

CITY OF HIGHMORE
AUDITED FINANCIAL STATEMENTS
TWO YEARS ENDED DECEMBER 31, 2012

CITY OF HIGHMORE
CITY OFFICIALS
DECEMBER 31, 2012

Mayor:

Vikki Day

Governing Board:

Barry Alger
Lee Straight
Todd Yeaton
Mike Cowan
Brent Hovland
Barry Rodman

Finance Officer:

Tara Buchholz

Attorney:

Emily Sovell

CITY OF HIGHMORE

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

City Council
City of Highmore
Highmore, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highmore, South Dakota, as of December 31, 2012, and for each of the years in the biennial period then ended, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 5, 2013, which was adverse because of inadequate inventory and capital asset records, intangible asset and the debt associated with the intangible asset not recorded and the omission of the financial data for a discretely presented component unit.

Internal Control Over Financial Reporting

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

Our 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 Current Audit Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items #2012-01, #2012-02, #2012-03, #2012-04, and #2012-05 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, which are described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items #2012-02, #2012-03, #2012-06, #2012-07, #2012-08, and #2012-09.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Kuhlman, Bierschbach & Anderson, LLP

September 5, 2013

KOHLMAN, BIERSCHBACH & ANDERSON, LLP

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of Highmore
Highmore, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Highmore, South Dakota compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the biennial period ended December 31, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above.

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.

Kohlman, Bierschbach & Anderson, LLP

September 5, 2013

CITY OF HIGHMORE
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012

PRIOR AUDIT FINDINGS:

#2010-01

A material weakness was reported for a lack of segregation of duties for cash, revenues, receivables, payroll, accounts payable, equity, inventory, capital assets, and budget, which could result in errors not being found in a timely manner. This condition is restated as current other audit finding #2012-01.

#2010-02

The City does not maintain perpetual inventory records for inventory used by the Enterprise Funds nor have they taken an inventory count at year-end for the past two years. This resulted in diminished control over inventory and can result in misleading information being presented to users of the financial statements. Also, the cost of inventory is determined by using the current cost to purchase the item rather than retaining documentation of the original cost. This condition is restated as current other audit finding #2012-02.

#2010-03

The City does not maintain adequate records to support the cost of general capital assets and enterprise fund capital assets. This resulted in diminished control over capital assets and can result in misleading information being presented to users of the financial statements. This condition is restated as current other audit finding #2012-03.

#2010-04

The City does not have an internal control system designed to provide for the preparation of the annual financial statements in accordance with generally accepted accounting principles (GAAP), being audited. As auditors, we were requested to draft the financial statements. This comment is restated as current other audit finding #2012-04.

#2010-05

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements. This comment is restated as current other audit finding #2012-05.

#2010-06

There were several items in payroll where the City did not keep accurate records. There were several errors in connection with how payroll deductions were set up and taken out of paychecks, not all salaries were listed in the minutes, improper allocations of salaries among the funds, hourly wages not properly calculated for all employees, an error with the computation of sick leave and comp time, and proper documentation not maintained for employees. This comment has been resolved.

#2010-07

In 2009, in the General Fund, there were budget overdrafts of \$8,374 in the legislative account, \$228 in the cemetery account, and \$9,686 in the debt service account. In the Sewer General Obligation Bond Fund, there was an overdraft for debt service in the amount of \$20,820. In the Third Penny Sales Tax Fund, there was an overdraft for the auditorium account for \$10,438 and the legislative account for \$6,010. In 2010, in the General Fund, there were budget overdrafts of \$241 for the cemetery account, \$7,633 for the recreation account, \$9,343 for the parks account, and \$5,404 for the auditorium account. In the Sewer General Obligation Bond Fund, there

CITY OF HIGHMORE
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012
(Continued)

was an overdraft for debt service in the amount of \$31,220. In the Third Penny Sales Tax Fund, there was an overdraft of \$2,385 for the legislative account. This comment is restated as current other audit finding #2012-07.

#2010-08

Management has elected to not record the intangible asset related to water rights in the Water Fund and the debt associated with the water rights. This comment is restated as current other audit finding #2012-08.

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2012

Summary of the Independent Auditors' Results:

Financial Statements:

- a. An adverse opinion on the financial statements of each opinion unit was issued because of an inability to verify amounts reported for inventory and other current expenses in the Water Fund and Sewer Fund, costs and existence of general capital assets and depreciation due to a lack of records, lack of recording the intangible asset for water rights in the Water Fund, and the omission of financial data for a discretely presented component unit.
- b. Material weaknesses were disclosed by our audit of the financial statements. They are described in findings #2012-01, #2012-02, #2012-03, #2012-04, and #2012-05.
- c. Our audit did disclose instances of noncompliance which were material to the financial statements. These are described in findings #2012-02, #2012-03, #2012-06, #2012-07, #2012-08, and #2012-09.

Federal Awards:

- d. An unqualified opinion was issued on compliance with the requirements applicable to major programs.
- e. Our audit did not disclose any audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, §.510(a).
- f. The federal award tested as a major program was:
 1. Airport Improvement Program - CFDA #20.106.
- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
- h. The City of Highmore did not qualify as a low-risk auditee.

CURRENT FEDERAL AUDIT FINDINGS:

There are no written current federal compliance audit findings to report.

CURRENT OTHER AUDIT FINDINGS:

Internal Control-Related Findings - Material Weaknesses:

Finding #2012-01

Criteria

Internal control can help the City achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting, and it can help ensure that the City complies with laws and regulations.

Condition Found

A material weakness was reported for a lack of segregation of duties for cash, revenues, receivables, payroll, accounts payable, equity, inventory, and capital assets, which could result in errors not being found in a timely manner. It is not known how long this comment has been made.

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2012
(Continued)

Effect

The City has only one employee who prepares all accounting records.

Recommendation

We recommend the board take a more active role in their oversight of cash, revenues, receivables, payroll, accounts payable, equity, inventory, and capital assets.

Corrective Action Plan

Vikki Day is the contact person responsible for the corrective action plan for this comment. This comment is a result of the size of the City of Highmore which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City of Highmore has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for cash, revenues, receivables, payroll, accounts payable, equity, inventory, and capital assets. The City of Highmore is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding cash, revenues, receivables, payroll, accounts payable, equity, inventory, and capital assets continues to exist.

Finding #2012-02

Criteria

SDCL 5-24-5 requires notations of changes to inventory (lost or destroyed) to be made as they happen.

Condition Found

The City does not maintain perpetual inventory records for inventory used by the Enterprise Funds nor have they taken an inventory count at year-end for the past two years for the Sewer Fund or the past year for the Water Fund. This resulted in diminished control over inventory and can result in misleading information being presented to users of the financial statements. Also, the cost of inventory has not been changed or updated since 2009, when the cost of inventory was determined then by using the current cost to purchase the item rather than retaining documentation of the original cost. This is the tenth consecutive audit this comment was made.

Effect

A complete inventory has not been taken every year at year-end for all funds in the audit period. Also, no perpetual records have been maintained.

Recommendation

We recommend the City develop a perpetual inventory record and take an actual count of inventory at year-end. Documentation should be retained to determine the cost of the items in inventory rather using the current cost. Also, the cost information should be updated to reflect past purchases for the past few years.

Corrective Action Plan

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated the City will take steps to develop perpetual inventory records.

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2012
(Continued)

Finding #2012-03

Criteria

The municipal accounting manual prepared by the State of South Dakota Department of Legislative Audit states “Municipalities have a substantial investment of tax dollars in the various lands, buildings, equipment and other assets owned by them. The responsibility of stewardship involved in safeguarding such a large investment is of the utmost importance to sound financial administration. The protective custody of these assets can only be accomplished through adequate accounting procedures and records. In addition to stewardship or protective custody of a governmental unit’s property, a good system of capital asset accounting permits the fixation of responsibility for custody and proper use of specific capital assets on individual public officials.”

Condition Found

The City does not maintain adequate records to support the cost of general capital assets and enterprise fund capital assets. This resulted in diminished control over capital assets and can result in misleading information being presented to users of the financial statements. It is not known how long this comment has been made.

Effect

Capital asset records did not contain adequate documentation to support the cost of capital assets.

Recommendation

We recommend the City document the costs by copies of invoices, or reasonable estimates, with supporting documentation as to how the estimates were arrived at.

Corrective Action Plan

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated the City will take steps to improve their capital asset records.

Finding #2012-04

Criteria

An organization's internal control structure should provide for the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

Condition Found

The City does not have an internal control system designed to provide for the preparation of the annual financial statements in accordance with generally accepted accounting principles; being audited. As auditors, we were requested to draft the financial statements.

Effect

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

Recommendation

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2012
(Continued)

This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated that this situation is impossible to remedy without the hiring of new staff, which the City does not need and cannot afford. Therefore, the lack of controls will be a continual problem.

Finding #2012-05

Criteria

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with generally accepted accounting principles (GAAP).

Condition Found

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Effect

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

Recommendation

This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated that this situation is impossible to remedy without the hiring of new staff, which the City does not need and cannot afford. Therefore, the lack of controls will be a continual problem.

Compliance and Other Matters:

Finding #2012-02

This comment has already been stated under the section entitled "Current Other Audit Findings." See that Section for more detail on the comment.

Finding #2012-03

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2012
(Continued)

This comment has already been stated under the section entitled "Current Other Audit Findings." See that Section for more detail on the comment.

Finding #2012-06

Criteria

According to South Dakota Codified Law 9-14-17 and 9-14-18, the finance officer shall keep regular books of account for all financial transactions.

Condition Found

For the Water Fund billing, the water meter readings were not consistent from month to month. Also, the calculation of the water bills did not always calculate the usage based on the readings taken.

Effect

Due to inconsistent and improper water billings, the water sales were unable to be proven that they were properly stated.

Recommendation

We recommend that water meters be read on a monthly basis to help ensure that water billings are being prepared properly.

Corrective Action Plan

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated, "We have talked about this at City Council. We feel at this time because of the expense of radio meters and the shortage of man power to read the meters monthly, perhaps we should encourage residents to read their meters monthly and give the readings to the finance officer."

Finding #2012-07

Criteria

SDCL 9-21-9 limits expenditures to appropriated amounts.

Condition Found

In 2011 in the General Fund, there were budget overdrafts of \$240 in the cemetery account, \$200 in the hospitals, nursing homes and rest homes account, and \$12,933 in the parks account. In the Sewer General Obligation Fund, there was a budget overdraft for debt service in the amount of \$22,410. In the Third Penny Sales Tax Fund, there was a budget overdraft of \$588 for the legislative account, \$3,465 for the auditorium account, and \$6,588 for the economic development and assistance (industrial development) account. There also was no budget prepared for the Lifeguard Fund, so there was a budget overdraft of \$1,500 for the recreation account. In 2012 in the General Fund, there were budget overdrafts of \$4,778 in the police account and \$21 in the recreation account. In the Sewer General Obligation Fund, there was a budget overdraft for debt service in the amount of \$3,595. In the Third Penny Sales Tax Fund, there was a budget overdraft of \$400 for the legislative account. There also was no budget prepared for the Crane Fund, so there was a budget overdraft of \$170 for the auditorium account.

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2012
(Continued)

Effect

Budgets are required for all special revenue funds, as well as the other funds already adopted. Per SDCL 9-21-9, expenditures are limited to appropriated amounts.

Recommendation

We recommend the City adopt budgets for special revenue funds, limit expenditures to the amounts budgeted, and adopt a supplemental appropriation ordinance or make contingency transfers for small line item deficits.

Corrective Action Plan

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated we will work towards adopting more detailed budgets in an effort to avoid such transfers in the future. As some situations simply can't be foreseen, we will attempt to specify contingency transfers to specific funds.

Finding #2012-08

Criteria

The Governmental Accounting Standards Board Statement #51 discusses the proper accounting for recording intangible assets.

Condition Found

Management has elected not to record the intangible asset related to water rights in the Water Fund and the debt associated with the water rights.

Effect

By management not recording the intangible asset and related debt, the assets and liabilities in the Water Fund are currently understated and the net assets are overstated.

Recommendation

We recommend that all the adjustments associated with the water rights be recorded in the Water Fund.

Corrective Action Plan

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated, "The finance officer and I are aware of this. The finance officer will do what she is able to do with our accounting system to post adjustments as needed."

Finding #2012-09

Criteria

Per South Dakota Codified Law 9-18-1, "The governing body of every municipality shall cause to be published in the official legal newspaper therein, or if no official legal newspaper is published therein, in any legal newspaper which serves such municipality, within thirty days after each meeting thereof a full account of the proceedings at

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2012
(Continued)

such meeting, giving a detailed statement of all expenditures of money, the names of persons to whom payment is made, and showing the service rendered therefore.”

Condition Found

The City did not list in the minutes two material vouchers for the airport improvement project which totaled \$544,505.95.

Effect

By not publishing the two expenditures in the minutes in the official newspaper, the City was not in compliance with South Dakota Codified Law 9-18-1.

Recommendation

We recommend that all expenditures be properly listed in the minutes within the thirty day deadline in accordance with South Dakota Codified Law.

Corrective Action Plan

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated, “I was unaware of this, as I was not the mayor at this time. The finance officer now understands that these type of vouchers must be in the claims and minutes for the council to approve and be published.”

Closing Conference

The contents of this report were discussed with Lee Straight, Vikki Day and Tara Buchholz on June 12, 2013.

KOHLMAN, BIERSCHBACH & ANDERSON, LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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INDEPENDENT AUDITORS' REPORT

City Council
City of Highmore
Highmore, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Highmore, South Dakota, as of December 31, 2012, and for each of the years in the biennial period then ended, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Adverse Opinion on Financial Statements as a Whole

We were unable to verify amounts reported for inventory and other current expenses in the Water Fund and the Sewer Fund. These financial activities represent 3 percent and 0 percent of the assets at December 31, 2012, and 3 percent and 0 percent of the assets at December 31, 2011, respectively, and 68 percent and 32 percent of the operating expenses for the year ended December 31, 2012, and 71 percent and 45 percent of the operating expenses for the year ended December 31, 2011, respectively, of the Water Fund and the Sewer Fund.

We were unable to verify the costs and existence of general capital assets. This represents 100 percent of the capital assets of the Governmental Activities on the Statement of Net Assets. Also, no depreciation was calculated for these governmental capital assets. We were also unable to verify the capital assets and depreciation expense in the Enterprise Funds. These financial activities represent 77 percent, 65 percent and 0 percent of the assets at December 31, 2012, and 70 percent, 68 percent and 0 percent of the assets at December 31, 2011, of the Water Fund, Sewer Fund, and Solid Waste Fund, and 7 percent, 34 percent and 0 percent of the operating expenses for the year ended December 31, 2012, and 10 percent, 33 percent and 0 percent of the operating expenses for the year ended December 31, 2011, of the Water Fund, Sewer Fund, and Solid Waste Fund.

Management did not record an intangible asset for water rights in the Water Fund. Net assets were overstated by \$145,125 on December 31, 2012, and \$139,160 on December 31, 2011. Expenses were understated by \$5,965 for the year ended December 31, 2012, and \$6,652 for the year ended December 31, 2011.

The financial statements referred to above include only the primary government of the City of Highmore, South Dakota, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statement of Housing and Redevelopment Commission of Highmore, South Dakota (HRC) and Highmore Swimming Pool Committee have not been audited, and we were not engaged to audit the HRC and Highmore Swimming Pool Committee financial statements as part of our audit of the City's basic financial statements. HRC's and Highmore Swimming Pool Committee's financial activities are not included in the City's basic financial statements as a discretely presented component unit.

The City has not prepared notes to the financial statements. As a result, numerous disclosures required by generally accepted accounting principles are not made a part of these financial statements.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion on Financial Statements as a Whole" paragraphs, the financial statements referred to above do not present fairly the financial position of the City of Highmore, South Dakota, as of December 31, 2012 and 2011, or the changes in financial position or, where applicable, cash flows thereof for each of the years in the biennial period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The City has omitted the Management's Discussion and Analysis (MD&A) and the Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the combining nonmajor fund financial statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Because of the significance of the matters described above in the "Basis for Adverse Opinion on Financial Statements as a Whole" paragraphs, it is inappropriate to and we do not express an opinion the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 5, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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's internal control over financial reporting and compliance.

Kohlerman, Bierbach & Anderson, LLP

September 5, 2013

CITY OF HIGHMORE
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 670,973	\$ 368,559	\$ 1,039,532
Investments	1,151,562	-	1,151,562
Accounts receivable, net	137,560	37,089	174,649
Inventories	-	18,693	18,693
Restricted Assets:			
Cash and cash equivalents	-	29,154	29,154
Capital Assets:			
Land, improvements and construction in progress	66,638	-	66,638
Other capital assets, net of depreciation	<u>3,801,844</u>	<u>1,029,452</u>	<u>4,831,296</u>
TOTAL ASSETS	<u><u>\$ 5,828,577</u></u>	<u><u>\$ 1,482,947</u></u>	<u><u>\$ 7,311,524</u></u>
LIABILITIES:			
Accounts payable	\$ 26,908	\$ 10,143	\$ 37,051
Other current liabilities	-	1,920	1,920
Noncurrent Liabilities:			
Due within one year	42,292	18,158	60,450
Due in more than one year	<u>953,713</u>	<u>405,001</u>	<u>1,358,714</u>
TOTAL LIABILITIES	<u>1,022,913</u>	<u>435,222</u>	<u>1,458,135</u>
NET POSITION:			
Net investment in capital assets	2,878,596	613,311	3,491,907
Restricted for:			
Debt service purposes	24,811	27,234	52,045
Third Penny Sales Tax Fund	48,431	-	48,431
Crane Fund	411	-	411
Lifeguard Fund	571	-	571
24/7 Sobriety Fund	2,254	-	2,254
Unrestricted	<u>1,850,590</u>	<u>407,180</u>	<u>2,257,770</u>
TOTAL NET POSITION	<u>4,805,664</u>	<u>1,047,725</u>	<u>5,853,389</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 5,828,577</u></u>	<u><u>\$ 1,482,947</u></u>	<u><u>\$ 7,311,524</u></u>

CITY OF HIGHMORE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business- Type Activities	
Primary Government:							
Governmental Activities:							
General government	\$ 68,094	\$ 35,847	\$ -	\$ -	\$ (32,247)	\$ -	\$ (32,247)
Public safety	76,808	-	-	-	(76,808)	-	(76,808)
Public works	151,422	35	46,050	225,564	120,227	-	120,227
Health and welfare	2,200	-	-	-	(2,200)	-	(2,200)
Culture and recreation	147,945	10,858	-	-	(137,087)	-	(137,087)
*Interest on long-term debt	51,880	-	-	-	(51,880)	-	(51,880)
Total Governmental Activities	498,349	46,740	46,050	225,564	(179,995)	-	(179,995)
Business-Type Activities:							
Water	222,896	145,989	-	-	-	(76,907)	(76,907)
Sewer	97,168	92,330	-	-	-	(4,838)	(4,838)
Solid Waste	116,079	118,065	-	-	-	1,986	1,986
Total Business-Type Activities	436,143	356,384	-	-	-	(79,759)	(79,759)
Total Primary Government	\$ 934,492	\$ 403,124	\$ 46,050	\$ 225,564	(179,995)	(79,759)	(259,754)
General Revenues:							
*The City does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.							
Taxes:							
Property taxes					404,687	-	404,687
Sales taxes					391,448	-	391,448
State shared revenues					6,452	-	6,452
Grants and contributions not restricted to specific programs					4,500	-	4,500
Unrestricted investment earnings					7,694	-	7,694
Miscellaneous revenue					9,758	-	9,758
Total General Revenues					824,539	-	824,539
Change in Net Position					644,544	(79,759)	564,785
Net Position - Beginning					4,161,120	1,127,484	5,288,604
Net Position - Ending					\$ 4,805,664	\$1,047,725	\$ 5,853,389

CITY OF HIGHMORE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business- Type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 87,381	\$ 42,557	\$ -	\$ -	\$ (44,824)	\$ -	\$ (44,824)
Public safety	72,919	-	-	-	(72,919)	-	(72,919)
Public works	172,188	-	37,482	566,877	432,171	-	432,171
Health and welfare	2,600	-	-	-	(2,600)	-	(2,600)
Culture and recreation	164,689	11,458	286	-	(152,945)	-	(152,945)
Conservation and development	7,188	-	-	-	(7,188)	-	(7,188)
*Interest on long-term debt	55,876	-	-	-	(55,876)	-	(55,876)
Total Governmental Activities	562,841	54,015	37,768	566,877	95,819	-	95,819
Business-Type Activities:							
Water	175,714	144,550	-	-	-	(31,164)	(31,164)
Sewer	100,824	89,914	-	-	-	(10,910)	(10,910)
Solid Waste	104,819	118,057	-	-	-	13,238	13,238
Total Business-Type Activities	381,357	352,521	-	-	-	(28,836)	(28,836)
Total Primary Government	\$ 944,198	\$ 406,536	\$ 37,768	\$ 566,877	95,819	(28,836)	66,983
General Revenues:							
Taxes:							
					376,700	-	376,700
					468,045	-	468,045
					5,735	-	5,735
					5,000	-	5,000
					10,312	-	10,312
					51,347	-	51,347
Total General Revenues					917,139	-	917,139
Change in Net Position					1,012,958	(28,836)	984,122
Net Position - Beginning					3,148,162	1,156,320	4,304,482
Net Position - Ending					\$ 4,161,120	\$ 1,127,484	\$ 5,288,604

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

CITY OF HIGHMORE
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General Fund	Swimming Pool Renovation (Capital Project) Fund	Sewer General Obligation Bond (Debt Service) Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 598,651	\$ -	\$ -	\$ 72,322	\$ 670,973
Investments	1,151,062	-	-	500	1,151,562
Taxes receivable - delinquent	11,480	-	1,863	-	13,343
Accounts receivable, net	25,308	-	-	-	25,308
Special assessments receivable - delinquent	-	-	-	583	583
Due from other funds	74,593	-	-	-	74,593
Due from federal government	22,093	-	-	-	22,093
Due from state government	75,023	-	-	1,210	76,233
TOTAL ASSETS	<u>\$1,958,210</u>	<u>\$ -</u>	<u>\$ 1,863</u>	<u>\$ 74,615</u>	<u>\$ 2,034,688</u>
LIABILITIES AND FUND BALANCES:					
LIABILITIES:					
Accounts payable	\$ 26,908	\$ -	\$ -	\$ -	\$ 26,908
Due to General Fund	-	45,923	28,670	-	74,593
Deferred revenue	43,194	-	1,863	1,424	46,481
TOTAL LIABILITIES	<u>70,102</u>	<u>45,923</u>	<u>30,533</u>	<u>1,424</u>	<u>147,982</u>
FUND BALANCES:					
Restricted	-	-	-	73,191	73,191
Assigned	90,345	-	-	-	90,345
Unassigned	1,797,763	(45,923)	(28,670)	-	1,723,170
TOTAL FUND BALANCES	<u>1,888,108</u>	<u>(45,923)</u>	<u>(28,670)</u>	<u>73,191</u>	<u>1,886,706</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$1,958,210</u>	<u>\$ -</u>	<u>\$ 1,863</u>	<u>\$ 74,615</u>	<u>\$ 2,034,688</u>

CITY OF HIGHMORE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012

Total Fund Balances - Governmental Funds	\$ 1,886,706
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,868,482
Long-term liabilities, including bonds payable and accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.	(996,005)
Assets, such as taxes receivable (delinquent) and special assessment receivables (current, delinquent and deferred), are not available to pay for current period expenditures and therefore are deferred in the funds.	<u>46,481</u>
Net Position - Governmental Activities	<u>\$ 4,805,664</u>

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

	General Fund	Swimming Pool Renovation (Capital Project) Fund	Sewer General Obligation Bond (Debt Service) Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
General property taxes	\$ 345,061	\$ -	\$ 55,987	\$ -	\$ 401,048
General sales and use taxes	392,114	-	-	7,049	399,163
Amusement taxes	264	-	-	-	264
Penalties and interest on delinquent taxes	1,012	-	164	-	1,176
Licenses and Permits	4,716	-	-	-	4,716
Intergovernmental Revenue:					
Federal grants	220,272	-	-	-	220,272
State grants	5,210	-	-	-	5,210
State shared revenue:					
Bank franchise tax	790	-	-	-	790
Motor vehicle commercial prorated	2,742	-	-	-	2,742
Liquor tax reversion	5,662	-	-	-	5,662
Motor vehicle licenses (5%)	17,282	-	-	-	17,282
Local government highway and bridge fund	25,631	-	-	-	25,631
County shared revenue:					
County road tax (25%)	395	-	-	-	395
Other intergovernmental revenues	59,308	-	-	-	59,308
Charges for Goods and Services:					
Highways and streets	35	-	-	-	35
Culture and recreation	10,858	-	-	-	10,858
Miscellaneous Revenue:					
Investment earnings	7,694	-	-	-	7,694
Rentals	31,131	-	-	-	31,131
Special assessments	-	-	-	453	453

(Continued on next page)

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012
(Continued)

	General Fund	Swimming Pool Renovation (Capital Project) Fund	Sewer General Obligation Bond (Debt Service) Fund	Other Governmental Funds	Total Governmental Funds
Contributions and donations from private sources	4,500	-	-	-	4,500
Other	951	-	-	-	951
TOTAL REVENUE	1,135,628	-	56,151	7,502	1,199,281
EXPENDITURES:					
General Government:					
Legislative	21,990	-	-	400	22,390
Elections	689	-	-	-	689
Financial administration	44,678	-	-	-	44,678
Public Safety:					
Police	49,308	-	-	-	49,308
Fire	27,500	-	-	-	27,500
Public Works:					
Highways and streets	147,357	-	-	-	147,357
Airport	3,729	-	-	-	3,729
Health and Welfare:					
Hospitals, nursing homes and rest homes	2,200	-	-	-	2,200
Culture and Recreation:					
Recreation	64,996	-	-	-	64,996
Parks	4,689	-	-	-	4,689
Auditorium	78,090	-	-	170	78,260
Debt Service	38,470	-	57,255	-	95,725
Capital Outlay	231,865	-	-	-	231,865

(Continued on next page)

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

(Continued)

	General Fund	Swimming Pool Renovation (Capital Project) Fund	Sewer General Obligation Bond (Debt Service) Fund	Other Governmental Funds	Total Governmental Funds
TOTAL EXPENDITURES	715,561	-	57,255	570	773,386
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	420,067	-	(1,104)	6,932	425,895
OTHER FINANCING SOURCES:					
Sale of municipal property	101,000	-	-	-	101,000
TOTAL OTHER FINANCING SOURCES	101,000	-	-	-	101,000
NET CHANGE IN FUND BALANCES	521,067	-	(1,104)	6,932	526,895
FUND BALANCE - BEGINNING	1,367,041	(45,923)	(27,566)	66,259	1,359,811
FUND BALANCE - ENDING	<u>\$1,888,108</u>	<u>\$ (45,923)</u>	<u>\$ (28,670)</u>	<u>\$ 73,191</u>	<u>\$ 1,886,706</u>

CITY OF HIGHMORE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 526,895

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. 231,865

In the statement of activities, losses \$44,440 on disposal of capital assets are reported,
whereas, in the governmental funds, the proceeds \$107,060 from the disposal of capital
assets are reflected, regardless of whether a gain or loss is realized. (151,501)

Payment of principal on long-term debt is an expenditure in the governmental funds but the
payment reduces long-term liabilities in the statement of net position:

General obligation bond	\$ 18,997	
Other long-term debt	<u>24,848</u>	43,845

The fund financial statement governmental fund property tax accruals differ from the
government-wide statement property tax accruals in that the fund financial statements
require the amounts to be "available". 2,199

Governmental funds report special assessments as revenue when "available", but the
statement of activities includes the full amount of special assessments as revenue upon
completion of the project at the point when an enforceable legal claim arises (371)

Governmental funds recognize expenditures for amounts of compensated absences actually
paid to employees with current financial resources during the fiscal 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 leave credits.

Vacation leave	\$ 541	
Other leave types	<u>132</u>	(673)

Revenues in the statement of activities that do not provide current financial resources
are not reported as revenues in the funds. (7,715)

Change in Net Position of Governmental Activities \$ 644,544

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011

	General Fund	Swimming Pool Renovation (Capital Project) Fund	Sewer General Obligation Bond (Debt Service) Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
General property taxes	\$ 326,346	\$ -	\$ 52,934	\$ -	\$ 379,280
General sales and use taxes	451,278	-	-	8,334	459,612
Amusement taxes	324	-	-	-	324
Tax deed revenue	523	-	-	-	523
Penalties and interest on delinquent taxes	1,815	-	273	-	2,088
Licenses and Permits	5,184	-	-	-	5,184
Intergovernmental Revenue:					
Federal grants	555,812	-	-	-	555,812
State grants	11,122	-	-	-	11,122
State shared revenue:					
Bank franchise tax	414	-	-	-	414
Motor vehicle commercial prorate	1,612	-	-	-	1,612
Liquor tax reversion	5,321	-	-	-	5,321
Motor vehicle licenses (5%)	14,321	-	-	-	14,321
Local government highway and bridge fund	21,154	-	-	-	21,154
County shared revenue:					
County road tax (25%)	395	-	-	-	395
Other intergovernmental revenues	64,000	-	-	-	64,000
Charges for Goods and Services:					
Culture and recreation	11,458	-	-	-	11,458
Miscellaneous Revenue:					
Investment earnings	10,312	-	-	-	10,312
Rentals	37,373	-	-	-	37,373
Special assessments	-	-	-	18,454	18,454

(Continued on next page)

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011
(Continued)

	General Fund	Swimming Pool Renovation (Capital Project) Fund	Sewer General Obligation Bond (Debt Service) Fund	Other Governmental Funds	Total Governmental Funds
Contributions and donations from private sources	5,000	-	-	-	5,000
Other	1,641	-	-	-	1,641
TOTAL REVENUE	1,525,405	-	53,207	26,788	1,605,400
EXPENDITURES:					
General Government:					
Legislative	22,757	-	-	588	23,345
Elections	56	-	-	-	56
Financial administration	63,454	-	-	-	63,454
Public Safety:					
Police	45,419	-	-	-	45,419
Fire	27,500	-	-	-	27,500
Public Works:					
Highways and streets	160,464	-	-	-	160,464
Airport	5,959	-	-	-	5,959
Cemeteries	240	-	-	-	240
Transit	5,000	-	-	-	5,000
Health and Welfare:					
Hospitals, nursing homes and rest homes	2,600	-	-	-	2,600
Culture and Recreation:					
Recreation	52,054	-	-	1,500	53,554
Parks	2,433	-	-	-	2,433
Auditorium	103,237	-	-	5,465	108,702
Conservation and Development:					

(Continued on next page)

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011
(Continued)

	General Fund	Swimming Pool Renovation (Capital Project) Fund	Sewer General Obligation Bond (Debt Service) Fund	Other Governmental Funds	Total Governmental Funds
Economic development and assistance (industrial development)	-	-	-	7,188	7,188
Debt Service	47,765	-	48,460	24,238	120,463
Capital Outlay	598,014	-	-	-	598,014
TOTAL EXPENDITURES	<u>1,136,952</u>	<u>-</u>	<u>48,460</u>	<u>38,979</u>	<u>1,224,391</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>388,453</u>	<u>-</u>	<u>4,747</u>	<u>(12,191)</u>	<u>381,009</u>
OTHER FINANCING SOURCES:					
Transfers in	4,345	-	-	-	4,345
Sale of municipal property	2,710	-	-	-	2,710
TOTAL OTHER FINANCING SOURCES	<u>7,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,055</u>
NET CHANGE IN FUND BALANCES	395,508	-	4,747	(12,191)	388,064
FUND BALANCE - BEGINNING	<u>971,533</u>	<u>(45,923)</u>	<u>(32,313)</u>	<u>78,450</u>	<u>971,747</u>
FUND BALANCE - ENDING	<u>\$1,367,041</u>	<u>\$ (45,923)</u>	<u>\$ (27,566)</u>	<u>\$ 66,259</u>	<u>\$ 1,359,811</u>

CITY OF HIGHMORE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011

Net Change in Fund Balances - Total Governmental Funds \$ 388,064

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. 598,014

In the statement of activities, losses \$14,294 on disposal of capital assets are reported,
whereas, in the governmental funds, the proceeds \$2,710 from the disposal of capital
assets are reflected, regardless of whether a gain or loss is realized. (17,004)

Payment of principal on long-term debt is an expenditure in the governmental funds but the
payment reduces long-term liabilities in the statement of net position:

General obligation bond	\$ 17,504	
Special assessment bond	22,975	
Other long-term debt	24,108	64,587

The fund financial statement governmental fund property tax accruals differ from the
government-wide statement property tax accruals in that the fund financial statements
require the amounts to be "available". (5,515)

Governmental funds report special assessments as revenue when "available", but the
statement of activities includes the full amount of special assessments as revenue upon
completion of the project at the point when an enforceable legal claim arises (18,225)

Governmental funds recognize expenditures for amounts of compensated absences actually
paid to employees with current financial resources during the fiscal 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 leave credits.

Vacation leave	\$ 965	
Other leave types	86	(1,051)

Revenues in the statement of activities that do not provide current financial resources
are not reported as revenues in the funds. 8,433

Internal service funds are used by management to charge the costs of certain activities
such as insurance to individual funds. The net expense of the internal service funds is
reported with governmental activities. (4,345)

Change in Net Position of Governmental Activities \$ 1,012,958

CITY OF HIGHMORE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 85,703	\$ 272,835	\$ 10,021	\$ 368,559
Accounts receivable, net	19,419	7,370	10,300	37,089
Inventory of supplies	18,693	-	-	18,693
Total Current Assets	123,815	280,205	20,321	424,341
Noncurrent Assets:				
Restricted cash and cash equivalents	19,596	9,558	-	29,154
Capital Assets:				
Buildings	129,250	-	-	129,250
Improvements other than buildings	853,481	1,216,564	-	2,070,045
Machinery and equipment	-	-	112,244	112,244
Less: accumulated depreciation	(496,021)	(673,822)	(112,244)	(1,282,087)
Total Noncurrent Assets	506,306	552,300	-	1,058,606
TOTAL ASSETS	\$ 630,121	\$ 832,505	\$ 20,321	\$ 1,482,947
LIABILITIES:				
Current Liabilities:				
Accounts payable	\$ 8,009	\$ 289	\$ 1,845	\$ 10,143
Customer deposits	1,920	-	-	1,920
Bonds Payable Current:				
Revenue	5,403	12,522	-	17,925
Total Current Liabilities	15,332	12,811	1,845	29,988
Noncurrent Liabilities:				
Bonds Payable:				
Revenue	241,242	156,973	-	398,215
Accrued leave payable	3,446	1,664	1,909	7,019
Total Noncurrent Liabilities	244,688	158,637	1,909	405,234
NET POSITION:				
Net investment in capital assets	240,064	373,247	-	613,311
Restricted for:				
Revenue bond debt service	17,676	9,558	-	27,234
Unrestricted	112,361	278,252	16,567	407,180
Total Net Position	370,101	661,057	16,567	1,047,725
TOTAL LIABILITIES AND NET POSITION	\$ 630,121	\$ 832,505	\$ 20,321	\$ 1,482,947

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
OPERATING REVENUE:				
Charges for goods and services	\$ 145,989	\$ 92,330	\$ 118,065	\$ 356,384
TOTAL OPERATING REVENUE	<u>145,989</u>	<u>92,330</u>	<u>118,065</u>	<u>356,384</u>
OPERATING EXPENSES:				
Personal services	50,864	30,911	63,328	145,103
Other current expense	144,258	28,906	52,751	225,915
Depreciation	15,498	31,153	-	46,651
TOTAL OPERATING EXPENSES	<u>210,620</u>	<u>90,970</u>	<u>116,079</u>	<u>417,669</u>
OPERATING INCOME (LOSS)	<u>(64,631)</u>	<u>1,360</u>	<u>1,986</u>	<u>(61,285)</u>
NONOPERATING EXPENSE:				
Interest expense	(12,276)	(6,198)	-	(18,474)
TOTAL NONOPERATING EXPENSE	<u>(12,276)</u>	<u>(6,198)</u>	<u>-</u>	<u>(18,474)</u>
CHANGE IN NET POSITION	(76,907)	(4,838)	1,986	(79,759)
NET POSITION - BEGINNING	<u>447,008</u>	<u>665,895</u>	<u>14,581</u>	<u>1,127,484</u>
NET POSITION - ENDING	<u>\$ 370,101</u>	<u>\$ 661,057</u>	<u>\$ 16,567</u>	<u>\$ 1,047,725</u>

CITY OF HIGHMORE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash receipts from customers	\$ 147,163	\$ 92,123	\$ 117,869	\$ 357,155
Cash payments to employees for services	(51,293)	(31,072)	(62,504)	(144,869)
Cash payments to suppliers of goods and services	<u>(144,693)</u>	<u>(28,617)</u>	<u>(58,293)</u>	<u>(231,603)</u>
Net cash provided (used) by operating activities	<u>(48,823)</u>	<u>32,434</u>	<u>(2,928)</u>	<u>(19,317)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Interest paid on capital debt	(12,276)	(6,198)	-	(18,474)
Principal paid on capital debt	<u>(5,400)</u>	<u>(12,093)</u>	<u>-</u>	<u>(17,493)</u>
Net cash used by capital and related financing activities	<u>(17,676)</u>	<u>(18,291)</u>	<u>-</u>	<u>(35,967)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(66,499)	14,143	(2,928)	(55,284)
BALANCES - BEGINNING	<u>171,798</u>	<u>268,250</u>	<u>12,949</u>	<u>452,997</u>
BALANCES - ENDING	<u>\$ 105,299</u>	<u>\$ 282,393</u>	<u>\$ 10,021</u>	<u>\$ 397,713</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (64,631)	\$ 1,360	\$ 1,986	\$ (61,285)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	15,498	31,153	-	46,651
Change in assets and liabilities:				
Accounts receivable	1,054	(207)	(196)	651
Accounts payable	(435)	289	(5,542)	(5,688)

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
Customer deposits	120	-	-	120
Accrued leave payable	(429)	(161)	824	234
Net cash provided (used) by operating activities	<u>\$ (48,823)</u>	<u>\$ 32,434</u>	<u>\$ (2,928)</u>	<u>\$ (19,317)</u>

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011

	Enterprise Funds			Totals	Internal Service Fund
	Water Fund	Sewer Fund	Solid Waste Fund		
OPERATING REVENUE:					
Charges for goods and services	\$144,550	\$ 89,914	\$118,057	\$ 352,521	\$ -
TOTAL OPERATING REVENUE	<u>144,550</u>	<u>89,914</u>	<u>118,057</u>	<u>352,521</u>	<u>-</u>
OPERATING EXPENSES:					
Personal services	31,944	20,308	55,121	107,373	-
Other current expense	115,573	42,751	49,698	208,022	-
Depreciation	15,498	31,153	-	46,651	-
TOTAL OPERATING EXPENSES	<u>163,015</u>	<u>94,212</u>	<u>104,819</u>	<u>362,046</u>	<u>-</u>
OPERATING INCOME (LOSS)	<u>(18,465)</u>	<u>(4,298)</u>	<u>13,238</u>	<u>(9,525)</u>	<u>-</u>
NONOPERATING EXPENSE:					
Interest expense	<u>(12,699)</u>	<u>(6,612)</u>	<u>-</u>	<u>(19,311)</u>	<u>-</u>
TOTAL NONOPERATING EXPENSE	<u>(12,699)</u>	<u>(6,612)</u>	<u>-</u>	<u>(19,311)</u>	<u>-</u>
INCOME (LOSS) BEFORE TRANSFERS	(31,164)	(10,910)	13,238	(28,836)	-
TRANSFERS OUT	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,345)</u>
CHANGE IN NET POSITION	(31,164)	(10,910)	13,238	(28,836)	(4,345)
NET POSITION - BEGINNING	<u>478,172</u>	<u>676,805</u>	<u>1,343</u>	<u>1,156,320</u>	<u>4,345</u>
NET POSITION - ENDING	<u>\$447,008</u>	<u>\$665,895</u>	<u>\$ 14,581</u>	<u>\$1,127,484</u>	<u>\$ -</u>

CITY OF HIGHMORE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011

	Enterprise Funds			Totals	Internal Service Fund
	Water Fund	Sewer Fund	Solid Waste Fund		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash receipts from customers	\$143,004	\$ 90,704	\$117,416	\$ 351,124	\$ -
Cash payments to employees for services	(31,602)	(19,802)	(55,981)	(107,385)	-
Cash payments to suppliers of goods and services	<u>(118,512)</u>	<u>(38,472)</u>	<u>(47,456)</u>	<u>(204,440)</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>(7,110)</u>	<u>32,430</u>	<u>13,979</u>	<u>39,299</u>	<u>-</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Decrease in due to General Fund	-	-	(1,030)	(1,030)	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,345)</u>
Net cash used by noncapital financing activities	<u>-</u>	<u>-</u>	<u>(1,030)</u>	<u>(1,030)</u>	<u>(4,345)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	-	(19,835)	-	(19,835)	-
Interest paid on capital debt	(12,699)	(6,612)	-	(19,311)	-
Principal paid on capital debt	<u>(4,978)</u>	<u>(11,679)</u>	<u>-</u>	<u>(16,657)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(17,677)</u>	<u>(38,126)</u>	<u>-</u>	<u>(55,803)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,787)	(5,696)	12,949	(17,534)	(4,345)
BALANCES - BEGINNING	<u>196,585</u>	<u>273,946</u>	<u>-</u>	<u>470,531</u>	<u>4,345</u>
BALANCES - ENDING	<u><u>\$171,798</u></u>	<u><u>\$268,250</u></u>	<u><u>\$ 12,949</u></u>	<u><u>\$452,997</u></u>	<u><u>\$ -</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$(18,465)	\$ (4,298)	\$ 13,238	\$ (9,525)	\$ -
Adjustments to reconcile operating income					

	Enterprise Funds			Totals	Internal Service Fund
	Water Fund	Sewer Fund	Solid Waste Fund		
(loss) to net cash provided (used) by operating activities:					
Depreciation	15,498	31,153	-	46,651	-
Change in assets and liabilities:					
Accounts receivable	(1,666)	790	(641)	(1,517)	-
Inventories	(2,681)	4,279	-	1,598	-
Accounts payable	(258)	-	2,242	1,984	-
Customer deposits	120	-	-	120	-
Accrued leave payable	342	506	(860)	(12)	-
Net cash provided (used) by operating activities	<u>\$ (7,110)</u>	<u>\$ 32,430</u>	<u>\$ 13,979</u>	<u>\$ 39,299</u>	<u>\$ -</u>

CITY OF HIGHMORE
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$ <u>1,354</u>
TOTAL ASSETS	\$ <u><u>1,354</u></u>
LIABILITIES:	
Amounts held for others	\$ <u>1,354</u>
TOTAL LIABILITIES	<u>1,354</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u><u>1,354</u></u>

SUPPLEMENTARY INFORMATION

CITY OF HIGHMORE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	Third Penny Sales Tax Fund	Crane Fund	Lifeguard Fund	24/7 Sobriety Fund	Special Assessment (Debt Service) Fund	Total Nonmajor Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 47,221	\$ 411	\$ 71	\$ 2,254	\$ 22,365	\$ 72,322
Investments	-	-	500	-	-	500
Special assessments receivable - delinquent	-	-	-	-	583	583
Due from state government	<u>1,210</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,210</u>
TOTAL ASSETS	<u><u>\$ 48,431</u></u>	<u><u>\$ 411</u></u>	<u><u>\$ 571</u></u>	<u><u>\$ 2,254</u></u>	<u><u>\$ 22,948</u></u>	<u><u>\$ 74,615</u></u>
LIABILITIES AND FUND BALANCES:						
LIABILITIES:						
Deferred revenue	<u>\$ 841</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 583</u>	<u>\$ 1,424</u>
TOTAL LIABILITIES	<u>841</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>583</u>	<u>1,424</u>
FUND BALANCES:						
Restricted	<u>47,590</u>	<u>411</u>	<u>571</u>	<u>2,254</u>	<u>22,365</u>	<u>73,191</u>
TOTAL FUND BALANCES	<u>47,590</u>	<u>411</u>	<u>571</u>	<u>2,254</u>	<u>22,365</u>	<u>73,191</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 48,431</u></u>	<u><u>\$ 411</u></u>	<u><u>\$ 571</u></u>	<u><u>\$ 2,254</u></u>	<u><u>\$ 22,948</u></u>	<u><u>\$ 74,615</u></u>

CITY OF HIGHMORE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

	Third Penny Sales Tax Fund	Crane Fund	Lifeguard Fund	24/7 Sobriety Fund	Special Assessment (Debt Service) Fund	Total Nonmajor Governmental Funds
REVENUES:						
Taxes:						
General sales and use taxes	\$ 7,049	\$ -	\$ -	\$ -	\$ -	\$ 7,049
Miscellaneous Revenue:						
Special assessments	-	-	-	-	453	453
TOTAL REVENUE	<u>7,049</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>453</u>	<u>7,502</u>
EXPENDITURES:						
General Government:						
Legislative	400	-	-	-	-	400
Culture and Recreation:						
Auditorium	-	170	-	-	-	170
TOTAL EXPENDITURES	<u>400</u>	<u>170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>570</u>
NET CHANGE IN FUND BALANCES	6,649	(170)	-	-	453	6,932
FUND BALANCE - BEGINNING	<u>40,941</u>	<u>581</u>	<u>571</u>	<u>2,254</u>	<u>21,912</u>	<u>66,259</u>
FUND BALANCE - ENDING	<u>\$ 47,590</u>	<u>\$ 411</u>	<u>\$ 571</u>	<u>\$ 2,254</u>	<u>\$ 22,365</u>	<u>\$ 73,191</u>

CITY OF HIGHMORE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011

	Third Penny Sales Tax Fund	Crane Fund	Lifeguard Fund	24/7 Sobriety Fund	Special Assessment (Debt Service) Fund	Total Nonmajor Governmental Funds
REVENUES:						
Taxes:						
General sales and use taxes	\$ 8,334	\$ -	\$ -	\$ -	\$ -	\$ 8,334
Miscellaneous Revenue:						
Special assessments	-	-	-	-	18,454	18,454
TOTAL REVENUE	<u>8,334</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,454</u>	<u>26,788</u>
EXPENDITURES:						
General Government:						
Legislative	588	-	-	-	-	588
Culture and Recreation:						
Recreation	-	-	1,500	-	-	1,500
Auditorium	5,465	-	-	-	-	5,465
Conservation and Development:						
Economic development and assistance (industrial development)	7,188	-	-	-	-	7,188
Debt Service	-	-	-	-	24,238	24,238
TOTAL EXPENDITURES	<u>13,241</u>	<u>-</u>	<u>1,500</u>	<u>-</u>	<u>24,238</u>	<u>38,979</u>
NET CHANGE IN FUND BALANCES	(4,907)	-	(1,500)	-	(5,784)	(12,191)
FUND BALANCE - BEGINNING	<u>45,848</u>	<u>581</u>	<u>2,071</u>	<u>2,254</u>	<u>27,696</u>	<u>78,450</u>
FUND BALANCE - ENDING	<u>\$ 40,941</u>	<u>\$ 581</u>	<u>\$ 571</u>	<u>\$ 2,254</u>	<u>\$ 21,912</u>	<u>\$ 66,259</u>

CITY OF HIGHMORE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
TWO YEARS ENDED DECEMBER 31, 2012 AND 2011

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Expenditures 2012	Expenditures 2011
US Department of Transportation:			
Other Programs:			
Indirect Federal Funding:			
SD Department of Transportation, Airport Improvement Program (Note 2)	20.106	\$ 220,271	\$ 555,526
Total US Department of Transportation		<u>220,271</u>	<u>555,526</u>
US Department of Education:			
Other Programs:			
Indirect Federal Funding:			
SD Department of Human Services, Rehabilitation Services - Vocational Grants to States	84.126	-	286
Total US Department of Education		<u>-</u>	<u>286</u>
GRAND TOTAL		<u>\$ 220,271</u>	<u>\$ 555,812</u>

Note 1: This accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Note 2: This represents a Major Federal Financial Assistance Program.