

CITY OF DE SMET

**Financial Statements With
Independent Auditor's Reports
As Of December 31, 2013 And For
The Year Then Ended**

**MUNICIPAL OFFICIALS
DECEMBER 31, 2013**

Mayor:

Gary Wolkow

Governing Board:

Maurine Lembke, President
Norman Whitaker, Vice-President
Alex Botkin
Wendy Currier
Bret Jensen

Finance Officer:

Eileen Wolkow

Attorney:

Todd Wilkinson

**CITY OF DE SMET
 FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORTS
 AS OF DECEMBER 31, 2013 AND FOR THE YEAR THEN ENDED
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Governing Board
City of De Smet
De Smet, South Dakota

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of De Smet, De Smet, South Dakota as of December 31, 2013 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City of De Smet's basic financial statements and have issued my report thereon dated January 15, 2016. My report includes a reference to other auditors who audited the financial statements of the discretely presented component units, as described in my report on the City of De Smet's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Prior and Current Audit Findings and Response, I identified certain deficiencies in internal control that I consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of De Smet's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described in the accompanying Schedule of Prior and Current Audit Findings and Response as item number 2013-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of De Smet'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of De Smet's Response to Finding

The City of De Smet's response to the finding identified in my audit is described in the accompanying Schedule of Prior and Current Audit Findings and Response. The City of De Smet's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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



Ronald L. Schur
Certified Public Accountant
Aberdeen, South Dakota
January 15, 2016

**CITY OF DE SMET
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND RESPONSE
AS OF DECEMBER 31, 2013 AND FOR THE YEAR THEN ENDED**

SCHEDULE OF PRIOR AUDIT FINDINGS AND RESPONSE

Prior Audit Findings:

Finding Number 2011-01 and Finding Number 2012-01

Internal control over financial reporting and compliance is not adequate.

Corrective Action Plan Response

Due to staff size it is not deemed feasible to adequately segregate duties. However, we are aware of this internal control weakness and intend to provide continuous monitoring in an effort to prevent, detect, or correct any matters that may result.

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSE

Finding Number 2013-001:

Internal control over financial reporting and compliance is not adequate.

Analysis:

This condition is the result of an inadequate segregation of duties that may result in financial reporting misstatements in amounts that may be material in relation to the financial statements or noncompliance with applicable requirements of laws, regulations, contracts and grants that may be material in relation to a major federal program occurring and not being detected within a timely period by employees in the normal course of performing their assigned functions.

Recommendation:

I recommend a high level of awareness be maintained by management to assist in preventing, detecting, or correcting matters that may arise due to this internal control weakness.

Corrective Action Plan Response

Due to staff size it is not deemed feasible to adequately segregate duties. However, we are aware of this internal control weakness and intend to provide continuous monitoring in an effort to prevent, detect, or correct any matters that may result. Ms. Tracey Larson, Finance Officer is the contact person regarding the corrective action plan for this matter.

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of De Smet
De Smet, South Dakota

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of De Smet, De Smet, South Dakota as of December 31, 2013 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City of De Smet's basic financial statements as listed in the table of contents. I did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to me, and my opinions on the financial statements, insofar as they relate to the amounts included for the discretely presented component units, is based on the report of the other auditors.

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 misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to me, and my opinion, insofar as it related to the amounts included for the discretely presented component units, is based solely on the report of the other auditors. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City of De Smet'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 of De Smet'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 audit opinions.

Opinions

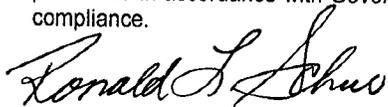
In my opinion, based on my audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of De Smet as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 (MD&A) and the Budgetary Comparison Schedules, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 information 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 dated January 15, 2016, on my consideration of the City of De Smet's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of De Smet's internal control over financial reporting and compliance.



Ronald L. Schur
Certified Public Accountant
Aberdeen, South Dakota

January 15, 2016

**CITY OF DE SMET
MANAGEMENT'S DISCUSSION AND ANALYSIS
As Of December 31, 2013 And For The Year Then Ended**

This section of city's annual financial report presents our discussion and analysis of financial performance during the year ended on December 31, 2013. Please read it in conjunction with the city's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

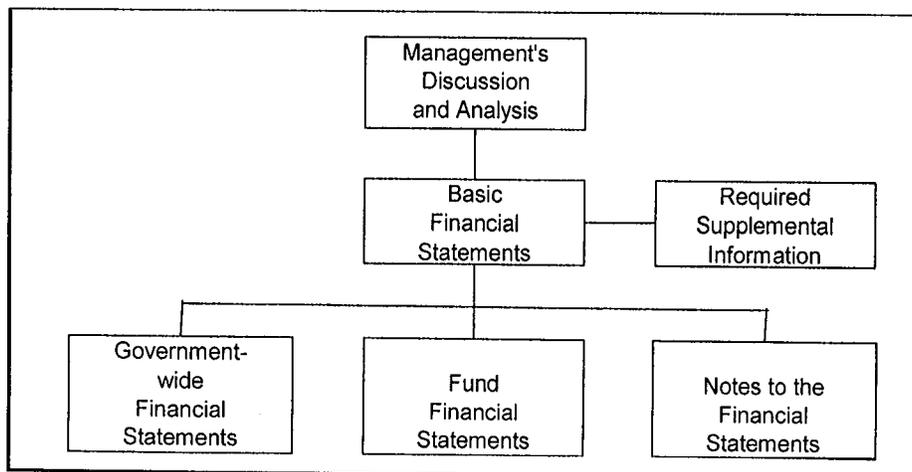
- During the year, the city's primary government general and program revenues were \$151,630 more than the \$2,036,471 governmental and business-type program expenses.
- In the city's business-type activities, operating revenue decreased slightly while operating expenses increased approximately 16.2% to \$296,971. Operating expenses increased in part because of increases in repair costs.
- The total cost of the city's primary governmental activities related programs increased approximately 5.7% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the city:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the city government, reporting operations in more detail than the government-wide statements. The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities that operate like businesses. The city had one proprietary fund operating during the current reporting period, the Water and Sewer Fund. Fiduciary fund statements provide information about the financial relationships in which the city acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The following shows how the required parts of this annual report are arranged and relate to one another.



The following summarizes the major features of the city's financial statements, including the portion of the city government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

	Government-wide Statements	Governmental Funds	Fund Statements	
			Proprietary Funds	Fiduciary Funds
Scope	Entire city government (except fiduciary funds)	The activities of the city that are not proprietary or fiduciary, such as elementary and high school education programs	Activities the city operates similar to private businesses, the water and sewer systems	Instances in which the city is the trustee or agent for someone else's resources
Required Financial Statements	*Statement of Net Assets *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Fiduciary Net Position *Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term;
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the city as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the city's net position and how they have changed. Net position – the difference between the city's assets and liabilities – are one way to measure the city's financial health or position.

- Increases or decreases in the city's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the city you need to consider additional nonfinancial factors such as changes in the city's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the city are reported in three categories:

- **Governmental Activities** – This category includes the most of the city's basic services, such as police (contracted with Kingsbury County), fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, rental type income, grants and interest earnings finance most of these activities.
- **Business-type Activities** – The city charges a fee to customers to help cover the costs of certain services it provides. The city's water and sewer operation is included here.
- **Component Units** – The city includes one other entity in its report – the De Smet Housing and Redevelopment Commission. Although legally separate, this "component unit" is important because the city is financially accountable for it.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the city's most significant funds – not the city as a whole. Funds are accounting devices that the city uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds:

- **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 that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent 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, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the city charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The city's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- **Fiduciary Funds** – The city is the trustee, or fiduciary, for external parties. The city is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The only fiduciary activity relates to resources held in agency for cemetery purposes. This fiduciary activity is reported in a separate statement of fiduciary net assets. We exclude these activities from the city's government-wide financial statements because the city cannot use these assets to finance operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

NET POSITION

The city's combined net position presented on the economic resources measurement focus and accrual basis of accounting changed as indicated in the following table as of and December 31, 2013 and December 31, 2012:

	December 31, 2013			December 31, 2012			Percentage of Change in Yearly Totals
	Governmental Activities	Business-Type Activities	Total Activities	Governmental Activities	Business-Type Activities	Total Activities	
Current and Other Assets	\$ 2,220,930.16	\$ 323,170.41	\$ 2,544,100.57	\$ 2,161,217.08	\$ 293,496.24	\$ 2,454,713.32	3.64%
Capital Assets, Net of Accumulated Depreciation	4,298,055.27	1,706,899.67	6,004,954.94	4,219,884.69	1,747,737.31	5,967,622.00	0.63%
Total Assets	\$ 6,518,985.43	\$ 2,030,070.08	\$ 8,549,055.51	\$ 6,381,101.77	\$ 2,041,233.55	\$ 8,422,335.32	1.50%
Long-Term Debt Outstanding	\$ 775,960.00	\$ 284,629.54	\$ 1,060,589.54	\$ 851,839.10	\$ 309,103.50	\$ 1,160,942.60	-8.64%
Other Liabilities	86,145.37	21,222.74	107,368.11	10,762.49	21,162.50	31,924.99	236.31%
Total Liabilities	\$ 862,105.37	\$ 305,852.28	\$ 1,167,957.65	\$ 862,601.59	\$ 330,266.00	\$ 1,192,867.59	-2.09%
Net Position							
Net Investment in Capital Assets	\$ 3,247,416.59	\$ 1,430,088.96	\$ 4,677,505.55	\$ 3,388,613.43	\$ 1,445,220.40	\$ 4,833,833.83	-3.23%
Restricted	64,555.69	42,630.46	107,186.15	36,229.45	34,819.78	71,049.23	50.86%
Unrestricted	2,344,907.78	251,498.38	2,596,406.16	2,093,657.30	230,927.37	2,324,584.67	11.69%
Total Net Position	\$ 5,656,880.06	\$ 1,724,217.80	\$ 7,381,097.86	\$ 5,518,500.18	\$ 1,710,967.55	\$ 7,229,467.73	2.10%
Beginning Net Position	\$ 5,518,500.18	\$ 1,710,967.55	\$ 7,229,467.73	\$ 5,230,384.14	\$ 1,651,937.07	\$ 6,882,321.21	5.04%
Increase (Decrease) in Net Position	\$ 138,379.88	\$ 13,250.25	\$ 151,630.13	\$ 288,116.04	\$ 59,030.48	\$ 347,146.52	-56.32%
Percentage Increase (Decrease) in Net Assets for the Year	3%	1%	2%	6%	4%	5%	

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the city at December 31, 2013, consisting of compensated absences payable and long-term loans and bonds payable, have been reported in this manner on the Statement of Net Position. The difference between the city's assets and liabilities is its net position.

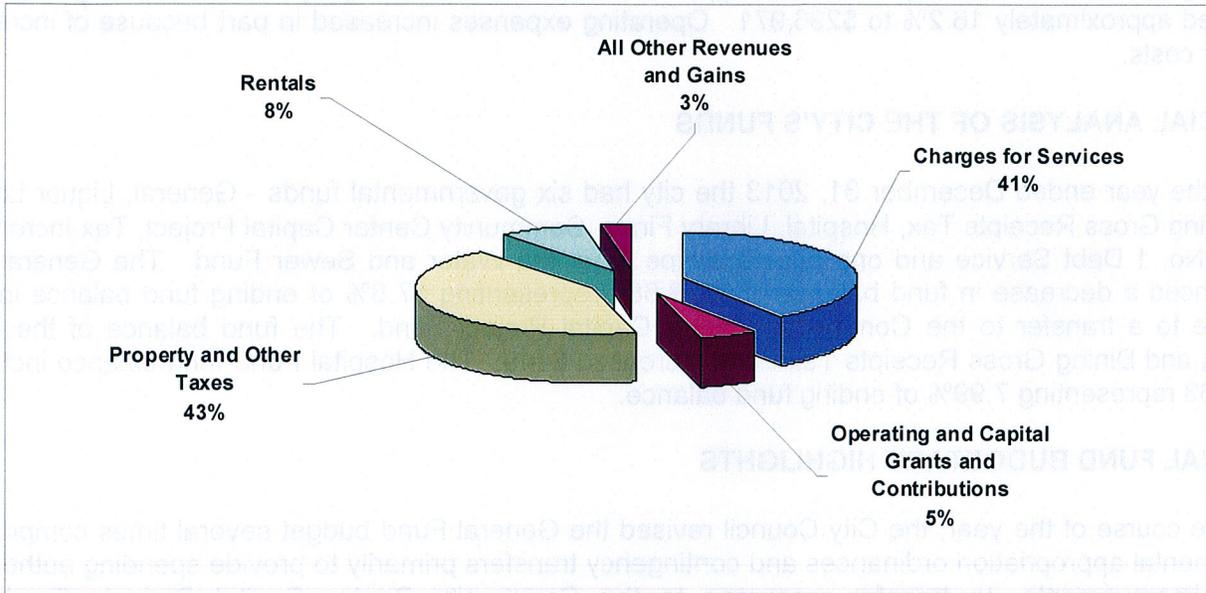
CHANGES IN NET POSITION

The business-type enterprise operations net position increased approximately \$13,250.

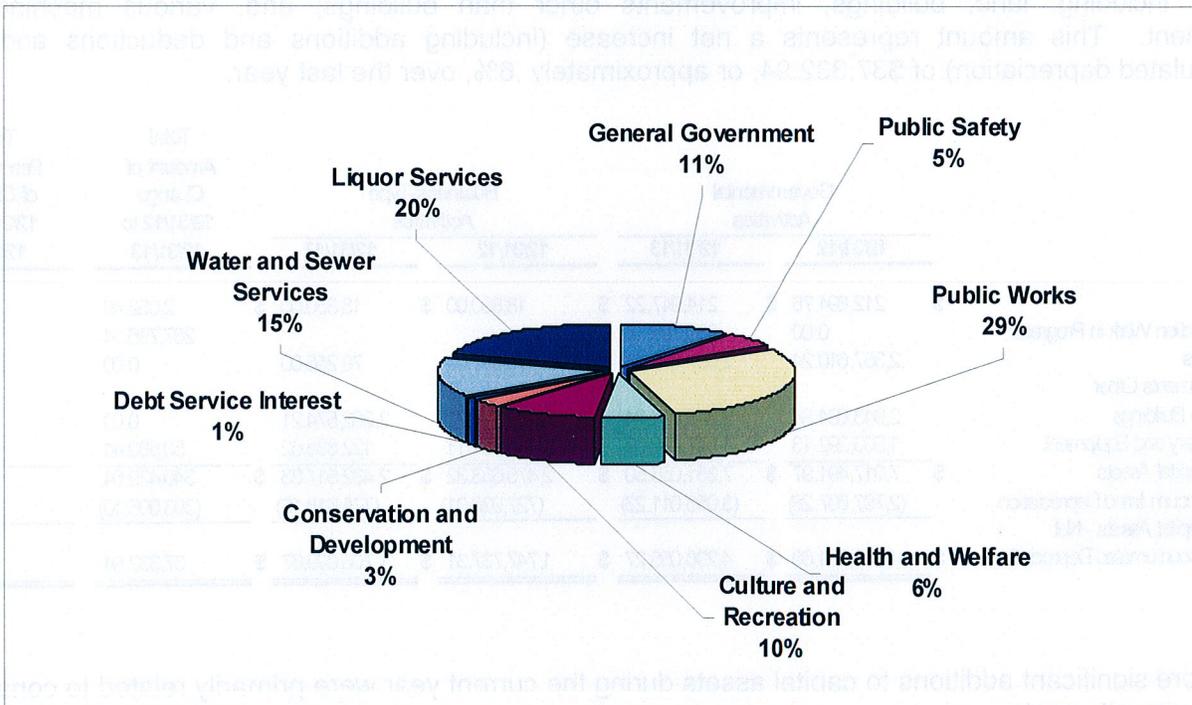
For the year ended December 31, 2013 the city's revenues and gains totaled \$2,188,101.98 as indicated in the following table.

	For the Year Ended December 31, 2013			For the Year Ended December 31, 2012			Percentage of Change in Yearly Totals
	Total Governmental Activities	Total Business-Type Activities	Total	Total Governmental Activities	Total Business-Type Activities	Total	
Revenues and Gains							
Program Revenues							
Charges for Services	\$ 573,190.19	\$ 314,523.19	\$ 887,713.38	\$ 576,440.24	\$ 318,817.14	\$ 895,257.38	-0.84%
Operating and Capital Grants and Contributions	115,031.88		115,031.88	187,019.81		187,019.81	-38.49%
General Revenues							
Taxes	945,950.49		945,950.49	884,986.22		884,986.22	6.89%
Revenue State Sources	12,054.26		12,054.26	10,647.46		10,647.46	13.21%
Unrestricted Investment Earnings	6,106.67	630.47	6,737.14	9,418.47	714.33	10,132.80	-33.51%
Contributions and Donations from Private Sources	14,040.72		14,040.72	24,429.10		24,429.10	-42.52%
Rentals	179,768.40		179,768.40	176,259.40		176,259.40	1.99%
Other Miscellaneous and General Revenues and Gains	24,692.71		24,692.71	49,440.32		49,440.32	-50.06%
Gain in Disposal of Capital Assets	2,113.00		2,113.00	36,415.81		36,415.81	-94.20%
Total Revenues and Gains	\$ 1,872,948.32	\$ 315,153.66	\$ 2,188,101.98	\$ 1,955,056.83	\$ 319,531.47	\$ 2,274,588.30	-3.80%
Expenses							
General Government	\$ 221,675.27	\$	\$ 221,675.27	\$ 260,399.87	\$	\$ 260,399.87	-14.87%
Public Safety	105,524.64		105,524.64	94,035.00		94,035.00	12.22%
Public Works	601,288.72		601,288.72	525,600.97		525,600.97	14.40%
Health and Welfare	121,984.53		121,984.53	89,958.17		89,958.17	35.60%
Culture and Recreation	203,660.25		203,660.25	215,548.46		215,548.46	-5.52%
Conservation and Development	58,726.22		58,726.22	55,618.92		55,618.92	5.59%
Debt Service Interest	22,834.25		22,834.25	27,937.11		27,937.11	-18.27%
Water and Sewer Services		301,903.41	301,903.41		260,500.99	260,500.99	15.89%
Liquor Services	398,874.56		398,874.56	397,842.29		397,842.29	0.26%
Total Expenses	\$ 1,734,568.44	\$ 301,903.41	\$ 2,036,471.85	\$ 1,666,940.79	\$ 260,500.99	\$ 1,927,441.78	5.66%
Increase (Decrease) in Net Position	\$ 138,379.88	\$ 13,250.25	\$ 151,630.13	\$ 288,116.04	\$ 59,030.48	\$ 347,146.52	-56.32%
Beginning Net Position	\$ 5,518,500.18	\$ 1,710,967.55	\$ 7,229,467.73	\$ 5,230,384.14	\$ 1,651,937.07	\$ 6,882,321.21	5.04%
Ending Net Position	\$ 5,656,880.06	\$ 1,724,217.80	\$ 7,381,097.86	\$ 5,518,500.18	\$ 1,710,967.55	\$ 7,229,467.73	2.10%

As indicated in the following chart approximately 41% of the revenues were from charges for services and approximately 43% were from property and other taxes.



The total cost of all primary government programs and services was \$2,036,472. The city's expenses cover a range of services, with governmental activities of public works comprising approximately 29% and culture and recreation 10%. The water and sewer services business-like activities comprise approximately 15% of this total.



GOVERNMENTAL ACTIVITES

The total cost of the city's primary governmental activities related programs increased approximately 5.7% from the prior year.

BUSINESS-TYPE ACTIVITIES

Operating revenue of the city's business-type activities decreased slightly while operating expenses increased approximately 16.2% to \$296,971. Operating expenses increased in part because of increases in repair costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

During the year ended December 31, 2013 the city had six governmental funds - General, Liquor Lodging and Dining Gross Receipts Tax, Hospital, Library Fines, Community Center Capital Project, Tax Incremental District No. 1 Debt Service and one business-type fund, the Water and Sewer Fund. The General Fund experienced a decrease in fund balance of \$329,680 representing 57.8% of ending fund balance in large part due to a transfer to the Community Center Capital Project Fund. The fund balance of the Liquor Lodging and Dining Gross Receipts Tax Fund increased \$949. The Hospital Fund fund balance increased \$103,133 representing 7.99% of ending fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the General Fund budget several times comprised of supplemental appropriation ordinances and contingency transfers primarily to provide spending authority for airport improvements, to transfer resources to the Community Center Capital Projects Fund; and, transferred contingency appropriations to other General Fund functions to provide appropriation authority for unexpected expenditures.

CAPITAL ASSET ADMINISTRATION

By the end of 2013, the city's primary government had invested \$9,833,584.33 in a broad range of capital assets, including, land, buildings, improvements other than buildings; and, various machinery and equipment. This amount represents a net increase (including additions and deductions and net of accumulated depreciation) of \$37,332.94, or approximately .6%, over the last year.

	Governmental Activities		Business-Type Activities		Total Amount of Change 12/31/12 to 12/31/13	Total Percentage of Change 12/31/12 to 12/31/13
	12/31/12	12/31/13	12/31/12	12/31/13		
Land	\$ 212,894.76	\$ 214,947.22	\$ 18,850.00	\$ 18,850.00	\$ 2,052.46	0.89%
Construction Work in Progress	0.00	287,796.14			287,796.14	
Buildings	2,357,610.24	2,357,610.24	78,255.00	78,255.00	0.00	0.00%
Improvements Other Than Buildings	2,943,694.84	2,943,694.84	2,262,574.21	2,262,574.21	0.00	0.00%
Machinery and Equipment	1,503,292.13	1,547,018.06	115,984.11	122,838.62	50,580.44	3.12%
Total Capital Assets	\$ 7,017,491.97	\$ 7,351,066.50	\$ 2,475,663.32	\$ 2,482,517.83	\$ 340,429.04	3.59%
Less: Accumulated Depreciation	(2,797,607.28)	(3,053,011.23)	(727,926.01)	(775,618.16)	(303,096.10)	8.60%
Total Capital Assets - Net of Accumulated Depreciation	\$ 4,219,884.69	\$ 4,298,055.27	\$ 1,747,737.31	\$ 1,706,899.67	\$ 37,332.94	0.63%

The more significant additions to capital assets during the current year were primarily related to construction of a community center.

LONG-TERM DEBT

At the year-end the city's primary government had \$1,060,589.54 in long-term obligations. This is a decrease of approximately 8.6% from the end of the prior year as shown below.

	Governmental Activities		Business-Type Activities		Total Amount of Change 12/31/12 to 12/31/13	Total Percentage of Change 12/31/12 to 12/31/13
	12/31/12	12/31/13	12/31/12	12/31/13		
Economic Development Loans	\$ 441,661.26	\$ 391,238.94	\$ 79,999.76	\$ 59,999.72	\$ (70,422.36)	\$ -13.50%
Promissory Note Series 2008 (T.I.D. # 1)	389,610.00	371,603.60			(18,006.40)	-4.62%
Revenue Bonds			222,517.15	216,810.99	(5,706.16)	
Compensated Absences	20,567.84	13,117.46	6,586.59	7,818.83	(6,218.14)	-22.90%
Total Outstanding Long-Term Debt and Obligations	\$ 851,839.10	\$ 775,960.00	\$ 309,103.50	\$ 284,629.54	\$ (100,353.06)	-8.64%

The city is liable for leave benefits payable to non-seasonal full-time employees and non-seasonal part-time employees working twenty or more hours per week.

At December 31, 2013 the city had outstanding \$451,238.66 in four Rural Economic Development Notes. The proceeds from these notes were used for the construction of water and sewer and street infrastructure.

At December 31, 2013 the city had a Promissory Note Series 2008 (T.I.D. # 1) outstanding in the amount of \$371,603.60. The resources provided by this note have been used for improvements in a tax incremental district primarily comprised of streets and water and sewer service.

The city has one business-type Water and Sewer Fund revenue bond issue and outstanding as of December 31, 2013 totaling \$216,810.99. The bonds are secured and paid for from the Water and Sewer Fund. Currently, the city has no plans to retire these issues with any tax resources. These bonds were used to improve and expand the water and sewer operations of the city.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The cities total assessed valuation of property increased approximately 4.7% from \$34,965,228 in 2011 for taxes to be paid in 2012 to \$36,621,417 in 2012 for taxes to be paid in 2013.

Under the state mandated property tax freeze, property taxes from one year to the next may increase 3% or an amount based on the Consumer Price Index (CPI) whichever is lower.

The city's initial General Fund expenditure budget for the next year increased by approximately 2.9% from the initial current year budget due primarily to the effects of inflation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the city's finances and to demonstrate the city's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of De Smet Finance Office, Post Office Drawer 70, De Smet, SD 57231.

**CITY OF DE SMET
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	\$ 1,904,395.64	\$ 227,187.00	\$ 2,131,582.64	92,095.77
Investments	150,000.00		150,000.00	62,530.86
Taxes Receivable	16,039.12		16,039.12	
Accounts Receivable	29,958.32	44,124.92	74,083.24	403.50
Unbilled Accounts Receivable		2,741.58	2,741.58	
Interest Receivable	75.00		75.00	190.59
Sales Tax Receivable	8,969.15		8,969.15	
Special Assessments Receivable - Current	5,250.50		5,250.50	
Special Assessments Receivable - Deferred	4,495.50		4,495.50	
Due from Other Governments	60,441.86		60,441.86	
Inventories	28,754.43	3,803.10	32,557.53	
Prepaid Items	2,683.35	2,683.35	5,366.70	1,983.85
Restricted Assets:				
Cash and Cash Equivalents	9,867.29	42,630.46	52,497.75	
Capital Assets:				
Land and Construction Work in Progress	502,743.36	18,850.00	521,593.36	19,678.50
Other Capital Assets, Net of Depreciation	3,795,311.91	1,688,049.67	5,483,361.58	1,067,318.65
TOTAL ASSETS	\$ 6,518,985.43	\$ 2,030,070.08	\$ 8,549,055.51	\$ 1,244,201.72
LIABILITIES :				
Accounts Payable	\$ 21,905.74	\$ 1,046.44	\$ 22,952.18	155.57
Contracts Payable	59,403.47		59,403.47	
Contracts Payable - Retained Percentage	4,836.16		4,836.16	
Payroll Deductions Payable				905.28
Accrued Interest Payable		1,016.30	1,016.30	
Accrued Payment in Lieu of Taxes				12,579.38
Deposits		19,160.00	19,160.00	12,070.00
Prepaid Tenant Rents				595.00
Noncurrent Liabilities:				
Due Within One Year	80,415.43	31,594.25	112,009.68	35,536.03
Due in More than One Year	695,544.57	253,035.29	948,579.86	570,186.33
TOTAL LIABILITIES	\$ 862,105.37	\$ 305,852.28	\$ 1,167,957.65	\$ 632,027.59
NET POSITION:				
Net Investment in Capital Assets	\$ 3,247,416.59	\$ 1,430,088.96	\$ 4,677,505.55	503,480.84
Restricted for:				
Revenue Bond Debt Service	2,132.97	42,630.46	44,763.43	
Restricted for Facilities and Promoting the City	22,340.70		22,340.70	
Restricted for Library Purposes	16,707.13		16,707.13	
Restricted for Depot Museum	9,867.29		9,867.29	
Restricted for Fire Department	13,507.60		13,507.60	
Unrestricted Net Position	2,344,907.78	251,498.38	2,596,406.16	108,693.29
TOTAL NET POSITION	\$ 5,656,880.06	\$ 1,724,217.80	\$ 7,381,097.86	\$ 612,174.13
TOTAL LIABILITIES AND NET POSITION	\$ 6,518,985.43	\$ 2,030,070.08	\$ 8,549,055.51	\$ 1,244,201.72

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

**CITY OF DE SMET
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General Government	\$ 221,675.27	\$	\$	\$	(221,675.27)		\$ (221,675.27)	
Public Safety	105,524.64		3,350.37		(102,174.27)		(102,174.27)	
Public Works	601,288.72	137,425.59	31,122.30	83,909.58	(348,831.25)		(348,831.25)	
Health and Welfare	121,984.53		1,254.86		(120,729.67)		(120,729.67)	
Culture and Recreation	203,660.25		9,511.98		(194,148.27)		(194,148.27)	
Conservation and Development	58,726.22				(58,726.22)		(58,726.22)	
Miscellaneous - Liquor	398,874.56	421,647.39			22,772.83		22,772.83	
*Interest on Long-term Debt	22,834.25				(22,834.25)		(22,834.25)	
Total Governmental Activities	\$ 1,734,568.44	\$ 573,190.19	\$ 31,122.30	\$ 83,909.58	\$ (1,046,346.37)		\$ (1,046,346.37)	
Business-type Activities:								
Water	163,946.42		181,724.13			17,777.71	17,777.71	
Sewer	137,956.99		132,799.06			(5,157.93)	(5,157.93)	
Total Business-type Activities	\$ 301,903.41	\$ 314,523.19				\$ 12,619.78	\$ 12,619.78	
Total Primary Government	\$ 2,036,471.85	\$ 887,713.38		\$ 83,909.58	\$ (1,046,346.37)	\$ 12,619.78	\$ (1,033,726.59)	
Component Units:								
Housing and Redevelopment Commission	\$ 289,015.18	\$ 240,262.64		\$ 42,521.16				\$ (6,231.38)
General Revenues:								
Taxes:								
Property Taxes				\$ 412,134.00	\$	\$ 412,134.00	\$	
Sales Taxes				533,303.62		533,303.62		
Amusement Taxes				72.00		72.00		
Penalty and Interest on Delinquent Taxes				440.87		440.87		
State Shared Revenues				12,054.26		12,054.26		
Unrestricted Investment Earnings				6,106.67	630.47	6,737.14		563.05
Contributions and Donations from Private Sources				14,040.72		14,040.72		
Rentals				179,768.40		179,768.40		
Miscellaneous Revenue				20,328.71		20,328.71		
Other General Revenues				4,364.00		4,364.00		
Net Gain (Loss) on Disposal of Capital Assets				2,113.00		2,113.00		
Total General Revenues, Special Items, Extraordinary Items and Transfers								
				\$ 1,184,726.25	\$ 630.47	\$ 1,185,356.72	\$	563.05
Change in Net Position								
				\$ 138,379.88	\$ 13,250.25	\$ 151,630.13	\$	(5,668.33)
Net Position - Beginning								
				5,518,500.18	1,710,967.55	7,229,467.73		617,842.46
NET POSITION - ENDING								
				\$ 5,656,880.06	\$ 1,724,217.80	\$ 7,381,097.86	\$	612,174.13

* The city does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

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

CITY OF DE SMET
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2013

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Hospital Fund	Library Fines Fund	Tax Incremental District No. 1 Debt Service Fund	Community Center Capital Project Fund	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:							
Assets:							
Cash and Cash Equivalents	\$ 507,681.66	\$ 21,468.83	\$ 1,143,426.12	\$ 16,707.13	\$ 2,132.97	\$ 212,978.93	\$ 1,904,395.64
Investments			150,000.00				150,000.00
Taxes Receivable--Delinquent	16,039.12						16,039.12
Accounts Receivable, Net	29,958.32						29,958.32
Sales Tax Receivable	8,097.28	871.87					8,969.15
Interest Receivable			75.00				75.00
Special Assessments Receivable - Current	5,250.50						5,250.50
Special Assessments Receivable - Deferred	4,495.50						4,495.50
Due from Other Governments	60,441.86						60,441.86
Prepaid Expenses	2,683.35						2,683.35
Inventory of Supplies	28,754.43						28,754.43
Restricted Cash and Cash Equivalents	9,867.29						9,867.29
Total Assets	\$ 673,269.31	\$ 22,340.70	\$ 1,293,501.12	\$ 16,707.13	\$ 2,132.97	\$ 212,978.93	\$ 2,220,930.16
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:							
	\$ 673,269.31	\$ 22,340.70	\$ 1,293,501.12	\$ 16,707.13	\$ 2,132.97	\$ 212,978.93	\$ 2,220,930.16
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:							
Liabilities:							
Claims Payable	\$ 20,226.22		1,679.52				\$ 21,905.74
Contracts Payable	44,387.47					15,016.00	59,403.47
Contracts Payable - Retained Percentage	4,836.16						4,836.16
Total Liabilities	\$ 69,449.85		\$ 1,679.52			\$ 15,016.00	\$ 86,145.37
Deferred Inflows of Resources:							
Unavailable Revenue - Property Taxes	16,039.12						16,039.12
Unavailable Revenue - Special Assessments	9,746.00						9,746.00
Other Deferred Inflows of Resources	7,309.54						7,309.54
Total Deferred Inflows of Resources	\$ 33,094.66						\$ 33,094.66
Fund Balances:							
Nonspendable (Inventory)	\$ 28,754.43						\$ 28,754.43
Nonspendable (Prepays)	2,683.35						2,683.35
Restricted for Facilities and Promoting the City		22,340.70					22,340.70
Restricted for Debt Service					2,132.97		2,132.97
Restricted for Library Purposes				16,707.13			16,707.13
Restricted for Depot Museum	9,867.29						9,867.29
Restricted for Fire Department	13,507.60						13,507.60
Committed for Hospital Purposes			1,291,821.60				1,291,821.60
Committed for Community Center Project Purposes						197,962.93	197,962.93
Assigned for Subsequent Year's Budget	230,690.00						230,690.00
Unassigned	285,222.13						285,222.13
Total Fund Balances	\$ 570,724.80	\$ 22,340.70	\$ 1,291,821.60	\$ 16,707.13	\$ 2,132.97	\$ 197,962.93	\$ 2,101,690.13
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
	\$ 673,269.31	\$ 22,340.70	\$ 1,293,501.12	\$ 16,707.13	\$ 2,132.97	\$ 212,978.93	\$ 2,220,930.16

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

CITY OF DE SMET
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2013

Total Fund Balances - Governmental Funds	\$ 2,101,690.13
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,298,055.27
Long-term liabilities, including bonds and notes payable and accrued leave payable are not due and payables in the current period and therefore are not reported in the funds.	(775,960.00)
Assets such as taxes (delinquent) and special assessments receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	33,094.66
	<hr/>
Net Assets- Governmental Funds	<u>\$ 5,656,880.06</u>

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

CITY OF DE SMET
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Hospital Fund	Library Fines Fund	Tax Incremental District No. 1 Debt Service Fund	Community Center Capital Project Fund	Total Governmental Funds
Revenues:							
Taxes:							
General Property Taxes	\$ 376,756.82				\$ 29,368.80		\$ 406,125.62
General Sales and Use Taxes	502,138.83	31,164.79					533,303.62
Amusement Taxes	72.00						72.00
Penalties and Interest on Delinquent Taxes	440.87						440.87
Licenses and Permits	3,663.00						3,663.00
Intergovernmental Revenue:							
Federal Grants	105,780.25						105,780.25
State Grants	6,446.31						6,446.31
State Shared Revenue:							
Bank Franchise Tax	4,561.15						4,561.15
Liquor Tax Reversion	7,493.11						7,493.11
Motor Vehicle Licenses (5%)	15,264.04						15,264.04
Local Government Highway and Bridge Fund	35,376.58						35,376.58
County Shared Revenue:							
County Wheel Tax	3,014.08						3,014.08
Charges for Goods and Services:							
Public Safety	2,700.00						2,700.00
Sanitation	83,770.89						83,770.89
Health	1,254.86						1,254.86
Culture and Recreation	9,495.48			16.50			9,511.98
Fines and Forfeits:							
Court Fines and Costs	650.37						650.37
Miscellaneous Revenue:							
Investment Earnings	1,752.09	69.82	3,898.11	0.48		386.17	6,106.67
Rentals	64,568.40						64,568.40
Special Assessments	5,118.82						5,118.82
Contributions and Donations from Private Sources	617.24			5,106.64	8,316.84		14,040.72
Liquor Operating Agreement Income	421,647.39						421,647.39
Other	20,328.71		115,200.00				135,528.71
Total Revenue	\$ 1,672,911.29	\$ 31,234.61	\$ 119,098.11	\$ 5,123.62	\$ 37,685.64	\$ 386.17	\$ 1,866,439.44
Expenditures:							
General Government:							
Legislative	21,845.17						21,845.17
Executive	2,884.97						2,884.97
Elections	161.42						161.42
Financial Administration	122,125.46						122,125.46
Other	71,681.40						71,681.40
Public Safety:							
Police	70,200.00						70,200.00
Fire	21,501.12						21,501.12
Public Works:							
Highways and Streets	296,656.79						296,656.79
Sanitation	90,803.96						90,803.96
Airport	49,967.46						49,967.46
Health and Welfare:							
Health	50,017.55		15,965.50				65,983.05
Culture and Recreation:							
Recreation	57,665.66						57,665.66
Parks	59,658.15						59,658.15
Libraries	45,048.86			3,211.43			48,260.29
Museums	9,173.34						9,173.34
Conservation and Development:							
Economic Development and Assistance	28,440.22	30,286.00					58,726.22
Debt Service	55,667.88				35,595.09		91,262.97
Miscellaneous - Liquor	398,874.56						398,874.56
Capital Outlay	153,030.87					202,423.24	355,454.11
Total Expenditures	\$ 1,605,404.84	\$ 30,286.00	\$ 15,965.50	\$ 3,211.43	\$ 35,595.09	\$ 202,423.24	\$ 1,892,886.10
Excess of Revenue Over (Under) Expenditures	\$ 67,506.45	\$ 948.61	\$ 103,132.61	\$ 1,912.19	\$ 2,090.55	\$ (202,037.07)	\$ (26,446.66)
Other Financing Sources (Uses):							
Transfers In (Out)							
Sale of Municipal Property	(400,000.00)					\$ 400,000.00	\$ 0.00
	2,814.00						2,814.00
Total Other Financing Sources (Uses)	\$ (397,186.00)					\$ 400,000.00	\$ 2,814.00
Net Change in Fund Balances	\$ (329,679.55)	\$ 948.61	\$ 103,132.61	\$ 1,912.19	\$ 2,090.55	\$ 197,962.93	\$ (23,632.66)
Change in Nonspendable Fund Balance	6,340.44						6,340.44
Fund Balance - Beginning	\$ 894,063.91	\$ 21,392.09	\$ 1,188,688.99	\$ 14,794.94	\$ 42.42	\$ 0.00	\$ 2,118,982.35
FUND BALANCE- ENDING	\$ 570,724.80	\$ 22,340.70	\$ 1,291,821.60	\$ 16,707.13	\$ 2,132.97	\$ 197,962.93	\$ 2,101,690.13

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

CITY OF DE SMET
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds to the Government-Wide Statement of Activities
For the Year Ended December 31, 2013

Net Change in Fund Balances - Total Governmental Funds	\$ (23,632.66)
Amounts reported for governmental activities in the statement of activities are different because:	
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.	355,454.11
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	(279,355.99)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	68,428.72
The receipt of donated capital assets is not reported on the fund statements, but is reported as a program revenue on the government-wide statements.	2,152.46
The fund financial statement some governmental fund revenue accruals differ from the government-wide statement revenue accruals in that the fund financial statements require the amounts to be "available".	1,542.42
The fund financial statement recognizes inventory as an expenditure when the items are purchased while the government-wide statement recognizes inventory as an expense when the items are consumed. This is the amount of the increase in inventory values reflected in the government-wide statement.	6,340.44
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn compensated absences.	7,450.38
Change in Net Position of Governmental Activities	\$ 138,379.88

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

**CITY OF DE SMET
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2013**

		<u>Enterprise Funds</u> <u>Water and Sewer Fund</u>
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$	227,187.00
Accounts Receivable, Net		44,124.92
Unbilled Accounts Receivable		2,741.58
Prepaid Expenses		2,683.35
Inventory of Supplies		3,803.10
Total Current Assets	\$	<u>280,539.95</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	\$	42,630.46
Capital Assets:		
Land		18,850.00
Buildings		78,255.00
Improvements Other Than Buildings		2,262,574.21
Machinery and Equipment		122,838.62
Less: Accumulated Depreciation (Credit)		(775,618.16)
Total Noncurrent Assets	\$	<u>1,749,530.13</u>
TOTAL ASSETS	\$	<u><u>2,030,070.08</u></u>
LIABILITIES:		
Current Liabilities:		
Claims Payable	\$	1,046.44
Accrued Interest Payable		1,016.30
Customer Deposits		19,160.00
Current Notes Payable		20,000.04
Current Revenue Bonds Payable		5,835.64
Current Leave Liability Payable		5,758.57
Total Current Liabilities	\$	<u>52,816.99</u>
Noncurrent Liabilities:		
Notes Payable	\$	39,999.68
Revenue Bonds Payable		210,975.35
Accrued Leave Payable		2,060.26
Total Noncurrent Liabilities	\$	<u>253,035.29</u>
TOTAL LIABILITIES	\$	<u><u>305,852.28</u></u>
NET POSITION:		
Net Investment in Capital Assets	\$	1,430,088.96
Restricted Net Position, Restricted for:		
Debt Service		42,630.46
Unrestricted Net Position		251,498.38
Total Net Position	\$	<u>1,724,217.80</u>
TOTAL LIABILITIES AND NET POSITION	\$	<u><u>2,030,070.08</u></u>

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

CITY OF DE SMET
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2013

		<u>Enterprise Funds</u>
		Water and Sewer Fund
		<u>Fund</u>
Operating Revenue:		
Charges for Goods and Services	\$	276,048.19
Charges for Goods and Services		
Revenue Dedicated to Servicing Debt		38,475.00
		<hr/>
Total Operating Revenue	\$	<u>314,523.19</u>
Operating Expenses:		
Personal Services	\$	105,303.84
Other Current Expense		26,636.70
Materials (Cost of Goods Sold)		117,338.75
Depreciation		47,692.15
		<hr/>
Total Operating Expenses	\$	<u>296,971.44</u>
Operating Income (Loss)	\$	<u>17,551.75</u>
Nonoperating Revenue (Expense):		
Investment Earnings	\$	630.47
Interest Expense and Fiscal Charges		<u>(4,931.97)</u>
Total Nonoperating Revenue (Expense)	\$	<u>(4,301.50)</u>
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	\$	<u>13,250.25</u>
Change in Net Position	\$	13,250.25
Net Position - Beginning		1,710,967.55
		<hr/>
NET POSITION - ENDING	\$	<u>1,724,217.80</u>

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

**CITY OF DE SMET
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2013**

	<u>Enterprise Funds Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Receipts from Customers	\$ 308,403.79
Cash Receipts for Interfund Services Provided	7,640.90
Cash Payments to Employees for Services	(105,191.97)
Cash Payments to Suppliers of Goods and Services	<u>(144,671.71)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 66,181.01</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of Capital Assets	\$ (6,854.51)
Principal Paid on Capital Debt	(25,706.20)
Interest Paid on Capital Debt	<u>(4,958.72)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (37,519.43)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Earnings	<u>\$ 630.47</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 630.47</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 29,292.05</u>
Balances - Beginning	<u>\$ 240,525.41</u>
Balances - Ending	<u><u>\$ 269,817.46</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ 17,551.75
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	47,692.15
Change in Assets and Liabilities:	
(Increase) Decrease in Receivables	1,121.50
(Increase) Decrease in Prepaid Expenses	(1,120.37)
(Increase) Decrease in Inventories	(383.25)
Increase (Decrease) in Accounts and Other Payables	(313.01)
Increase (Decrease) in Accrued Leave Payable	1,232.24
Increase (Decrease) in Customer Deposits	<u>400.00</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 66,181.01</u></u>

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

CITY OF DE SMET
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
December 31, 2013

		Agency Funds
ASSETS:		
Investments, at Fair Value	\$	1,850.00
TOTAL ASSETS	\$	<u>1,850.00</u>
LIABILITIES:		
Amounts Held for Others	\$	1,850.00
Total Liabilities	\$	1,850.00
TOTAL LIABILITIES AND NET POSITION	\$	<u>1,850.00</u>

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

**CITY OF DE SMET
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2013 AND FOR THE YEAR THEN ENDED**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Financial Reporting Entity:

The reporting entity generally consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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 (primary government). The city may also be financially accountable for another organization if that organization is fiscally dependent on the city.

The De Smet Housing and Redevelopment Commission of the City of De Smet, South Dakota (commission) is a proprietary fund-type, discretely presented component unit. The five members of the commission are appointed by the Mayor with the approval of the Governing Board for five-year, staggered terms. The commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the commission's plans to construct a low-income housing unit, or to issue debt, which gives the Governing Board the ability to impose its will on the commission. As of December 31, 2013 the commission had bonded debt outstanding totaling \$583,517. The city has agreed to guarantee an income stream for essential function bonds issued by the commission for the purpose of multiple housing construction with the amount of the guarantee not to exceed 25% of the face of the bonds and said guarantee to be provided from unobligated city funds. Separately issued financial statements of the De Smet Housing and Redevelopment Commission may be obtained from The De Smet Housing and Redevelopment Commission, 408 Calumet Avenue, De Smet, South Dakota 57231.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities; and, discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria, as described in Note 1.a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a. above.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the city and for each function of the city's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are generally organized, as applicable, into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the city or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds and respective fund types of the city financial reporting entity are described below:

Governmental Funds:

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

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.

Liquor, Lodging and Dining Gross Receipts Tax Fund – to account for an additional one percent sales tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facilities buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the city (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is a major fund.

Hospital Fund – to account for hospital related financial activity primarily relating to an operational agreement with a regional hospital. This is a major fund.

Library Fines Fund – to account for library related fines, similar charges, and donations to be used for library purposes. This is a major fund.

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

Tax Incremental District No. 1 Debt Service Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest and related costs associated with a tax incremental district. This is a major fund.

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

Community Center Capital Project Fund – to account for financial activity related to street improvements. This is a major fund.

Proprietary Funds:

Enterprise Funds – enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Water and Sewer Fund – financed primarily by user charges this fund accounts for the construction and operation of the municipal water and wastewater systems and related facilities. This is a major fund.

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and are never considered to be major funds:

Agency Funds – Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The city maintains one agency fund to account for donations for which the city was requested and agreed to account for the donations as a permanent amount and distribute the interest to the cemetery organization each year.

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental, business type, and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets 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:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, 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 for the city is generally considered to be thirty days.

The revenues, which are accrued at December 31, 2013, include sales tax, grant reimbursements receivable, interest, and charges for goods and services. Under the modified accrual basis of accounting, receivables may be measurable but not available.

Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Expenditures are generally 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. All proprietary and fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when earned, and their expenses are recognized when incurred.

d. **Interfund Eliminations and Reclassifications:**

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, as applicable, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified 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, if and when any exist, 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, when existing, are presented as Internal Balances.

e. **Deposits and Investments:**

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-ended mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents. Investments classified in the financial statements consist generally of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment s authorized by South Dakota Codified Laws (SDCL) 4-5-6.

f. **Capital Assets:**

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period and a governing board determined significant value. *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. The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. 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. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful file of a capital asset are also capitalized. The city had an appraisal firm develop detail records of items defined as capital assets, which were generally based upon estimates of cost at the estimated time of acquisition. Primarily as a result of this appraisal and subsequent updates of actual cost information for subsequent changes, the total December 31, 2013 balance of governmental activities capital assets for which the costs were determined by estimations of the original costs were primarily based on estimated costs from the appraisal firm information noted above and comprised approximately 14% for which the costs were determined by estimates of the original costs; and, the total December 31, 2013 balance of business-type capital assets includes approximately 40% for which the costs were determined by estimations of the original cost. Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the city. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements Other than Buildings."

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with accounting principles generally accepted in the United States of America, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with accounting principles generally accepted in the United States of America. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land and Land Rights	\$ 0.00	Not Applicable	Not Applicable
Improvements Other Than Buildings	25,000.00	Straight-Line	10-40 Years
Buildings	25,000.00	Straight-Line	30-50 Years
Machinery and Equipment	4,000.00	Straight-Line	3-30 Years
Utility Improvements	10,000.00	Straight-Line	20-60 Years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the economic resources measurement focus, applied on the accrual basis of accounting, the same as in the government-wide statements.

g. Long-Term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities outstanding at December 31, 2013 primarily consist of revenue bonds, promissory notes and compensated absences. In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the economic resources measurement focus, applied on the accrual basis of accounting, the same as in the government-wide statements.

h. Program Revenues:

In the government-wide Statement of Activities, program revenues are those derived 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:

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

i. Deferred Inflows and Deferred Outflows of Resources:

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. 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. 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. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified 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. Cash and Cash Equivalents:

For the purposes of the proprietary funds' Statement of Cash Flows, the city considers all highly liquid investments as deposits (including restricted assets) with a term to maturity of three months or less, at date of acquisition, to be cash equivalents.

l. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as net position and is displayed in three components, as applicable, as follows:

- **Net Investment in Capital Assets** – This classification consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted Net Position** – This classification consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This classification consists of all other net position that do not meet the definition of "restricted" or "net investment in capital assets".

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned" or "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Agency Funds have no fund equity. The net position is reported as Net Position Held in Agency Capacity.

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 for purposes for which both restricted and unrestricted net positions are available.

n. 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. Nonspendable Fund Balances are comprised of inventory and prepaids as a segregated portion of fund balance as inventory and prepaids do not represent spendable available financial resources.
- **Restricted** – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- **Committed** – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The governing board has committed fund balances for hospital and community center purposes.

- **Assigned** – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The governing board has applied fund balance during the budget process to help finance the next year's budget.
- **Unassigned** – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative balance(s), if any, in other governmental funds.

The city uses *restricted/committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the 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 major special revenue fund and the fund's primary revenue source(s) are as follows:

<u>Major Special Revenue Fund / Purpose</u>	<u>Primary Revenue Source(s)</u>
Liquor, Lodging and Dining Gross Receipts Tax Fund	Property Taxes
Hospital Fund	Lease Proceeds
Library Fines Fund	Contributions and Donations from Private Sources

2. DEPOSITS AND INVESTMENT CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

The city follows the practice of aggregating the cash assets of various funds in some instances to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – Municipal deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits municipal funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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

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

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.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The city's policy is to credit all income from investments to the fund making the investment.

3. RESTRICTED CASH AND CASH EQUIVALENTS:

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

	<u>Amount</u>	<u>Purpose</u>
\$	9,867.29	Donor restricted purposes
\$	42,630.46	Debt service

4. RECEIVABLES AND PAYABLES:

Receivables and payables are not aggregated in the accompanying financial statements. The city anticipates all material receivables to be collected within one year. Appropriate allowances for estimated uncollectibles are established when necessary.

5. INVENTORY:

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost. Inventory acquired for consumption and resale in the proprietary fund is recorded as an asset when acquired. The consumption of inventories held for city use and resale is charged to expense as it is consumed. Inventories held for consumption and resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements:

In the fund financial statements, purchases of supply inventory items in governmental funds are recorded as an expenditure at the time individual inventory items are purchased. Reported inventories in governmental funds are equally offset by Nonspendable Fund Balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

6. PROPERTY TAXES:

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year and attach as an enforceable lien on property and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year. The city is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the city.

7. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets for the year ended December 31, 2013 is as follows:

	Balance 1/1/13	Additions	Deletions	Balance 12/31/13
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 212,894.76	\$ 2,052.46		\$ 214,947.22
Construction Work in Progress	0.00	287,796.14		287,796.14
Total Capital Assets Not Being Depreciated	\$ 212,894.76	\$ 289,848.60		\$ 502,743.36
Capital Assets Being Depreciated:				
Buildings	\$ 2,357,610.24			\$ 2,357,610.24
Improvements Other Than Buildings	2,943,694.84			2,943,694.84
Machinery and Equipment	1,503,292.13	67,657.97	(23,932.04)	1,547,018.06
Total Capital Assets Being Depreciated	\$ 6,804,597.21	\$ 67,657.97	\$ (23,932.04)	\$ 6,848,323.14
Less Accumulated Depreciation for:				
Buildings	\$ 1,133,571.20	\$ 47,337.54		\$ 1,180,908.74
Improvements Other Than Buildings	503,923.70	139,980.11		643,903.81
Machinery and Equipment	1,160,112.38	92,018.34	(23,932.04)	1,228,198.68
Total Accumulated Depreciation	\$ 2,797,607.28	\$ 279,335.99	\$ (23,932.04)	\$ 3,053,011.23
Total Capital Assets Being Depreciated, Net	\$ 4,006,989.93	\$ (211,678.02)	\$ 0.00	\$ 3,795,311.91
Total Governmental Activities - Net	\$ 4,219,884.69	\$ 78,170.58	\$ 0.00	\$ 4,298,055.27
Business-Type Activities:				
Capital Assets, not being depreciated:				
Land	\$ 18,850.00			\$ 18,850.00
Total Capital Assets Not Being Depreciated	\$ 18,850.00			\$ 18,850.00
Capital Assets Being Depreciated:				
Buildings	\$ 78,255.00			\$ 78,255.00
Improvements Other Than Buildings	2,262,574.21			2,262,574.21
Machinery and Equipment	115,984.11	6,854.51		122,838.62
Total Capital Assets Being Depreciated	\$ 2,456,813.32	\$ 6,854.51		\$ 2,463,667.83
Less Accumulated Depreciation for:				
Buildings	\$ 68,624.90	\$ 1,203.77		\$ 69,828.67
Improvements Other Than Buildings	597,748.63	39,126.57		636,875.20
Machinery and Equipment	61,552.48	7,361.81		68,914.29
Total Accumulated Depreciation	\$ 727,926.01	\$ 47,692.15		\$ 775,618.16
Total Capital Assets Being Depreciated, Net	\$ 1,728,887.31	\$ (40,837.64)		\$ 1,688,049.67
Total Business-Type Activities - Net	\$ 1,747,737.31	\$ (40,837.64)		\$ 1,706,899.67

Depreciation was charged to the functions of government as follows:

	Amount
Governmental Activities:	
General Government	\$ 2,991.77
Public Safety	13,823.52
Public Works	177,653.91
Health and Welfare	55,983.98
Culture and Recreation	28,902.81
Total Governmental Activities	\$ 279,355.99
Business-Like Activities:	
Water and Sewer	\$ 47,692.15
Total Business-Type Activities	\$ 47,692.15

Construction Work in Progress at December 31, 2013 is composed of the following:

Project Name	Project			
	Authorization As of 12/31/2013	Expended Through 12/31/2013	Committed Through 12/31/2013	Required Future Financing
Community Center Construction	\$ 572,286.61	\$ 202,423.24	2,132.97	\$ 367,730.40
Airport Hangar Construction	410,853.13	85,372.90		325,480.23
Totals	\$ 983,139.74	\$ 287,796.14	\$ 2,132.97	\$ 693,210.63

8. CHANGES IN COMPONENT UNIT CAPITAL ASSETS:

A summary of changes in component unit capital assets for the year ended December 31, 2013 is as follows:

	<u>Balance 1/1/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/13</u>
Capital Assets, not being depreciated:				
Land	\$ 19,678.50			\$ 19,678.50
Total Capital Assets Not Being Depreciated	<u>\$ 19,678.50</u>			<u>\$ 19,678.50</u>
Capital Assets Being Depreciated:				
Buildings	\$ 2,684,377.47	\$ 35,576.84		\$ 2,719,954.31
Equipment	41,084.43	17,784.50	(17,178.00)	41,690.93
Total Capital Assets Being Depreciated	<u>\$ 2,725,461.90</u>	<u>\$ 53,361.34</u>	<u>\$ (17,178.00)</u>	<u>\$ 2,761,645.24</u>
Less Accumulated Depreciation for:				
Buildings	\$ 1,581,278.67	\$ 90,113.04		\$ 1,671,391.71
Equipment	37,234.43	2,878.45	(17,178.00)	22,934.88
Total Accumulated Depreciation	<u>\$ 1,618,513.10</u>	<u>\$ 92,991.49</u>	<u>\$ (17,178.00)</u>	<u>\$ 1,694,326.59</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 1,106,948.80</u>	<u>\$ (39,630.15)</u>	<u>\$ 0.00</u>	<u>\$ 1,067,318.65</u>
Total Component Unit Activities - Net	<u>\$ 1,126,627.30</u>	<u>\$ (39,630.15)</u>	<u>\$ 0.00</u>	<u>\$ 1,086,997.15</u>

9. LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities for the year ended December 31, 2013 is as follows:

	<u>Debt Payable 1/1/13</u>	<u>New Issues - Additions</u>	<u>Retirements - Deletions</u>	<u>Debt Payable 12/31/13</u>	<u>Due Within One Year</u>
Primary Government:					
Governmental Activities:					
Economic Development Loan(s)	\$ 441,661.26		\$ (50,422.32)	\$ 391,238.94	\$ 51,043.51
Promissory Note Series 2008 (T.I.D. # 1)	389,610.00		(18,006.40)	371,603.60	19,710.91
Compensated Absences	20,567.84	4,210.12	(11,660.50)	13,117.46	9,661.01
Total Governmental Activities	<u>\$ 851,839.10</u>	<u>\$ 4,210.12</u>	<u>\$ (80,089.22)</u>	<u>\$ 775,960.00</u>	<u>\$ 80,415.43</u>
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	\$ 222,517.15		\$ (5,706.16)	\$ 216,810.99	\$ 5,835.64
Economic Development Loan(s)	79,999.76		(20,000.04)	59,999.72	20,000.04
Compensated Absences	6,586.59	4,852.20	(3,619.96)	7,818.83	5,758.57
Total Business-Type Activities	<u>\$ 309,103.50</u>	<u>\$ 4,852.20</u>	<u>\$ (29,326.16)</u>	<u>\$ 284,629.54</u>	<u>\$ 31,594.25</u>
Total Primary Government	<u>\$ 1,160,942.60</u>	<u>\$ 9,062.32</u>	<u>\$ (109,415.38)</u>	<u>\$ 1,060,589.54</u>	<u>\$ 112,009.68</u>
Component Unit Activities:					
Bonds Payable - Revenue Bonds	\$ 615,258.00		\$ (31,741.00)	\$ 583,517.00	\$ 32,435.00
Compensated Absences	21,334.00	3,720.00	(2,848.00)	22,206.00	3,100.00
Total Component Unit Activities	<u>\$ 636,592.00</u>	<u>\$ 3,720.00</u>	<u>\$ (34,589.00)</u>	<u>\$ 605,723.00</u>	<u>\$ 35,535.00</u>

Noncurrent liabilities payable at December 31, 2013 are comprised of the following:

Rural Electric Economic Development Loan

A long-term loan payable in 180 equal monthly payments with the last payment scheduled to be made in October 2021 at an interest rate of 3% payable from the General Fund. \$ 57,735.61

Rural Electric Economic Development Loan

A long-term loan payable in 120 equal monthly payments with the last payment scheduled to be made in December 2016 with no interest rate payable from the Water and Sewer Fund. \$ 59,999.72

Rural Electric Economic Development Loan

A long-term loan payable in 120 equal monthly payments with the last payment scheduled to be made in July 2021 with no interest rate payable from the General Fund. \$ 227,500.00

Rural Electric Economic Development Loan

A long-term loan payable in 120 equal monthly payments with the last payment scheduled to be made in September 2020 with interest at a rate of 3% payable from the General Fund. \$ 106,003.33

PROMISSORY NOTE SERIES 2008 (T.I.D. # 1):

A long-term note payable equal monthly payments with the last payment to be made in June 2028 at an initial interest rate of 3.75% to be adjusted to 50 basis points above the prime rate as published by the Wall Street Journal on the 1st day of June 2013 and every 5 years thereafter on the 1st of June during the term of this note. \$ 371,603.60

REVENUE BONDS:

Revenue Borrower Bond, Series 2009

Total payments generally in the amount of \$10,664.88 per year from the Water and Sewer Fund with interest (including an administrative surcharge) at the rate of 2.25% with final payment scheduled to be made in January 2041. \$ 216,810.99

COMPENSATED ABSENCES:

Payments for accrued leave are made from the fund from which the employee is generally compensated including \$13,117.46 from Governmental Activities and \$7,818.83 from Business-Type Activities. \$ 20,936.29

COMPONENT UNIT LONG-TERM DEBT PAYABLE:

Essential Functioning Housing Development Revenue Bonds, Series 1999-01:

Original issue of \$277,500 maturing in 2026 with interest at 4.0% at December 31, 2013 and adjusted on July 26, 2004 and every five years thereafter to 200 basis points under the national prime rate callable as provided by SDCL 6-8B-23 secured only by real and personal property of the 4-plex built with this bond and paid by Calumet Town Homes Fund. \$ 182,226.00

Essential Functioning Housing Development Revenue Bonds, Series 1999-02:

Original issue of \$277,500 maturing in 2025 with interest at 4.00% at December 31, 2013 and adjusted on July 1, 2005 and every five years thereafter to 200 basis points under the national prime rate; callable as provided by SDCL 6-8B-23 secured only by real and personal property of the 4-plex built with this bond and paid by Calumet Town Homes Fund. \$ 171,664.00

Essential Functioning Housing Development Revenue Bonds, Series 2001:

Original issue of \$277,500 maturing in 2032 with interest at 4.00% on December 31, 2013 and adjusted on July 1, 2007 and every five years thereafter to 200 basis points under the national prime rate; callable as provided by SDCL 6-8B-23 secured only by real and personal property of the 4-plex built with this bond and paid by Calumet Town Homes Fund. \$ 229,627.00

Compensated Absences:

Payments for accrued vacation and sick leave paid by the Prairie Park Fund. \$ 22,206.00

The annual requirements to amortize all debt outstanding as of December 31, 2013 of the primary government, excluding compensated absences are as follows:

Year Ending December 31,	Rural Electric Economic Development Loan			Rural Electric Economic Development Loan		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 6,645.78	\$ 1,641.18	\$ 8,286.96	\$ 20,000.04	\$	\$ 20,000.04
2015	6,847.93	1,439.03	8,286.96	20,000.04		20,000.04
2016	7,056.23	1,230.73	8,286.96	19,999.64		19,999.64
2017	7,270.83	1,016.13	8,286.96			0.00
2018	7,491.97	794.99	8,286.96			
2019-2021	22,422.87	991.85	23,414.72			
Total	\$ 57,735.61	\$ 7,113.91	\$ 64,849.52	\$ 59,999.72	\$ 0.00	\$ 59,999.72

Year Ending December 31,	Rural Electric Economic Development Loan			Rural Electric Economic Development Loan		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 30,000.00	\$	\$ 30,000.00	\$ 14,397.73	\$ 2,983.19	\$ 17,380.92
2015	30,000.00		30,000.00	14,835.64	2,545.28	17,380.92
2016	30,000.00		30,000.00	15,286.89	2,094.03	17,380.92
2017	30,000.00		30,000.00	15,751.85	1,629.07	17,380.92
2018	30,000.00		30,000.00	16,230.94	1,149.98	17,380.92
2019-2022	77,500.00		77,500.00	29,500.28	815.49	30,315.77
Total	\$ <u>227,500.00</u>	\$ <u>0.00</u>	\$ <u>227,500.00</u>	\$ <u>106,003.33</u>	\$ <u>11,217.04</u>	\$ <u>117,220.37</u>

Year Ending December 31,	Revenue Borrower Bond, Series 2009		
	Principal	Interest	Total
2014	\$ 5,835.64	\$ 4,829.24	\$ 10,664.88
2015	5,968.06	4,696.82	10,664.88
2016	6,103.47	4,561.41	10,664.88
2017	6,241.96	4,422.92	10,664.88
2018	6,383.60	4,281.28	10,664.88
2019-2023	34,157.57	19,166.83	53,324.40
2024-2028	38,212.73	15,111.67	53,324.40
2029-2033	42,749.33	10,575.07	53,324.40
2034-2038	47,824.52	5,499.88	53,324.40
2039-2041	23,334.11	661.87	23,995.98
Total	\$ <u>216,810.99</u>	\$ <u>73,806.99</u>	\$ <u>290,617.98</u>

Year Ending December 31,	Promissory Note Series 2008 (T.I.D. #1)			TOTALS		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 19,710.91	\$ 13,751.21	\$ 33,462.12	\$ 96,590.10	\$ 23,204.82	\$ 119,794.92
2015	20,457.00	13,005.12	33,462.12	98,108.67	21,686.25	119,794.92
2016	21,196.63	12,265.49	33,462.12	99,642.86	20,151.66	119,794.52
2017	22,033.65	11,428.47	33,462.12	81,298.29	18,496.59	99,794.88
2018	22,867.66	10,594.46	33,462.12	82,974.17	16,820.71	99,794.88
2019-2023	127,967.85	39,342.75	167,310.60	291,548.57	60,316.92	351,865.49
2024-2028	137,369.90	13,209.79	150,579.69	175,582.63	28,321.46	203,904.09
2029-2033				42,749.33	10,575.07	53,324.40
2034-2038				47,824.52	5,499.88	53,324.40
2039-2042				23,334.11	661.87	23,995.98
Total	\$ <u>371,603.60</u>	\$ <u>113,597.29</u>	\$ <u>485,200.89</u>	\$ <u>1,039,653.25</u>	\$ <u>205,735.23</u>	\$ <u>1,245,388.48</u>

Each of the debt issues identified above generally have finance related covenants that have irrevocably pledged select revenue sources for the retirement of the debt; and, have provided certain restrictions on the issuance of additional debt.

The annual requirements to amortize all component unit debt outstanding as of December 31, 2013, excluding compensated absences are as follows:

Year Ending December 31,	Essential Function Housing Development Revenue Bond, Series 1999-01			Essential Function Housing Development Revenue Bond, Series 1999-02		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 11,494.00	\$ 7,289.00	\$ 18,783.00	\$ 12,250.00	\$ 6,867.00	\$ 19,117.00
2015	11,954.00	6,829.00	18,783.00	12,740.00	6,377.00	19,117.00
2016	12,432.00	6,351.00	18,783.00	13,250.00	5,867.00	19,117.00
2017	12,930.00	5,853.00	18,783.00	13,780.00	5,337.00	19,117.00
2018	13,447.00	5,336.00	18,783.00	14,331.00	4,786.00	19,117.00
2019-2023	75,745.00	18,172.00	93,917.00	80,727.00	14,857.00	95,584.00
2024-2028	44,224.00	3,239.00	47,463.00	24,586.00	1,241.00	25,827.00
Total	<u>\$ 182,226.00</u>	<u>\$ 53,069.00</u>	<u>\$ 235,295.00</u>	<u>\$ 171,664.00</u>	<u>\$ 45,332.00</u>	<u>\$ 216,996.00</u>

Year Ending December 31,	Essential Function Housing Development Revenue Bond, Series 2001			Totals		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 8,691.00	\$ 9,185.00	\$ 17,876.00	\$ 32,435.00	\$ 23,341.00	\$ 55,776.00
2015	9,039.00	8,837.00	17,876.00	33,733.00	22,043.00	55,776.00
2016	9,400.00	8,476.00	17,876.00	35,082.00	20,694.00	55,776.00
2017	9,776.00	8,100.00	17,876.00	36,486.00	19,290.00	55,776.00
2018	10,167.00	7,709.00	17,876.00	37,945.00	17,831.00	55,776.00
2019-2023	57,272.00	32,109.00	89,381.00	213,744.00	65,138.00	278,882.00
2024-2028	69,681.00	19,700.00	89,381.00	138,491.00	24,180.00	162,671.00
2028-2032	55,601.00	5,038.00	60,639.00	55,601.00	5,038.00	60,639.00
Total	<u>\$ 229,627.00</u>	<u>\$ 99,154.00</u>	<u>\$ 328,781.00</u>	<u>\$ 583,517.00</u>	<u>\$ 197,555.00</u>	<u>\$ 781,072.00</u>

10. OPERATING LEASES:

Hospital Operating Lease: Effective July 1, 2008 the City of De Smet entered into an agreement to lease certain real property and improvements (constituting the De Smet Memorial Hospital) to Avera Queen of Peace, a South Dakota nonprofit corporation. The term of the lease is 20 years and at any time after the end of 180 days from the commencement date, may be terminated by either party upon 180 days written notice. The lease agreement also includes covenants as to rights, obligations, indemnifications, contingencies, and default and termination provisions. The monthly lease payment is \$9,600 for the first three years of the agreement. After the three year period, the parties will meet to review the validity of the lease payment and may make appropriate changes through an addendum to the lease. Through the end of the current period (CY 13) there were no addendum(s) made to the lease agreement.

Clinic Operating Lease: The City of De Smet entered into an agreement to lease real property and improvements constituting the Hollis M. Hill Medical Center to Avera Queen of Peace for a term of five years with the agreement commencing on September 1, 2013. The monthly payment is \$4,000 through the end of the lease period. The lease agreement also includes other covenants as to rights, obligations, indemnifications, contingencies, and default and termination provisions. A lease of this property to another tenant expired earlier.

Ambulance Space Operating Lease: Commencing on January 1, 2011 the City of De Smet leased specified space to the De Smet Emergency Rescue Unit, Inc. for a five year period. The annual rental for these premises is \$9,600 payable in equal quarterly installments of \$2,400 each year through the end of the lease period. The lease agreement also includes other covenants as to rights, obligations, indemnifications, contingencies, and default and termination provisions.

11. RESTRICTED NET POSITION

The following reflects the restricted net assets as shown on the Statement of Net Position and indicates the source of the restriction:

<u>Purpose</u>	<u>Source of Restriction</u>	<u>Amount</u>
Facilities and Promotion	Law	\$ 22,340.70
Library	Law	16,707.13
Debt Service	Debt Covenant	44,763.43
Depot Museum	Donor	9,867.29
Fire Purposes	Contract	13,507.60
TOTAL RESTRICTED NET POSITION		\$ <u>107,186.15</u>

12. INTERFUND TRANSFERS:

One interfund transfer was made during the year ended December 31, 2013 of \$400,000 from the General Fund to the Community Center Capital Project Fund to assist with financing costs related to construction of the facility.

13. RETIREMENT PLAN:

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731. General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The city's share of contributions to the SDRS for the fiscal years ended December 31, 2013, 2012, and 2011 were \$18,847, \$15,655 and \$15,793, respectively, equal to the required contributions each year.

14. RISK MANAGEMENT:

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

Employee Health Insurance:

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

Liability Insurance:

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

Workmen's Compensation:

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

The city pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance, which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident. The city does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over 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.

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF DE SMET
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2013

	Budgetary Amount		Actual Amount (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes	\$ 383,000.00	\$ 383,000.00	\$ 376,756.82	\$ (6,243.18)
General Sales and Use Taxes	420,000.00	420,000.00	502,138.83	82,138.83
Amusement Taxes	0.00	0.00	72.00	72.00
Penalties and Interest on Delinquent Taxes	0.00	0.00	440.87	440.87
Licenses and Permits	2,000.00	2,000.00	3,663.00	1,663.00
Intergovernmental Revenue:				
Federal Grants	0.00	443,500.00	105,780.25	(337,719.75)
State Grants	0.00	8,000.00	6,446.31	(1,553.69)
State Shared Revenue:				
Bank Franchise Tax	2,500.00	2,500.00	4,561.15	2,061.15
Liquor Tax Reversion	7,000.00	7,000.00	7,493.11	493.11
Motor Vehicle Licenses (5%)	10,000.00	10,000.00	15,264.04	5,264.04
Local Government Highway and Bridge Fund	26,000.00	26,000.00	35,376.58	9,376.58
County Shared Revenue:				
County Wheel Tax	2,000.00	2,000.00	3,014.08	1,014.08
County Road Tax	1,800.00	1,800.00	0.00	(1,800.00)
Charges for Goods and Services:				
Public Safety	2,700.00	2,700.00	2,700.00	0.00
Sanitation	85,500.00	85,500.00	83,770.89	(1,729.11)
Health	0.00	0.00	1,254.86	1,254.86
Culture and Recreation	8,500.00	8,500.00	9,495.48	995.48
Fines and Forfeits - Court Fines and Costs	100.00	100.00	650.37	550.37
Miscellaneous Revenue:				
Investment Earnings	2,100.00	2,100.00	1,752.09	(347.91)
Rentals	19,700.00	61,700.00	64,568.40	2,868.40
Special Assessments	4,900.00	4,900.00	5,118.82	218.82
Contributions and Donations from Private Sources	600.00	600.00	617.24	17.24
Liquor Operating Agreement Income	443,000.00	443,000.00	421,647.39	(21,352.61)
Other	10,500.00	10,500.00	20,328.71	9,828.71
Total Revenue	\$ 1,431,900.00	\$ 1,925,400.00	\$ 1,672,911.29	\$ (252,488.71)
Expenditures:				
General Government:				
Legislative	\$ 23,375.00	\$ 23,375.00	\$ 21,845.17	\$ 1,529.83
Contingency	40,000.00	40,000.00		
Amount Transferred		(5,400.00)		34,600.00
Executive	3,450.00	3,450.00	2,884.97	565.03
Elections	1,000.00	1,000.00	161.42	838.58
Financial Administration	129,350.00	129,350.00	122,125.46	7,224.54
Other	208,300.00	208,300.00	71,681.40	136,618.60
Public Safety:				
Police	70,200.00	70,200.00	70,200.00	0.00
Fire	22,250.00	42,250.00	41,991.92	258.08
Public Works:				
Highways and Streets	492,100.00	492,100.00	324,121.79	167,978.21
Sanitation	96,870.00	96,870.00	90,803.96	6,066.04
Airport	25,780.00	479,280.00	135,340.36	343,939.64
Health and Welfare:				
Health	3,000.00	131,000.00	50,017.55	80,982.45
Culture and Recreation:				
Recreation	63,140.00	63,140.00	57,665.66	5,474.34
Parks	69,650.00	69,650.00	69,258.15	391.85
Libraries	59,625.00	59,625.00	55,151.03	4,473.97
Museums	7,375.00	9,275.00	9,173.34	101.66
Conservation and Development:				
Economic Development and Assistance	25,500.00	29,000.00	28,440.22	559.78
Debt Service	55,700.00	55,700.00	55,667.88	32.12
Miscellaneous - Liquor	421,500.00	421,500.00	398,874.56	22,625.44
Total Expenditures	\$ 1,818,165.00	\$ 2,419,665.00	\$ 1,605,404.84	\$ 814,260.16
Excess of Revenue Over (Under) Expenditures	\$ (386,265.00)	\$ (494,265.00)	\$ 67,506.45	\$ 561,771.45
Other Financing Sources (Uses):				
Transfers In	\$ 75,000.00	\$ 75,000.00	\$ 0.00	\$ (75,000.00)
Transfers (Out)	0.00	(400,000.00)	(400,000.00)	0.00
Sale of Municipal Property	0.00	0.00	2,814.00	2,814.00
Total Other Financing Sources (Uses)	\$ 75,000.00	\$ (325,000.00)	\$ (397,186.00)	\$ (72,186.00)
Net Change in Fund Balances	\$ (311,265.00)	\$ (819,265.00)	\$ (329,679.55)	\$ 489,585.45
Change in Nonspendable Fund Balance	0.00	0.00	6,340.44	6,340.44
Fund Balance - Beginning	311,265.00	819,265.00	769,337.99	(49,927.01)
Adjustment:				
Restatement to include Hollis M. Hill Medical Center related financial activity as has been included in the General Fund budgetary information for the current year				
	0.00	0.00	124,725.92	124,725.92
Adjusted Fund Balance - Beginning	\$ 311,265.00	\$ 819,265.00	\$ 894,063.91	\$ 74,798.91
FUND BALANCE - ENDING	\$ 0.00	\$ 0.00	\$ 570,724.80	\$ 570,724.80

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF DE SMET
BUDGETARY COMPARISON SCHEDULE
LIQUOR, LODGING AND DINING GROSS RECEIPTS TAX FUND
For the Year Ended December 31, 2013

	Budgetary Amount		Actual Amount (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Sales and Use Taxes	\$ 28,500.00	\$ 28,500.00	\$ 31,164.79	\$ 2,664.79
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	69.82	69.82
Total Revenue	<u>\$ 28,500.00</u>	<u>\$ 28,500.00</u>	<u>\$ 31,234.61</u>	<u>\$ 2,734.61</u>
Expenditures:				
Conservation and Development:				
Economic Development and Assistance	\$ 30,500.00	\$ 30,500.00	\$ 30,286.00	\$ 214.00
Total Expenditures	<u>\$ 30,500.00</u>	<u>\$ 30,500.00</u>	<u>\$ 30,286.00</u>	<u>\$ 214.00</u>
Excess of Revenue Over (Under) Expenditures	\$ (2,000.00)	\$ (2,000.00)	\$ 948.61	\$ 2,948.61
Net Change in Fund Balances	\$ (2,000.00)	\$ (2,000.00)	\$ 948.61	\$ 2,948.61
Fund Balance - Beginning	\$ 2,000.00	\$ 2,000.00	\$ 21,392.09	\$ 19,392.09
FUND BALANCE - ENDING	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 22,340.70</u>	<u>\$ 22,340.70</u>

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF DE SMET
BUDGETARY COMPARISON SCHEDULE
HOSPITAL FUND
For the Year Ended December 31, 2013

	<u>Budgetary Amount</u>		Actual Amount (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Miscellaneous Revenue:				
Investment Earnings	\$ 3,000.00	\$ 3,000.00	\$ 3,898.11	\$ 898.11
Other	115,200.00	115,200.00	115,200.00	0.00
	<u>118,200.00</u>	<u>118,200.00</u>	<u>119,098.11</u>	<u>898.11</u>
Total Revenue	<u>\$ 118,200.00</u>	<u>\$ 118,200.00</u>	<u>\$ 119,098.11</u>	<u>\$ 898.11</u>
Expenditures:				
Health and Welfare:				
Health	\$ 403,000.00	\$ 403,000.00	\$ 15,965.50	\$ 387,034.50
	<u>403,000.00</u>	<u>403,000.00</u>	<u>15,965.50</u>	<u>387,034.50</u>
Total Expenditures	<u>\$ 403,000.00</u>	<u>\$ 403,000.00</u>	<u>\$ 15,965.50</u>	<u>\$ 387,034.50</u>
Excess of Revenue Over (Under) Expenditures	<u>\$ (284,800.00)</u>	<u>\$ (284,800.00)</u>	<u>\$ 103,132.61</u>	<u>\$ 387,932.61</u>
Net Change in Fund Balances	<u>\$ (284,800.00)</u>	<u>\$ (284,800.00)</u>	<u>\$ 103,132.61</u>	<u>\$ 387,932.61</u>
Fund Balance - Beginning	<u>\$ 284,800.00</u>	<u>\$ 284,800.00</u>	<u>\$ 1,188,688.99</u>	<u>\$ 903,888.99</u>
FUND BALANCE - ENDING	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 1,291,821.60</u>	<u>\$ 1,291,821.60</u>

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF DE SMET
BUDGETARY COMPARISON SCHEDULE
LIBRARY FINES FUND
For the Year Ended December 31, 2013

	<u>Budgetary Amount</u>		Actual Amount (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Fines and Forfeits:				
Library	\$ 1,000.00	\$ 1,000.00	\$ 16.50	\$ (983.50)
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	0.48	0.48
Contributions and Donations from Private Sources	5,000.00	5,000.00	5,106.64	106.64
	<u>6,000.00</u>	<u>6,000.00</u>	<u>5,123.62</u>	<u>(876.38)</u>
Total Revenue	\$ 6,000.00	\$ 6,000.00	\$ 5,123.62	\$ (876.38)
Expenditures:				
Culture and Recreation:				
Libraries	\$ 6,000.00	\$ 6,000.00	\$ 3,211.43	\$ 2,788.57
	<u>6,000.00</u>	<u>6,000.00</u>	<u>3,211.43</u>	<u>2,788.57</u>
Total Expenditures	\$ 6,000.00	\$ 6,000.00	\$ 3,211.43	\$ 2,788.57
Excess of Revenue Over (Under) Expenditures	\$ 0.00	\$ 0.00	\$ 1,912.19	\$ 1,912.19
Net Change in Fund Balances	\$ 0.00	\$ 0.00	\$ 1,912.19	\$ 1,912.19
Fund Balance - Beginning	\$ 0.00	\$ 0.00	\$ 14,794.94	\$ 14,794.94
FUND BALANCE - ENDING	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 16,707.13</u>	<u>\$ 16,707.13</u>

CITY OF DE SMET
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
AS OF DECEMBER 31, 2013 AND FOR THE YEAR THEN ENDED
(Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget)

The Budgetary Comparison Schedules present comparisons of the original budget and legally revised final budget with actual amounts for the General Fund and each Special Revenue Fund and cost center for which budgets are to be legally adopted. Also presented is a column that reflects the variance between the final budget amount and actual amount. A positive variance reflects unused budget and a negative variance reflects an over expended budget. The Budgetary Comparison Schedules have been prepared on the current financial resources measurement focus and the modified accrual basis of accounting. Also, the Budgetary Comparison Schedules present capital assets acquisitions as expenditures within the function to which they relate while the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds presents expenditures for capital assets as a separate function.

The city followed these procedures in establishing the budgetary data reflected in the Budgetary Comparison Schedules:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the Governing Board. The city did not encumber any amounts at December 31, 2013.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Transactions associated with the former Hollis M. Hill Medical Center Fund have been blended with the General Fund for the year ended December 31, 2013 with the implementation of the provisions of Governmental Accounting Standards Board Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions in the financial statements presented in accordance with accounting principles generally accepted in the United States of America (GAAP). The presentation Required Supplementary Information (RSI), based on provisions of the Governmental Accounting Standards Board, is to be presented for the General Fund and each major special revenue fund. The RSI presented herein reflects the General Fund budgetary and actual information for the General Fund with the blending of the former Hollis M. Hill Medical Center Fund as the former fund has been included in the General Fund budgetary presentation for the current year with a beginning balance adjustment in the amount of \$124,725.92 to include the effects of prior transactions of the former Hollis M. Hill Medical Center Fund that were excluded from the General Fund budgetary data in the prior year(s).