151	7,114		7,114
Compensation for property damage	6,915		6,915			0
Total nonoperating revenue (expense)	(1,119)	(14,585)	(15,704)	(2,365)	(15,535)	(17,900)
Income (loss) before transfers	50,887	(3,320)	47,567	36,293	16,426	52,719
Transfers in (out)			0			0
Change in net position	50,887	(3,320)	47,567	36,293	16,426	52,719
Net position:						
January 1, 2012				808,764	1,330,971	2,139,735
December 31, 2012	845,057	1,347,397	2,192,454	845,057	1,347,397	2,192,454
December 31, 2013	895,944	1,344,077	2,240,021			

See accompanying notes.

CITY OF CLEAR LAKE

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2013
 FOR THE YEAR ENDING DECEMBER 31, 2012

	2013			2012		
	Water Fund	Sewer Fund	Total Enterprise Funds	Water Fund	Sewer Fund	Total Enterprise Funds
Cash flows from:						
Operating activities:						
Receipts from customers	246,747	160,059	406,806	251,552	157,084	408,636
Interfund services provided	3,527		3,527	3,914		3,914
Payments to employees	(50,226)	(53,130)	(103,356)	(56,421)	(43,152)	(99,573)
Payments to suppliers	(120,317)	(53,876)	(174,193)	(126,725)	(27,881)	(154,606)
Interfund services used		(811)	(811)		(632)	(632)
Net cash provided (used) by operating activities	79,731	52,242	131,973	72,320	85,419	157,739
Noncapital financing activities:						
Due from other funds	875		875			
Due to other funds		325	325			
Capital financing activities:						
Sale of surplus property	1,151		1,151	7,114		7,114
Compensation for damaged property	6,915		6,915			
Cash paid for:						
Improvements		(18,467)	(18,467)			
Equipment	(25,377)	(14,000)	(39,377)	(5,988)		(5,988)
Principal on debt	(16,150)	(30,398)	(46,548)	(15,675)	(29,430)	(45,105)
Interest/fees on debt	(11,199)	(16,467)	(27,666)	(11,674)	(17,435)	(29,109)
Investing activities:						
Interest earnings	1,893	1,635	3,528	2,078	1,661	3,739
Net increase (decrease) in cash	37,839	(25,130)	12,709	48,175	40,215	88,390
Cash:						
January 1, 2012				340,235	425,368	765,603
December 31, 2012	388,410	465,583	853,993	388,410	465,583	853,993
December 31, 2013	426,249	440,453	866,702			
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	52,006	11,265	63,271	38,658	31,961	70,619
Depreciation	20,026	41,564	61,590	18,884	40,857	59,741
(Increase) decrease in:						
Accounts receivable	682	149	831	18,063	13,006	31,069
Inventory	(363)	(865)	(1,228)	(407)	(1,465)	(1,872)
Prepaid expenses	(208)	4	(204)	91	93	184
Accounts payable	5,734	(205)	5,529	(5,416)	43	(5,373)
Customer deposits	1,381		1,381	2,681		2,681
Leave liability	473	330	803	(234)	924	690
Net cash provided (used) by operating activities	79,731	52,242	131,973	72,320	85,419	157,739

Noncash investing, capital and financing activities: None

See accompanying notes.

CITY OF CLEAR LAKE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Clear Lake conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Reporting Entity:

The funds included in this report are controlled by or dependent upon the City of Clear Lake's (City) Governing Board.

The City's officials at December 31, 2013 are:

Governing Board:	Finance Officer:
Gordon Lee, Mayor	Karen Harford
Jamie Hintz, President	
Gary Eide	Attorney:
Scottie Hagen	Todd Boyd
Carey Holt	
Tim Hulscher	
Ellen Schmahl	

The City's financial reporting entity is composed of the following:

Financial Reporting Entity:

Primary Government: - The City of Clear Lake
Component Unit: - Clear Lake Housing and Redevelopment Commission

To determine the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The reporting entity of the City of Clear Lake consists of (1) 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; (2) those organizations for which the primary government is financially accountable; and (3) 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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the City (the primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City unless that organization can, without the approval of the City: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

The discretely presented component unit is reported in a separate column to emphasize it is legally separate from the City.

Component unit activity accounts for the Clear Lake Housing and Redevelopment Commission (Commission). The Commission was organized pursuant to the Municipal Housing and Redevelopment Act of South Dakota as a public housing agency formed to provide financial assistance for low income public housing pursuant to the United States Housing Act of 1937, (42 U.S.C. 1401, *et seq.*).

Although legally separate, the Commission is a "component unit" of the City because the Mayor and the City's governing board appoint the five members to the Commission's governing board and because the City can impose its will on the Commission. For example, by statute the Commission is required to get the City's approval before it can start any specific project or issue debt. (SDCL 11-7-24, 11-7-49, and 11-7-53)

Complete financial statements of the Commission may be obtained from the Clear Lake City Hall.

b. Basis of Presentation:

Government-wide Financial Statements:

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements 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 good and services.

The Statement of Net Position reports all financial and capital resources, in a net position form (assets minus liabilities equal net position). Net position is displayed in three components, as applicable: net invested in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each segment of City's business-type activities. Direct expenses are associated with a specific program or function and are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the program 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 and interest, are presented as general revenues.

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its assets, liabilities, net position, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, enterprise, and fiduciary. An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the City or if it meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues, or expenditures/expenses) for all funds of that category (that is, total governmental or total enterprise), and
- b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
- c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

The City has elected to classify all of its funds as major funds.

Funds of the City are described below within their respective fund type:

Governmental Funds

General Fund - a fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the City except those required to be accounted for in another fund. The general fund is always 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. The City has the following special revenue funds:

3rd Cent Sales Tax Fund - A fund allowed by SDCL 10-52A-2 to account for the receipts from the 3rd cent sales tax imposed on liquor, lodging and dining sales. The 3rd cent can be spent on promotion of the city. The 3rd cent sales tax fund is a major fund.

Health Care Fund - A fund to allocate sales tax receipts for the support of health care activities. The health care fund is a major fund.

Library Fines Fund - A fund allowed by SDCL 14-2-42 to account for library related fines, similar charges and donations to be used for library activities. The library fines fund is a major fund.

Debt Service Fund Type - debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The City has the following debt service funds:

Sales Tax Revenue Bond Debt Service Fund - A fund to account for the payment of debt principal, interest, and related costs associated with the construction of a community center facility. The sales tax revenue bond debt service fund is a major fund.

Enterprise Funds (Business-Type)

Enterprise Funds - Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The City has the following enterprise funds:

Water Fund - A fund established by SDCL 9-47-1 to provide water to customers within the City of Clear Lake. The water fund is a major fund.

Sewer Fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the City of Clear Lake. The sewer fund is a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

In 2012 and 2013 the City did not have any fiduciary funds.

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus

Government-wide Financial Statements:

Both governmental and business-type activities are presented using the "economic resources" measurement focus, applied on the accrual basis of accounting.

The "economic resources" measurement focus includes all assets and liabilities (whether current or noncurrent, financial, or nonfinancial) on the balance sheet. Operating statements use the flow of all economic resources to present operating income, changes in net position, and cash flows during the accounting period. This measurement focus uses the term "net position" to describe its equity at the end of the accounting period.

Fund Financial Statements:

All governmental funds are presented using the "current financial resources" measurement focus and the modified accrual basis of accounting.

The "current financial resources" measurement focus includes only current financial assets and liabilities on the balance sheet. Operating statements present sources and uses of available spendable financial resources during the accounting period. This measurement focus uses the term "fund balance" to describe its equity at the end of the accounting period. It is a measure of available spendable financial resources.

Enterprise and fiduciary funds are presented using the "economic resources" measurement focus (described above) and the accrual basis of accounting.

Basis of Accounting

Government-wide Financial Statements:

In the government-wide financial statements, the accrual basis of accounting is used for both governmental and business-type activities in the Statement of Net Position and Statement of Activities. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

In the fund financial statements, all governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, which for the City is 30 days. Revenue which is accrued at December 31, 2013 are amounts due from other governments and other accounts receivable.

Under the modified accrual basis of accounting, receivables may be measurable but "not available". Not available means not collectible within the current period or soon enough thereafter (30 days) to be used to pay liabilities of the current period. Reported "deferred inflow of resources" are those where the asset recognition criteria has been met but for which the revenue recognition criteria has not been met because the receivable is not available.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due. However, the City of Clear Lake budgets for, and makes payment of, debt obligations due on January 1st as of December 31st, the end of the City's fiscal year.

All enterprise funds and fiduciary funds are accounted for using the accrual basis of accounting, the same as in the government-wide financial statements. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. 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:

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net residual amounts due between governmental and business-type activities, which are presented as "Internal Balances" (if any).

Fund Financial Statements:

In the fund financial statements, noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

e. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed. All other interfund transactions are reported as transfers.

f. Cash and Cash Equivalents:

In the enterprise funds' statement of cash flows, the City considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents. Those portions of the enterprise funds' cash resources that are included in the City's internal cash management pool are considered to be cash and cash equivalents, regardless of the form in which they are held, because use of the pool provides each enterprise fund with access to its cash resources essentially on demand.

For the two years ending December 31, 2013, all enterprise fund deposits and investments are considered to be cash and cash equivalent for purposes of the statement of cash flow except for specific certificates of deposit in the water fund totaling \$78,000 and in the sewer fund totaling \$40,000 because their maturity when purchased was longer than three months and they are not part of a pool.

g. Capital Assets and Infrastructure assets:

Capital assets include land, buildings, improvements, and equipment, and all other tangible or intangible assets that are used in operations, which have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets. Infrastructure assets, if any, are classified as "Improvements Other than Buildings."

Government-wide Financial Statements:

In the government-wide financial statements, capital assets are accounted for on the accrual basis of accounting. Capital asset purchases are capitalized and not expensed. Instead, capital purchases are expensed over the life of the asset as depreciation or amortization.

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. After an item has been capitalized, subsequent improvements or betterments that are significant, and which extend the useful life of the item, are also capitalized.

The total December 31, 2013 balance of capital assets for governmental activities include approximately 41% for which the costs were determined by estimates of the original costs. The total December 31, 2013 balance of capital assets for business-type activities includes approximately 36% for which the costs were determined by estimates of the original costs. Estimated original costs were established by basing the estimates on a comparison to historical costs of similar items.

Interest cost incurred during construction of general capital assets are not capitalized with other capital asset cost. Interest cost incurred during construction of enterprise capital assets are capitalized with other capital asset cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities and the enterprise fund statement of revenue, expenses and changes in fund net position. Accumulated depreciation is reported on the government-wide statement of net position and on the enterprise fund's statement of net position. See also page 36.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation method, and estimated useful lives of capital assets reported in the government-wide statements and enterprise funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Life in Years
	-----	-----	-----
Land	All		NA
Buildings	50,000	Straight-line	30-50
Improvements	25,000	Straight-line	40
Equipment	5,000	Straight-line	4-50
Utility improvements	10,000	Straight-line	25-100

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

Capital assets and related depreciation expenses are not recorded in governmental funds of the fund financial statements because these funds have a "current financial resources" measurement focus. Instead, these funds report capital asset acquisitions as capital outlay expenditures.

Capital assets and related depreciation expenses are recorded on the accrual basis of accounting in the enterprise funds of the fund financial statements, the same as in the government-wide statements.

h. Long-term Liabilities:

Government-wide Financial Statements:

In the government-wide financial statement, all long-term liabilities to be repaid from governmental or business-type resources are reported as liabilities. Long-term liabilities primarily consist of revenue bonds and accrued leave payable.

Fund Financial Statements:

In the fund financial statements, governmental debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. Enterprise fund long-term debt is reported as a liability, the same as in the government-wide statements.

i. Program Revenues and General Revenues and Deferred Inflows and Deferred Outflows of Resources:

Program Revenue

In the government-wide Statement 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 contribution - 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 contribution - 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.

General Revenue

General revenues include all revenues not specifically earmarked for a specific program. General revenues include all taxes, interest earnings, unrestricted receipts from federal, state, or county governments, and miscellaneous revenues not related to a program. These revenues are not restricted and can be used for the regular operation of the City.

Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources (if any). Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources (if any). Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

j. Enterprise Fund Revenue and Expense Classifications:

In the government-wide and fund financial statements, enterprise 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.

k. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as "Net Position" and is displayed in three components:

1. Net Invested in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds payable, capitalized leases payable, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position - Consists of net position with constraints placed on its use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position - Other net position that does not meet the criteria of 1 or 2 above.

Fund Financial Statements:

Governmental fund equity is classified as "Fund Balance", and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Enterprise fund equity is classified as "Net Position", 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 a purpose.

1. 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 City classifies governmental fund balances as follows:

- * Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- * Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.
- * Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed (or modified or rescinded) by the government through formal action at 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 Council or Finance Officer.
- * Unassigned - includes positive fund balance within the general fund which has not been classified within the above categories and negative fund balances in other governmental funds.

The City of Clear Lake fund balance classifications are made up of:

<u>Fund Balance Classifications</u>	<u>Account or Fund</u>	<u>Authority or Action</u>	<u>Amount</u>
Nonspendable	General - Inventory		7,178
	General - Insurance deposit	SDPAA Contract	15,204
	General - Prepaid expenses		2,191
Restricted	3rd Cent	Statute	10,294
	Library Fines	Statute	4,602
	Sales Tax - Debt service	Covenant	95,039
Committed	Health Care	Ordinance	25,348
Assigned	General - Capital outlay	Resolution	67,309
	- Playground equipment	Resolution	20,000
	- Street equipment	Resolution	10,503
	- Community center	Resolution	1,225
	- Ambulance	Resolution	10,000
Unassigned	General		1,027,314

			1,296,207

The City uses "restricted" and "committed" amounts first when 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 City would first use "committed", then "assigned", and lastly "unassigned" amounts of unrestricted fund balance when expenditures are made.

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

The purpose of each special revenue fund and revenue source is:

Special Revenue Fund:	Revenue Source: (see page 14 and 16)
* 3rd Cent	Sales tax
* Health Care	Sales tax
* Library Fines	Fines and donations
* Sales Tax Revenue Bond Debt Service	Sales tax

m. Application of Net Position:

It is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred which can be charged to either restricted or unrestricted net position.

n. Allowance for Doubtful Accounts:

Because write-off of uncollected taxes and/or utility billings is minimal, is it not considered necessary to establish an estimated allowance for doubtful accounts.

o. Accounting Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimates. Following are the estimates made by management during the year:

- * Allowance for doubtful accounts - estimated uncollectables
- * Inventory - estimated fair market value
- * Depreciation - estimated service lives

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund. In 2012 the City went over its general fund financial administration budget by \$2,251. In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation. This budget overdraft is not considered a material or significant finding with respect to these financial statements.

3. DEPOSITS AND RELATED RISKS

The City follows the practice of aggregating deposits of its various funds for cash management efficiency and returns, except for restricted cash held by 3rd parties and certificates of deposits purchased for an individual fund.

The City's 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. 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 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.

Deposits are reported at cost, plus interest, if the account is the add-on type.

Actual bank balances at December 31, 2013 were as follows: Insured \$318,622, Collateralized ** \$1,983,863 for a total of \$2,302,485.

** Uninsured, collateral jointly held by state's/municipality's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits at December 31, 2013 was \$2,251,365.

Certificates of deposit, with a term to maturity of greater than 90 days when purchased, are insured or collateralized and are considered deposits.

Deposit Credit Risk - State law limits eligible deposits for the City, as discussed above. The City has no deposit policy that would further limit its deposit choices.

Deposit Custodial Risk - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. At December 31, 2013, the City's deposits in financial institutions were not exposed to custodial deposit risk.

Concentration of Credit Risk - The City places no limit on the amount that may be deposited in any one institution. All of the City's deposits are with Deuel County National Bank.

Assignment of Deposit Income - State law allows income from deposits to be credited to either the general fund or the fund making the deposit. The City's policy is to credit all income from deposits to the fund having the deposit.

3. INVESTMENTS AND RELATED RISKS

In general, SDCL 4-5-6 permits City money 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) or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). 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.

The City did not have investments during the two years ending December 31, 2013.

Investment Risk - State law limits eligible investments of the City, as discussed above. The City has no investment policy that would further limit its investment choices.

Interest Rate Risk - The City 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.

Concentration of Credit Risk - the City places no limit on the amount that may be invested in any one institution. For the two years ending December 31, 2013, the City had no investments.

Assignment of Investment Income - State law allows income from investments to be credited to either the general fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

4. INTERFUND BALANCES

At December 31, 2013 the general fund owed the water fund \$2,717 for its use of water. At December 31, 2013 the sewer fund owed the water fund \$810 for its use of water during 2011.

5. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in the financial statements. The City expects all receivables to be collected within one year. Allowances for estimated uncollectible accounts in the enterprise funds are not material to these financial statements.

6. INVENTORY OF SUPPLIES AND SMALL TOOLS

Government-wide Statements: (consumption method)

In the government-wide financial statements inventory of supplies and small tools are recorded as assets when purchased and charged to expense when they are consumed. Inventory of supplies and small tools are recorded at cost. Donated items are valued at estimated market value at the date of receipt. The cost valuation method is first-in first-out.

Fund Financial Statements: (consumption method)

In the fund financial statements inventory of supplies and small tools are recorded as assets when purchased and charged to expenditure/expense when they are consumed. Reported governmental inventories are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Inventory of supplies and small tools are recorded at cost. Donated items are valued at estimated market value at the date of receipt. The cost valuation method is first-in first-out.

7. CHANGES IN CAPITAL ASSETS (see schedule one on page 36)

A summary of the changes in capital assets is presented in schedule one at the end of these notes. There is no construction-in-progress at December 31, 2013.

8. LONG-TERM DEBT AND INTEREST EXPENSE (see schedule two on page 37)

A summary of changes in long-term liabilities is presented in schedule two at the end of these notes. The City did not have any short-term debt during 2012 or 2013.

The following makes up the government-wide statement of activities interest expense and fiscal charges:

	2013	2012
	-----	-----
Sales Tax Revenue Debt Service Fund	9,784	11,213

9. FUTURE REVENUES PLEDGED TO SECURE DEBT

All water fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure the water fund's SRF loan which has a remaining balance of \$363,162. The bond was incurred to cover the cost of water improvements as described on page 37. The bonds will mature in 2030. In 2013 the bonds had pledged revenue of \$72,032 before depreciation and total bond payments of \$27,349.

All sewer fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure the sewer fund's SRF loan which has a remaining balance of \$487,595. The loan was incurred to cover the cost of sewer improvements as described on page 37. The loan will mature in 2026. In 2013 the loan had pledged revenue of \$52,829 before depreciation and total bond payments of \$46,865.

10. CONDUIT DEBT

In the past, the City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance.

Neither the City of Clear Lake, the State of South Dakota, nor other political subdivision of the state are obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. During the two years ending December 31, 2013, there was one conduit bond, which was paid-off in 2013.

11. WATER SUPPLY CONTRACT

The City of Clear Lake entered in to a 10-year agreement with Brookings-Deuel Rural Water System, Inc. to provide water to the city. A monthly minimum in the amount of \$1,300.00 is paid by the city to Brookings-Deuel Rural Water System, Inc. along with a charge of \$1.65 per thousand gallons of water consumed. The monthly service charge is designed to contribute to the debt service cost of the existing system of the Brookings-Deuel Rural Water System, Inc. The city will not acquire ownership of any of these water facilities through these lease payments. Payments are made from the City's water fund and were completely paid-off in 2013.

12. COMPONENT UNIT AND CONTINGENCIES

The City has guaranteed payment of a Revenue Bond issued to the Clear Lake Housing and Redevelopment Commission (HRC) (a component unit of the City) for up to 25% of \$413,927.

In 2013 the City loaned the HRC \$7,000 to support debt service obligations against a non-interest bearing note with an open due date. This brings to \$15,071 the total amount the City has loaned the HRC.

13. RETIREMENT PLAN

All employees, except for part-time employees who work less than 20 hours per week and temporary 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. 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. SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the years ending December 31, 2013, 2012, and 2011 were \$11,357, \$11,102 and \$12,053 (employer's share) respectively, equal to the required contribution each year.

The City does not owe any deferred contributions to the retirement plan.

14. PROPERTY TAX

Taxes are levied on or before October 1, attach as an enforceable lien on property, become due and payable on the following January 1, and are payable in two installment on or before the following April 30 and October 31. The county bills and collects the City's taxes and remits them to the City.

Property taxes are recognized to the extent they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is intended to be used to finance the current year's appropriations, but which will not be collected during the current fiscal year or within the "availability period" of 45 days has been deferred in the fund financial statements. Property tax revenues intended to finance the current year's appropriations, and therefore susceptible to accrual, has been reported as revenue in the government-wide financial statements, even though collection will occur in a future year. Delinquent property taxes, from prior year tax levies, are included in "net position" in the government-wide statement of activities but are deferred in the fund financial statements. See reconciliations on page 13, 15, and 17.

15. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2013, the City managed its risks as follows:

Employee Health Insurance

The City 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 City 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 also includes a \$2,000,000 lifetime maximum payment per person.

The City 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.

Property and Liability Insurance

The City purchases liability insurance for risks related to airport liability from a commercial insurance carrier.

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide coverage for general liability, officials liability, automobile insurance, and law enforcement liability.

The agreement with the SDPAA provides that the above coverage's 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 to the upper limit. The City carries a \$500 deductible for the officials liability and a \$25 to \$250 deductible for automobile coverage depending on the area of claim.

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

A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve on the following formula:

End of the City's:

First Full Year (50%), Second Full Year (60%), Third Full Year (70%)
Fourth Full Year (80%), Fifth Full Year (90%), Sixth Full Year (100%)

As of December 31, 2013, the City has a vested balance in the cumulative reserve fund of \$19,745.

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

Worker's Compensation

The City joined the South Dakota Municipal League Workers' Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospective rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The City may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments,

if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs.

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

Unemployment Benefits

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

16. OTHER DISCLOSURES

The City does not operate a landfill.

The City is not involved in any significant litigation.

The City does not offer any Other Post Employment Benefits.

In March 2014 the City approved the purchase of Challenger System playground equipment for \$18,587.

In May 2014 the City received funding approval to reline its sanitary sewer clay pipes for a total project cost of \$3,264,000. Funding consist of a Rural Development loan of \$2,056,000 and grant of \$308,000; a Department of Environment and Natural Resources grant of \$700,000; and local funds of \$200,000.

CITY OF CLEAR LAKE

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
 CHANGES IN CAPITAL ASSETS
 FOR THE TWO YEARS ENDING DECEMBER 31, 2013

	Beginning 12-31-11	2012 Additions	2013 Additions	2012 2013 (Deletions)	Ending 12-31-13	Accumulated Depreciation 12-31-11	2012 (Additions)	2013 (Additions)	2012 2013 Deletions	Accumulated Depreciation 12-31-13	Remaining Cost 12-31-13
General capital assets:											
Land	121,842	15,889			137,731	0					137,731
Buildings	1,128,735				1,128,735	(506,031)	(32,746)	(30,625)		(569,402)	559,333
Improvements	103,000		27,990		130,990	(38,625)	(2,575)	(2,867)		(44,067)	86,923
Equipment	584,074	10,963	21,033	(12,660)	603,410	(332,282)	(20,570)	(21,635)	3,927	(370,560)	232,850
Construction-in-progress	0	6,311	(6,311)		0	0				0	0
Totals	1,937,651	33,163	42,712	(12,660)	2,000,866	(876,938)	(55,891)	(55,127)	3,927	(984,029)	1,016,837
Allocation of Depreciation:											
							(3,172)	(3,172)			
							(651)	(651)			
							(20,013)	(18,714)			
							(32,055)	(32,590)			
							(55,891)	(55,127)			
Business-type capital assets:											
Land	71,922				71,922	0				0	71,922
Buildings	3,500				3,500	(3,500)				(3,500)	0
Improvements	2,748,997		18,467	(14,803)	2,752,661	(729,965)	(50,614)	(50,713)	14,780	(816,512)	1,936,149
Equipment	155,775	11,080	40,559	(9,036)	198,378	(43,724)	(9,127)	(10,876)	2,781	(60,946)	137,432
Construction-in-progress	0				0	0				0	0
Totals	2,980,194	11,080	59,026	(23,839)	3,026,461	(777,189)	(59,741)	(61,589)	17,561	(880,958)	2,145,503

CITY OF CLEAR LAKE

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO
 CHANGES IN LONG-TERM DEBT
 FOR THE TWO YEARS ENDING DECEMBER 31, 2013

	Beginning 12-31-11	2012 Additions (Deletions)	2013 Additions (Deletions)	Governmental Ending 12-31-13	Business-Type Ending 12-31-13	Principal Payments Due In 2014
GOVERNMENTAL						
2003 Sales Tax Revenue Bond:						
Original Loan Amount of \$400,000						
Maturing August 2018, Interest at 5.15%						
Secured by sales tax collections						
Paid by the Sales Tax Revenue Bond F	224,498	(27,392)	(28,821)	168,285		30,324
Leave liability:						
Paid by General Fund	6,427	(4,970)	(307)	1,150		1,150
Totals	<u>230,925</u>	<u>(32,362)</u>	<u>(29,128)</u>	<u>169,435</u>		<u>31,474</u>
BUSINESS-TYPE						
1998 Drinking Water Revenue Bond:						
Original Loan Amount of \$538,250						
Maturing October 2030, Interest at 3.00%						
Paid by the Water Fund	394,987	(15,675)	(16,150)		363,162	16,640
2004 Clean Water Revenue Bond:						
Original Loan Amount of \$687,227						
Maturing July 2026, Interest at 3.25%						
Paid by the Sewer Fund	547,423	(29,430)	(30,398)		487,595	31,398
Leave liability:						
Paid by the Water Fund	4,931	(234)	473		5,170	5,170
Paid by the Sewer Fund	1,815	924	330		3,069	3,069
Totals	<u>949,156</u>	<u>(44,415)</u>	<u>(45,745)</u>		<u>858,996</u>	<u>56,277</u>

SCHEDULE OF PAYMENTS FOR LONG-TERM DEBT
 AT DECEMBER 31, 2013

	Total Payment	Principal	Interest	Balance
2003 Sales Tax Revenue Bond:				
2014	38,605	30,324	8,281	137,961
2015	38,605	31,906	6,699	106,055
2016	38,605	33,570	5,035	72,485
2017	38,605	35,321	3,284	37,164
2018	38,605	37,164	1,441	0
Totals	<u>193,025</u>	<u>168,285</u>	<u>24,740</u>	
1998 Drinking Water Revenue Bond:				
2014	27,349	16,640	10,709	346,522
2015	27,349	17,145	10,204	329,377
2016	27,349	17,665	9,684	311,712
2017	27,349	18,201	9,148	293,511
2018	27,349	18,754	8,595	274,757
2019-2023	136,746	102,657	34,089	172,100
2024-2028	136,746	119,202	17,544	52,898
2029-2030	54,698	52,898	1,800	0
Totals	<u>464,935</u>	<u>363,162</u>	<u>101,773</u>	
2004 Clean Water Revenue Bond:				
2014	46,865	31,398	15,467	456,197
2015	46,865	32,431	14,434	423,766
2016	46,865	33,498	13,367	390,268
2017	46,865	34,600	12,265	355,668
2018	46,865	35,738	11,127	319,930
2019-2023	234,324	197,119	37,205	122,811
2024-2026	128,878	122,811	6,067	0
Totals	<u>597,527</u>	<u>487,595</u>	<u>109,932</u>	

CITY OF CLEAR LAKE
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2013

GENERAL FUND	Budgeted Amounts				Actual	Variance Positive (Negative)
	Original	Contingency Transfers	Supplementals	Final		
Revenue:						
Revenue from local sources:						
Taxes:	675,275			675,275		(675,275)
Ad valorem taxes				0	425,328	425,328
Sales and use tax				0	183,252	183,252
Gross receipts				0	2,845	2,845
Amusement tax				0	204	204
Licenses and permits:	2,500			2,500	3,638	1,138
Intergovernmental revenue:	39,975			39,975		(39,975)
Federal shared revenue - grant				0	22,155	22,155
State shared revenue:						
Grants				0	2,954	2,954
Bank franchise tax				0	706	706
Motor vehicle - commercial				0	3,500	3,500
Liquor tax reversion				0	9,340	9,340
Motor vehicle licenses (5%)				0	14,450	14,450
Highway and bridge				0	21,192	21,192
PILOT				0	2,047	2,047
County shared revenue:				0	2,484	2,484
Charges for goods and services	89,700			89,700		(89,700)
Highways and streets				0	5,172	5,172
Solid waste collection				0	67,591	67,591
Rubble site				0	4,126	4,126
Parks and recreation, pool				0	10,505	10,505
Parks fees				0	6,422	6,422
Fines and forfeits:	50			50	332	282
Miscellaneous revenue:	31,900			31,900		(31,900)
Interest earned				0	1,984	1,984
Rentals and franchise				0	23,563	23,563
Donations				0	175	175
Liquor operating agreement				0	13,696	13,696
Other				0	2,605	2,605
Total revenues	839,400	0	0	839,400	830,266	(9,134)
Expenditures:						
General government:						
Mayor and Council	36,590			36,590	19,372	17,218
Contingency	40,409			40,409		40,409
Amount transferred		(5,500)		(5,500)		(5,500)
Elections	1,000			1,000	23	977
Financial administration	72,650			72,650	64,187	8,463
Government buildings	25,385			25,385	17,983	7,402
Public safety:						
Police	64,868			64,868	64,867	1
Fire	32,000			32,000	31,903	97
Inspections	1,455			1,455	41	1,414
Public works:						
Highways and streets	252,605		31,950	284,555	245,875	38,680
Solid waste collection	81,375	4,500		85,875	83,611	2,264
Airport	7,030		6,356	13,386	10,735	2,651
Transit	1,350	1,000		2,350	2,350	0
Health and welfare:						
Health	6,570			6,570	2,874	3,696
Ambulance	4,000			4,000	2,725	1,275
Culture and recreation:						
Recreation	13,250			13,250	10,301	2,949
Recreation (pool)	59,125			59,125	36,799	22,326
Parks	64,000			64,000	54,379	9,621
Library	34,385			34,385	31,874	2,511
Community Center	25,600			25,600	17,667	7,933
Historic preservation	2,500			2,500	2,500	0
Economic development:	7,000			7,000	7,000	0
Total expenditures	833,147	0	38,306	871,453	707,066	164,387
Excess of revenues over (under) expenditures	6,253	0	(38,306)	(32,053)	123,200	155,253
Other financing sources (uses):						
Sale of surplus property				0	10,099	10,099
Compensation for damaged property				0	5,424	5,424
Net change in fund balance	6,253	0	(38,306)	(32,053)	138,723	170,776
Fund balance:						
January 1, 2013	1,022,201			1,022,201	1,022,201	0
December 31, 2013	1,028,454	0	(38,306)	990,148	1,160,924	170,776

CITY OF CLEAR LAKE
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2012

GENERAL FUND	Budgeted Amounts				Actual	Variance Positive (Negative)
	Original	Contingency Transfers	Supplementals	Final		
Revenue:						
Revenue from local sources:						
Taxes:	683,000			683,000		(683,000)
Ad valorem taxes				0	447,935	447,935
Sales and use tax				0	216,986	216,986
Gross receipts				0	3,044	3,044
Amusement tax				0	204	204
Licenses and permits:	2,000			2,000	4,133	2,133
Intergovernmental revenue:	38,750			38,750		(38,750)
State shared revenue:						
Bank franchise tax				0	359	359
Motor vehicle - commercial				0	3,399	3,399
Liquor tax reversion				0	10,894	10,894
Motor vehicle licenses (5%)				0	13,334	13,334
Highway and bridge				0	20,783	20,783
PILOT				0	2,083	2,083
County shared revenue:				0	2,484	2,484
Charges for goods and services	88,500			88,500		(88,500)
Highways and streets				0	3,290	3,290
Solid waste collection				0	66,770	66,770
Rubble site				0	16,243	16,243
Parks and recreation, pool				0	13,310	13,310
Parks fees				0	13,551	13,551
Fines and forfeits:	100			100	65	(35)
Miscellaneous revenue:	34,300			34,300		(34,300)
Interest earned				0	2,028	2,028
Rentals and franchise				0	22,647	22,647
Donations				0	37	37
Liquor operating agreement				0	13,662	13,662
Other				0	1,237	1,237
Total revenues	846,650	0	0	846,650	878,478	31,828
Expenditures:						
General government:						
Mayor and Council	35,020			35,020	33,179	1,841
Contingency	40,278			40,278		40,278
Amount transferred		(5,500)		(5,500)		(5,500)
Elections	1,000			1,000	663	337
Financial administration	75,370		4,000	79,370	81,621	(2,251)
Government buildings	26,910			26,910	17,890	9,020
Public safety:						
Police	64,868			64,868	64,867	1
Fire	30,975			30,975	30,975	0
Inspections	1,455			1,455	61	1,394
Public works:						
Highways and streets	249,525	2,000		251,525	205,996	45,529
Solid waste collection	77,005	3,500		80,505	78,165	2,340
Airport	7,425			7,425	5,016	2,409
Transit	1,100			1,100	1,100	0
Health and welfare:						
Health	6,565			6,565	2,778	3,787
Ambulance	4,000			4,000	3,678	322
Culture and recreation:						
Recreation	13,750			13,750	10,983	2,767
Recreation (pool)	67,000			67,000	52,730	14,270
Parks	59,275			59,275	50,150	9,125
Library	33,930			33,930	31,260	2,670
Community Center	25,660		15,890	41,550	30,863	10,687
Historic preservation	5,000			5,000	5,000	0
Economic development:	11,300			11,300	11,300	0
Total expenditures	837,411	0	19,890	857,301	718,275	139,026
Excess of revenues over (under) expenditures	9,239	0	(19,890)	(10,651)	160,203	170,854
Other financing sources (uses):						
None				0		0
Net change in fund balance	9,239	0	(19,890)	(10,651)	160,203	170,854
Fund balance:						
January 1, 2012	861,998			861,998	861,998	0
December 31, 2012	871,237	0	(19,890)	851,347	1,022,201	170,854

CITY OF CLEAR LAKE

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2013
 FOR THE YEAR ENDING DECEMBER 31, 2012

3rd Cent Fund - 2013	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplemental	Final		
Revenue:					
Revenue from local sources:					
Taxes:					
General sales and use taxes	5,000		5,000	11,178	6,178
Total revenue	5,000	0	5,000	11,178	6,178
Expenditures:					
Economic development	5,000		5,000	5,000	0
Total expenditures	5,000	0	5,000	5,000	0
Excess of revenue over (under) expenditures	0	0	0	6,178	6,178
Other financing sources (uses):					
None			0	0	0
Net change in fund balance	0	0	0	6,178	6,178
Fund balance:					
January 1, 2013	4,116		4,116	4,116	0
December 31, 2013	4,116	0	4,116	10,294	6,178

3rd Cent Fund - 2012	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplemental	Final		
Revenue:					
Revenue from local sources:					
Taxes:					
General sales and use taxes	12,000		12,000	11,736	(264)
Total revenue	12,000	0	12,000	11,736	(264)
Expenditures:					
Economic development	12,000		12,000	12,000	0
Total expenditures	12,000	0	12,000	12,000	0
Excess of revenue over (under) expenditures	0	0	0	(264)	(264)
Other financing sources (uses):					
None			0		0
Net change in fund balance	0	0	0	(264)	(264)
Fund balance:					
January 1, 2012	4,380		4,380	4,380	0
December 31, 2012	4,380	0	4,380	4,116	(264)

CITY OF CLEAR LAKE

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2013
 FOR THE YEAR ENDING DECEMBER 31, 2012

Health Care Fund - 2013	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplemental:	Final		
Revenue:					
Revenue from local sources:					
Taxes:					
General sales and use taxes:	275,000		275,000	227,820	(47,180)
Total revenue	275,000	0	275,000	227,820	(47,180)
Expenditures:					
Health care	275,000		275,000	233,658	41,342
Total expenditures	275,000	0	275,000	233,658	41,342
Excess of revenue over (under) expenditures	0	0	0	(5,838)	(5,838)
Other financing sources (uses):					
None			0	0	0
Net change in fund balance	0	0	0	(5,838)	(5,838)
Fund balance:					
January 1, 2013	31,186		31,186	31,186	0
December 31, 2013	31,186	0	31,186	25,348	(5,838)

Health Care Fund - 2012	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplemental:	Final		
Revenue:					
Revenue from local sources:					
Taxes:					
General sales and use taxes:	275,000		275,000	267,292	(7,708)
Total revenue	275,000	0	275,000	267,292	(7,708)
Expenditures:					
Health care	275,000		275,000	267,633	7,367
Total expenditures	275,000	0	275,000	267,633	7,367
Excess of revenue over (under) expenditures	0	0	0	(341)	(341)
Other financing sources (uses):					
None			0		0
Net change in fund balance	0	0	0	(341)	(341)
Fund balance:					
January 1, 2012	31,527		31,527	31,527	0
December 31, 2012	31,527	0	31,527	31,186	(341)

CITY OF CLEAR LAKE

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2013
 FOR THE YEAR ENDING DECEMBER 31, 2012

Library Fines Fund - 2013	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplemental	Final		
Revenue:					
Revenue from local sources:					
Fines	1,000		1,000	485	(515)
Donations	3,000		3,000	3,358	358
Total revenue	4,000	0	4,000	3,843	(157)
Expenditures:					
Library	4,000		4,000	3,467	533
Total expenditures	4,000	0	4,000	3,467	533
Excess of revenue over (under) expenditures	0	0	0	376	376
Other financing sources (uses):					
None			0	0	0
Net change in fund balance	0	0	0	376	376
Fund balance:					
January 1, 2013	4,226		4,226	4,226	0
December 31, 2013	4,226	0	4,226	4,602	376

Library Fines Fund - 2012	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplemental	Final		
Revenue:					
Revenue from local sources:					
Fines	1,000		1,000	507	(493)
Donations	3,000		3,000	1,704	(1,296)
Total revenue	4,000	0	4,000	2,211	(1,789)
Expenditures:					
Library	4,000		4,000	2,030	1,970
Total expenditures	4,000	0	4,000	2,030	1,970
Excess of revenue over (under) expenditures	0	0	0	181	181
Other financing sources (uses):					
None			0		0
Net change in fund balance	0	0	0	181	181
Fund balance:					
January 1, 2012	4,045		4,045	4,045	0
December 31, 2012	4,045	0	4,045	4,226	181

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND
AND SPECIAL REVENUE FUNDS
FOR THE TWO YEARS ENDING DECEMBER 31, 2013

1. BUDGETS AND BUDGETARY ACCOUNTING

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

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2012 there was one supplemental budget to increase the general fund's budget. During 2013 there was one supplemental budget to increase the general fund's budget. See page 38 and 39.
- e. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board. No appropriations were encumbered at year end.

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.

- f. Formal budgetary integration is employed as a management control device for the general fund and special revenue funds.
- g. Budgets for the general fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE

The financial statements prepared in conformity with U.S.GAAP 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 road grader would be reported as a capital expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances. However, in the budgetary RSI schedule, the purchase of a road grader would be reported as an expenditure in the public works function of general fund, along with all other current public works expenditures.

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

To the Honorable Mayor and
Members of Clear Lake City Council
Clear Lake, South Dakota

INDEPENDENT AUDITOR'S REPORT

I 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 governmental activities, business-type activities, and each major fund, of the City of Clear Lake (City), Deuel County, South Dakota, as of December 31, 2013 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated July 14, 2014 which was unmodified except for a disclaimer of opinion on the discretely presented component unit, which I was not engaged to audit.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether City of Clear Lake's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

However, I did note minor matters involving compliance that I reported to the governing body and management of the City of Clear Lake in a separate Letter of Comments dated July 14, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exist 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 City of Clear Lake'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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

I did identify a deficiency in internal control, described in the accompanying schedule of current audit findings and responses that I consider to be a significant deficiency. I consider the deficiency described in the accompanying schedule of current audit findings and responses as items 2013-01 to be significant deficiency.

Management response to the finding identified in my audit is described in the accompanying schedule of current audit findings and responses. I did not audit the management response and, accordingly, I express no opinion on it.

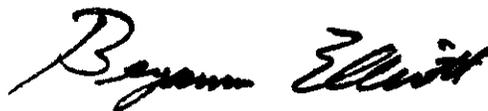
I did note other matters involving internal control that I reported to the governing body and management of the City of Clear Lake in a separate Letter of Comments dated July 14, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on the effectiveness of the City's compliance or internal control over financial reporting. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting. 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.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota



July 14, 2014

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit finding:

The prior audit report was not subject to the Single Audit Act.

Prior Other Audit Findings:

The prior audit report did not contain any written audit findings.

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Finding 2013-01: Preparation of Financial Statements
(internal control)

Criteria:

A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition:

The City has elected not to have an internal control system designed to provide for the preparation of the financial statement being audited. As the auditor, I was requested to draft these financial statements and accompanying notes to the financial statements.

Effect:

This control deficiency could result in a misstatement of the financial statements that would not be prevented or detected.

Recommendation:

This situation is not unusual for an entity of this City's 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.

Management Response:

Due to cost considerations, the City will continue to have the auditor draft the financial statements and accompanying notes to the financial statements.