

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

**INDEPENDENT AUDIT SERVICES, P.C.**

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Benjamin Elliott, CPA  
P.O. Box 262  
Madison, South Dakota 57042

CITY OF HOVEN  
HOVEN, SOUTH DAKOTA  
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FOR THE TWO YEARS ENDING DECEMBER 31, 2013

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

# INDEPENDENT AUDIT SERVICES, PC

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Governing Board  
City of Hoven  
Hoven, South Dakota

## INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying modified cash basis of accounting financial statements of governmental activities, business-type activities, and each major fund of the City of Hoven (City), Potter County, South Dakota, as of December 31, 2013 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements 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 the modified cash basis of accounting described in note 1.c; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### *Auditor's Responsibility*

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

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

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my unmodified audit opinions on governmental activities, business-type activities, and each major fund.

### *Unmodified Opinions*

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of governmental activities, business-type activities, and each major fund of the City of Hoven, South Dakota, as of December 31, 2013, and the respective changes in its financial position and, where applicable, cash flows thereof for each of the years in the biennial period then ended, in accordance with the modified cash basis of accounting described in note 1.c to these financial statements.

*Emphasis of Matter - Modified Cash Basis of Accounting*

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

*Other Matters - Other Supplementary Information (No Opinion)*

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of Hoven's financial statements. The management's discussion and analysis (page 4 to 9) and the budgetary comparison schedule (page 29 and 33) are presented for purposes of additional analysis and are not a required part of the modified cash basis of accounting financial statements.

I have applied certain limited procedures to this supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the formation and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on this information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

*Other Matters - Other Supplementary Information (Opinion)*

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of Hoven's financial statements.

The schedule of changes in long-term debt (page 34) is presented for the purpose of additional analysis and is not a required part of the modified cash basis of accounting financial statements.

The accompanying schedule of expenditures of federal awards, (page 35) required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The schedule of changes in long-term debt and the schedule of expenditures of federal awards is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the modified cash basis of accounting financial statements. The information has been subject to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In my opinion, the schedule of changes in long-term debt and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the modified cash basis of accounting financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report (page 36) dated September 30, 2014 on my tests of City of Hoven's compliance with certain provisions of laws, regulations, contracts and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting.

Independent Audit Services, PC  
Benjamin Elliott, CPA  
Madison, South Dakota  
September 30, 2014



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of the City of Hoven (City) financial performance provides an overview of the City's financial activities for the two years ending December 31, 2013, within the limitations of the City's modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

	2013	2012
Receipts:		
Charges for goods and services	476,882	491,347
Operating grants	6,000	6,000
Capital grants	296,753	764,189
General receipts	364,844	346,140
Bond proceeds		311,000
	-----	-----
Total	1,144,479	1,918,676
	-----	-----
Disbursements:		
Governmental	289,389	416,085
Business-type	681,632	1,477,732
	-----	-----
Total	971,021	1,893,817
	-----	-----
Increase in Net Position	173,458	24,859
Net Position:		
December 31, 2011		806,195
		-----
December 31, 2012	831,054	831,054
	-----	=====
December 31, 2013	1,004,512	
	=====	
Governmental Funds:		
General	21,619	18,302
1st Cent	329,385	282,880
2nd Cent	174,599	138,211
Business-Type Funds:		
Liquor	62,402	73,165
Water	187,521	126,775
Sewer	207,862	185,316
Airport	21,124	6,405
	-----	-----
Total	1,004,512	831,054
	=====	=====

During 2013, the City:

- \* Received \$126,948 in property taxes.
- \* Received \$156,614 in sales tax.
- \* Received \$10,929 from video lottery.
  
- \* Received \$166,576 in grants for water and wastewater projects.
- \* Paid \$135,710 for water and wastewater projects.
  
- \* Received \$130,177 in grants for an airport project.
- \* Paid \$113,869 for an airport project.
  
- \* Made principal payments of \$21,607 on its sales tax revenue bond.
- \* Made principal payments of \$4,208 on its 2010 water and sewer revenue bond.

During 2012, the City:

- \* Received \$130,808 in property taxes.
- \* Received \$154,569 in sales tax.
- \* Received \$13,441 from video lottery.
  
- \* Received \$88,976 in grants for its wastewater project.
- \* Issued a 2010 water and sewer revenue bond for \$311,000.
- \* Paid \$446,333 for water and wastewater projects.
  
- \* Received \$579,821 in grants for an airport project.
- \* Paid \$604,848 for an airport project.
  
- \* Made principal payments of \$20,775 on its sales tax revenue bond.
- \* Made principal payments of \$3,748 on its 2010 water and sewer revenue bond.

Cash basis liquor sale and cost of sales is as follows:

	2013	2012
Cash basis sales	\$ 253,208	\$ 272,423
Cash cost of sales (product only)	(140,674)	(142,686)
	-----	-----
Cash gross profit	\$ 112,534	\$ 129,737

**BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS**

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements and (3) required supplementary information. The basic financial statements include two kinds of statements that present the City from two different financial points of view.

**Government-wide financial statements (View #1):**

The first three statements are government-wide financial statements that provide information about the City's overall financial status.

**Fund financial statements (View #2):**

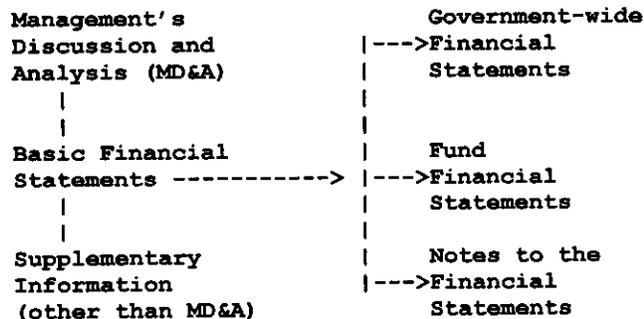
The remaining financial statements are fund financial statements that focus on individual parts of the City's operations: the governmental and enterprise activities of the City.

The governmental fund financial statements tell how general governmental services were financed and what remains for future spending.

The enterprise fund financial statements offer financial information about activities the City operates like a business. Enterprise funds operated by the City are liquor, water, sewer, and airport funds.

The financial statements also include notes that explain in more detail some of the information found in the financial statements. The financial statements are followed by a section of required supplementary information that further explains and supports information found in the financial statements.

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



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

	Government-wide	Fund Statements-----	
	Statements	Governmental	Enterprise
		Funds	Funds
Scope	Entire City (including component units if any)	City activities except enterprise	Activities operated like a private business (ie: water, sewer)
Required Financial Statements	Statement of Net Position	Balance Sheet	Statement of Net Position
	Statement of Activities	Statement of Receipts, Disbursements and Changes in Fund Balances	Statement of Receipts, Disbursements and Changes in Fund Net Position
Basis of Accounting	Modified Cash	Modified Cash	Modified Cash
Measurement Focus	Cash and CDs	Cash and CDs	Cash and CDs
Types of assets & Liabilities	Only cash and CDs No liabilities	Only cash and CDs No liabilities	Only cash and CDs No liabilities
Types of Revenue and Expenditures or Expense	Cash receipts Cash disbursements	Cash receipts Cash disbursements	Cash receipts Cash disbursements

CDs = certificates of deposit

#### GOVERNMENT-WIDE STATEMENTS

(Reporting the City as a whole)

The government-wide statements report information about the City as a whole using cash accounting methods similar to those used by private-sector companies.

The statement of net position includes all of the City's cash. The statement of activities includes all of the year's receipts and disbursements.

The two government-wide statements report the City's net position and how they have changed. Net position includes the City's petty cash, checking accounts, savings accounts, lottery cash, and certificates of deposit. The change in these accounts is one way to measure the City's financial health. Increases or decreases in net position measures improvements or declines in the City's financial health. To assess the City's overall financial health you also need to consider other factors such as changes in the property tax base, and/or sales tax receipts generated from local businesses.

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

The governmental activities include basic services such as public safety, maintenance of streets, and ambulance services. Property taxes, sales taxes, and interest earnings finance most of these activities.

The business-type activities account for the City's liquor, water, sewer, and airport activities. These services are paid for mostly by user fees and grants and loans for capital projects.

**FUND FINANCIAL STATEMENTS**

(Reporting the City's most significant funds)

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools used to keep track of the City's receipts and disbursements. State law requires the use of some funds and the City can establish other funds to manage money for a specific purpose.

Fund financial statements show information in two broad categories: governmental and business-type (enterprise).

**Governmental funds:** Most of the City's basic services are included in the governmental funds, which focus on (1) how cash flows in and out of that fund, and (2) cash balances left at year-end which are available for spending in the next year. The governmental funds statements provide detail that helps you determine whether there is more or fewer cash resources available for spending in the near future to finance the City's programs.

**Enterprise funds:** Services for which the City charges the customer a fee are generally reported in enterprise funds. These funds account for cash and the receipt and disbursement of cash, the same as the governmental funds. The liquor, water, sewer, and airport funds are the only enterprise funds maintained by the City.

**MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES**

(Material changes for governmental activities = changes greater than \$40,000)  
 (Material changes for business-type activities = changes greater than \$75,000)

<u>2013 Year:</u>	Increase (Decrease)	Reason
<b>Governmental Activities:</b>		
Cash	87,000	Excess receipts less net transfers out of \$8,000.
Capital grants	(95,000)	No funding for sewer project in 2013.
Public works	(115,000)	Sewer improvements completed in 2012.
<b>Business-type Activities:</b>		
Cash	87,000	Excess receipts plus net transfers in of \$8,000.
Capital grants	(372,000)	Completed sewer and airport projects.
Sewer costs	(345,000)	Completed sewer project in 2013.
Airport costs	(507,000)	Completed airport project in 2013.
Revenue bond proceeds	(311,000)	Issued bond in 2012.
<u>2012 Year:</u>	Increase (Decrease)	Reason
<b>Governmental Activities:</b>		
Cash	59,000	Excess receipts plus net transfers in of \$11,000.
Capital grants	(319,000)	Sewer project completed in 2012.
Public works	(375,000)	Sewer improvements completed in 2012.
Ambulance	(65,000)	Extra training in 2011 because hospital closed in 2010.
<b>Business-type Activities:</b>		
Capital grants	593,000	For sewer and airport projects.
Sewer costs	417,000	For sewer project.
Airport costs	528,000	For airport project.
Revenue bond proceeds	311,000	Issued sewer bond.

## SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

The City's 2013 general fund budget of \$275,900 is a decrease of \$10,500 or 3.67% from 2012. The decrease was spread across several budget line items. There were no general fund supplemental appropriations in 2013. See page 29 for more information.

The City's 2012 general fund budget of \$286,400 is a decrease of \$22,490 or 7.28% from 2011. The decrease was mainly against the ambulance line item. There was one supplemental appropriation affecting the ambulance line item. See page 30 for more information.

## SIGNIFICANT CAPITAL ASSET ACTIVITY

Significant capital asset activity is discussed above.

## SIGNIFICANT LONG-TERM DEBT ACTIVITY

Significant long-term debt activity is reported above. The City is current on all long-term debt. See page 34 for more information.

## CURRENTLY KNOWN FACTS

In 2014 the City began construction of a water line and water meter replacement project for a total cost of \$2,048,000. Funding will be a Rural Development (USDA) loan of \$822,000; a Rural Development forgivable loan of \$750,000; a CDBG grant of \$412,000; and City cash of \$64,000. In 2013 \$100,880 of the forgivable loan was spent on engineering fees for this project.

In September 2013 the City passed a motion to keep City Hall on Main Street with the clinic. In November 2013 the City passed a motion to deed City Hall land to the Hoven Area Health Care Clinic.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City'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 Hoven's finance office at P.O. Box 157, Hoven, SD 57450 or telephone us at (605) 948-2257.

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

	Governmental Activities			Business-Type Activities			Total Government		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
<b>Assets:</b>									
Cash and certificates of deposit	526	439	380	479	392	426	1,005	831	806
<b>Total assets</b>	<b>526</b>	<b>439</b>	<b>380</b>	<b>479</b>	<b>392</b>	<b>426</b>	<b>1,005</b>	<b>831</b>	<b>806</b>
<b>Net Position:</b>									
Restricted	504	421	371	27	19	1	531	440	372
Unrestricted	22	18	9	452	373	425	474	391	434
<b>Total net position</b>	<b>526</b>	<b>439</b>	<b>380</b>	<b>479</b>	<b>392</b>	<b>426</b>	<b>1,005</b>	<b>831</b>	<b>806</b>

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

	Governmental Activities			Business-Type Activities			Total Government		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
<b>Receipts:</b>									
<b>Program receipts:</b>									
Charges for services	20	23	8	457	468	453	477	491	461
Operating grants and contri.	6	6	6				6	6	6
Capital grants and contri.		95	414	297	669	76	297	764	490
<b>General receipts:</b>									
Property taxes	127	131	119				127	131	119
Sales tax	157	154	151				157	154	151
State shared receipts	29	28	23				29	28	23
County shared receipts	1	1	1				1	1	1
Investment earnings	10	9	10	1	1	1	11	10	11
Rents				6	6	6	6	6	6
Donations	19	11	29				19	11	29
Other general receipts	15	6	8				15	6	8
<b>Total receipts</b>	<b>384</b>	<b>464</b>	<b>769</b>	<b>761</b>	<b>1,144</b>	<b>536</b>	<b>1,145</b>	<b>1,608</b>	<b>1,305</b>
<b>Disbursements:</b>									
General government	62	65	69				62	65	69
Public safety	32	30	33				32	30	33
Public works	69	184	559				69	184	559
Health and welfare	56	62	127				56	62	127
Culture and recreation	33	38	30				33	38	30
Economic development	1	1					1	1	0
Debt service	36	36	36				36	36	36
Liquor				254	245	250	254	245	250
Water				166	116	82	166	116	82
Sewer				131	476	59	131	476	59
Airport				131	638	110	131	638	110
<b>Total disbursements</b>	<b>289</b>	<b>416</b>	<b>854</b>	<b>682</b>	<b>1,475</b>	<b>501</b>	<b>971</b>	<b>1,891</b>	<b>1,355</b>
<b>Excess of receipts over (under) disbursements</b>	<b>95</b>	<b>48</b>	<b>(85)</b>	<b>79</b>	<b>(331)</b>	<b>35</b>	<b>174</b>	<b>(283)</b>	<b>(50)</b>
<b>Transfers</b>	<b>(8)</b>	<b>11</b>	<b>21</b>	<b>8</b>	<b>(11)</b>	<b>(21)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Sewer revenue bond proceeds</b>					<b>311</b>		<b>0</b>	<b>311</b>	<b>0</b>
<b>Sewer revenue bond costs</b>					<b>(3)</b>		<b>0</b>	<b>(3)</b>	<b>0</b>
<b>Change in net position</b>	<b>87</b>	<b>59</b>	<b>(64)</b>	<b>87</b>	<b>(34)</b>	<b>14</b>	<b>174</b>	<b>25</b>	<b>(50)</b>
<b>Net Position:</b>									
December 31, 2010			444			412			856
December 31, 2011		380	380		426	426		806	806
December 31, 2012	439	439		392	392		831	831	
December 31, 2013	526			479			1,005		

CITY OF HOVEN

STATEMENT OF NET POSITION  
 MODIFIED CASH BASIS  
 AS OF DECEMBER 31, 2013

	Primary Government		
	Governmental	Business-	Total
	Activities	Type	
	Activities	Activities	Total
<b>Assets:</b>			
Cash and certificates of deposits	525,603	478,909	1,004,512
<b>Total assets</b>	<u>525,603</u>	<u>478,909</u>	<u>1,004,512</u>
<b>Net Position:</b>			
Restricted - debt service		13,368	13,368
Restricted - asset replacement		13,915	13,915
Unrestricted	525,603	451,626	977,229
<b>Total net position</b>	<u>525,603</u>	<u>478,909</u>	<u>1,004,512</u>

See accompanying notes.





CITY OF HOVEN

BALANCE SHEET -- MODIFIED CASH BASIS  
 GOVERNMENTAL FUNDS  
 AS OF DECEMBER 31, 2013

	General Fund	1st Cent Fund	2nd Cent Fund	Total Governmental Funds
	-----	-----	-----	-----
<b>Assets:</b>				
Cash and certificates of deposit	21,619	329,385	174,599	525,603
	-----	-----	-----	-----
<b>Total assets</b>	<b>21,619</b>	<b>329,385</b>	<b>174,599</b>	<b>525,603</b>
	=====	=====	=====	=====
 <b>Fund Balance:</b>				
Nonspendable				0
Restricted				0
Committed		329,385	174,599	503,984
Assigned				0
Unassigned	21,619			21,619
	-----	-----	-----	-----
<b>Total fund balances</b>	<b>21,619</b>	<b>329,385</b>	<b>174,599</b>	<b>525,603 *</b>
	=====	=====	=====	=====

\* Total net position on government-wide  
 statement of net position.

See accompanying notes.

## CITY OF HOVEN

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND  
BALANCES -- MODIFIED CASH BASIS -- ALL GOVERNMENTAL FUNDS  
FOR THE YEAR ENDING DECEMBER 31, 2013  
FOR THE YEAR ENDING DECEMBER 31, 2012

	2013				2012			
	General Fund	1st Cent Fund	2nd Cent Fund	Total	General Fund	1st Cent Fund	2nd Cent Fund	Total
<b>Receipts:</b>								
Receipts from local sources:								
Taxes:								
Ad valorem taxes	126,948			126,948	130,808			130,808
General sales and use taxes		78,307	78,307	156,614		77,289	77,280	154,569
Amusement taxes	72			72	72			72
Licenses and permits:	350			350	545			545
Intergovernmental receipts:								
Federal grants				0		74,660		74,660
State shared receipts:								
Grants				0		20,732		20,732
Bank franchise tax	2,432			2,432	1,669			1,669
Motor vehicle commercial	1,208			1,208	1,171			1,171
Liquor tax reversion	3,291			3,291	2,605			2,605
5% Motor vehicle licenses	4,783			4,783	5,284			5,284
Highway and bridge	17,795			17,795	17,451			17,451
County shared receipts:								
County highway	790			790	790			790
Potter ambulance grant	6,000			6,000	6,000			6,000
Charges for goods and services:								
Sanitation	1,360			1,360	3,697			3,697
Ambulance	13,172			13,172	12,407			12,407
Pool and parks	5,224			5,224	6,708			6,708
Miscellaneous receipts:								
Interest and dividends	9,441	226	102	9,769	8,102	397	153	8,652
Donations	19,197			19,197	10,500			10,500
Other	8,959			8,959	4,412	750		5,162
<b>Total receipts</b>	<b>221,022</b>	<b>78,533</b>	<b>78,409</b>	<b>377,964</b>	<b>212,221</b>	<b>173,828</b>	<b>77,433</b>	<b>463,482</b>
<b>Disbursements:</b>								
Current:								
General government:								
Mayor and Council	10,597			10,597	11,111			11,111
Elections	54			54	71			71
Financial administration	51,623			51,623	54,079			54,079
Public safety:								
Police	18,847			18,847	18,234			18,234
Fire	12,690			12,690	11,736			11,736
Public works:								
Highways and streets	65,583			65,583	56,019			56,019
Sanitation	3,312			3,312	2,995	124,999		127,994
Health and welfare:								
Mosquito	1,801			1,801	2,319			2,319
Ambulance	54,152			54,152	59,256			59,256
Culture and recreation:								
Pool and park	33,331			33,331	38,181			38,181
Economic development:	1,423			1,423	1,109			1,109
Debt service:			35,976	35,976			35,976	35,976
Capital outlay				0				0
<b>Total disbursements</b>	<b>253,413</b>	<b>0</b>	<b>35,976</b>	<b>289,389</b>	<b>255,110</b>	<b>124,999</b>	<b>35,976</b>	<b>416,085</b>
<b>Excess of receipts over (under) disbursements</b>	<b>(32,391)</b>	<b>78,533</b>	<b>42,433</b>	<b>88,575</b>	<b>(42,889)</b>	<b>48,829</b>	<b>41,457</b>	<b>47,397</b>
<b>Other financing sources (uses):</b>								
Transfer in (out)	29,859	(32,028)	(6,045)	(8,214)	51,164	(34,875)	(4,914)	11,375
Compensation for damaged property	5,849			5,849	650			650
<b>Net change in fund balance</b>	<b>3,317</b>	<b>46,505</b>	<b>36,388</b>	<b>86,210 *</b>	<b>8,925</b>	<b>13,954</b>	<b>36,543</b>	<b>59,422 *</b>
<b>Fund balance:</b>								
January 1, 2012					9,377	268,926	101,668	379,971
December 31, 2012	18,302	282,880	138,211	439,393	18,302	282,880	138,211	439,393
December 31, 2013	21,619	329,385	174,599	525,603				

\* Total change in net position on government-wide statement of activities

See accompanying notes.

CITY OF HOVEN

STATEMENT OF NET POSITION  
 ENTERPRISE FUNDS  
 MODIFIED CASH BASIS  
 AS OF DECEMBER 31, 2013

	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	Total Enterprise Funds
	-----	-----	-----	-----	-----
<b>Assets:</b>					
Cash and certificates of deposit	62,402	187,521	207,862	21,124	478,909
	-----	-----	-----	-----	-----
<b>Total assets</b>	<b>62,402</b>	<b>187,521</b>	<b>207,862</b>	<b>21,124</b>	<b>478,909</b>
	=====	=====	=====	=====	=====
 <b>Net Position:</b>					
Restricted - debt service			13,368		13,368
Restricted - asset replacement			13,915		13,915
Unrestricted	62,402	187,521	180,579	21,124	451,626
	-----	-----	-----	-----	-----
<b>Total net position</b>	<b>62,402</b>	<b>187,521</b>	<b>207,862</b>	<b>21,124</b>	<b>478,909</b>
	=====	=====	=====	=====	=====

See accompanying notes.

CITY OF HOVEN

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
 IN NET POSITION -- ENTERPRISE FUNDS  
 MODIFIED CASH BASIS  
 FOR THE ONE YEAR ENDING DECEMBER 31, 2013

	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	Total Enterprise Funds
Operating receipts:					
Charges for goods and services	253,208	112,496	70,781	9,362	445,847
Lottery sales	10,929				10,929
Total operating receipts	264,137	112,496	70,781	9,362	456,776
Operating disbursements:					
Personal services	73,565	12,705	12,705		98,975
Other current services	39,413	15,773	52,740	17,061	124,987
Cost of goods sold	140,674	54,049			194,723
Capital assets		83,226	52,484	113,869	249,579
Total operating disbursements	253,652	165,753	117,929	130,930	668,264
Net operating receipts (disbursements)	10,485	(53,257)	(47,148)	(121,568)	(211,488)
Nonoperating receipts (disbursements):					
Interest received	2	513	512		1,027
Rents				6,110	6,110
Debt service			(13,368)		(13,368)
Total nonoperating receipts (disbursemen	2	513	(12,856)	6,110	(6,231)
Income (loss) before transfers, capital contributions, and loan proceeds	10,487	(52,744)	(60,004)	(115,458)	(217,719)
Transfer in (out)	(21,250)	12,610	16,854		8,214
Capital contribution			65,696	130,177	195,873
SRF loan proceeds (forgiven)		100,880			100,880
Change in net position	(10,763)	60,746	22,546	14,719	87,248
Net position:					
January 1, 2013	73,165	126,775	185,316	6,405	391,661
December 31, 2013	62,402	187,521	207,862	21,124	478,909

See accompanying notes.

## CITY OF HOVEN

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
 IN NET POSITION -- ENTERPRISE FUNDS  
 MODIFIED CASH BASIS  
 FOR THE ONE YEAR ENDING DECEMBER 31, 2012

	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	Total Enterprise Funds
Operating receipts:					
Charges for goods and services	272,423	99,666	69,620	12,840	454,549
Lottery sales	13,441				13,441
Total operating receipts	285,864	99,666	69,620	12,840	467,990
Operating disbursements:					
Personal services	72,261	12,355	12,355		96,971
Other current services	29,585	32,002	22,376	33,341	117,304
Cost of goods sold	142,686	54,226			196,912
Capital assets		17,654	428,679	604,848	1,051,181
Total operating disbursements	244,532	116,237	463,410	638,189	1,462,368
Net operating receipts (disbursements)	41,332	(16,571)	(393,790)	(625,349)	(994,378)
Nonoperating receipts (disbursements):					
Interest received	2	507	508		1,017
Rents				5,740	5,740
Debt issue costs			(3,110)		(3,110)
Debt service			(12,254)		(12,254)
Total nonoperating receipts (disbursemen	2	507	(14,856)	5,740	(8,607)
Income (loss) before transfers, capital contributions, and bond proceeds	41,334	(16,064)	(408,646)	(619,609)	(1,002,985)
Transfer in (out)	(56,250)		9,875	35,000	(11,375)
Capital contribution			88,976	579,821	668,797
Rural Development bond proceeds			311,000		311,000
Change in net position	(14,916)	(16,064)	1,205	(4,788)	(34,563)
Net position:					
January 1, 2012	88,081	142,839	184,111	11,193	426,224
December 31, 2012	73,165	126,775	185,316	6,405	391,661

See accompanying notes.

CITY OF HOVEN

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
 ENTERPRISE FUNDS  
 FOR THE ONE YEAR ENDING DECEMBER 31, 2013

	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	Total
Cash flows from:					
Operating activities:					
Receipts from customers	264,137	112,496	70,781	9,362	456,776
Payments to employees	(73,565)	(12,705)	(12,705)		(98,975)
Payments to suppliers	(180,087)	(69,822)	(52,740)	(17,061)	(319,710)
Payments for capital assets		(83,226)	(52,484)	(113,869)	(249,579)
Net cash provided (used) by operating activities	10,485	(53,257)	(47,148)	(121,568)	(211,488)
Noncapital financing activities:					
Transfer in (out)	(21,250)	12,610	16,854		8,214
Capital financing activities:					
Grants - federal		100,880	65,696	108,176	274,752
Grants - state				22,001	22,001
Debt service - principal			(4,208)		(4,208)
- interest			(9,160)		(9,160)
Investing activities:					
Interest received	2	513	512		1,027
Rents				6,110	6,110
Net increase (decrease) in cash and cash equivalents	(10,763)	60,746	22,546	14,719	87,248
Cash and cash equivalents:					
January 1, 2013	73,165	126,775	185,316	6,405	391,661
December 31, 2013	62,402	187,521	207,862	21,124	478,909
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	10,485	(53,257)	(47,148)	(121,568)	(211,488)
Net cash provided (used) by operating activities	10,485	(53,257)	(47,148)	(121,568)	(211,488)

Noncash investing, capital and  
 financing activities: None

See accompanying notes.

CITY OF HOVEN

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
 ENTERPRISE FUNDS  
 FOR THE ONE YEAR ENDING DECEMBER 31, 2012

	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	Total
Cash flows from:					
Operating activities:					
Receipts from customers	285,864	99,666	69,620	12,840	467,990
Payments to employees	(72,261)	(12,355)	(12,355)		(96,971)
Payments to suppliers	(172,271)	(86,228)	(22,376)	(33,341)	(314,216)
Payments for capital assets		(17,654)	(428,679)	(604,848)	(1,051,181)
Net cash provided (used) by operating activities	41,332	(16,571)	(393,790)	(625,349)	(994,378)
Noncapital financing activities:					
Transfer in (out)	(56,250)		9,875	35,000	(11,375)
Capital financing activities:					
Grants - federal			45,774	574,606	620,380
Grants - state			43,202	5,215	48,417
Bond proceeds			311,000		311,000
Debt issue costs			(3,110)		(3,110)
Debt service - principal			(3,748)		(3,748)
- interest			(8,506)		(8,506)
Investing activities:					
Interest received	2	507	508		1,017
Rents				5,740	5,740
Net increase (decrease) in cash and cash equivalents	(14,916)	(16,064)	1,205	(4,788)	(34,563)
Cash and cash equivalents:					
January 1, 2012	88,081	142,839	184,111	11,193	426,224
December 31, 2012	73,165	126,775	185,316	6,405	391,661

Reconciliation of operating  
 income (loss) to net cash  
 provided (used) by operating  
 activities:

Operating income (loss)	41,332	(16,571)	(393,790)	(625,349)	(994,378)
Net cash provided (used) by operating activities	41,332	(16,571)	(393,790)	(625,349)	(994,378)

Noncash investing, capital and  
 financing activities: None

See accompanying notes.

CITY OF HOVEN  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hoven uses a modified cash basis of accounting, which does not conform to generally accepted accounting principles applicable to government entities in the United States of America. See note 1c.

a. Reporting Entity:

The funds included in this report are controlled by or dependent upon the City of Hoven's (City) governing board. At December 31, 2013 City officials are:

Mayor:	Finance Officer:
Jack Feldmeier	Wendy Rausch
Governing Board:	Attorney:
Robert Rausch, President	David Von Wald
Darin Hageman	
Jerry Hartung	
Francis Karst	
Roger Kraft	
Norman Stethem	

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

Financial Reporting Entity:  
Primary Government: - The City of Hoven  
Component Units: - None

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

The reporting entity of the City of Hoven consists of (1) the primary government, which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; (2) those organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

Based upon the application of these criteria, the City of Hoven does not have any component units.

b. Basis of Presentation:

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Statement of Net Position and the Statement of Activities display information about the reporting entity (City of Hoven) as a whole. These statements include all funds of the reporting entity except fiduciary funds (if any). These

statements distinguish between the governmental and business-type activities and discretely presented component units (if any). 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 (if any) are legally separate organizations that meet certain criteria, as described in note 1a above, and may be classified as either governmental or business-type activities.

The Statement of Net Position reports all cash resources. Net position is displayed in two components, restricted (if any) and unrestricted.

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

#### FUND FINANCIAL STATEMENTS:

The 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 cash, net position, receipts, and disbursements. Funds are organized into three major categories: governmental, enterprise, and fiduciary (if any). An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

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

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

The funds of the City are described below within their respective fund types:

#### *Governmental Funds*

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

Special Revenue Fund Types - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The City has the following special revenue fund:

1st Cent Fund - A fund established by ordinance to fund street and sewer improvement activities. This fund is a major fund.

2nd Cent Fund - A fund allowed by SDCL 10-52-2 to support ambulance and hospital activities. This fund is a major fund.

### *Enterprise Funds:*

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

Liquor Fund - A fund established by SDCL 35-3-21 to provide on-sale and off-sale liquor services. This fund also accounts for video lottery machine activity. This fund is a major fund.

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

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

Airport Fund - A fund established by SDCL 50-7-2 to provide airport and hanger rental services and the sale of fuel. This fund is a major fund.

### *Fiduciary Funds:*

The City of Hoven does not have any fiduciary funds.

#### c. Basis of Accounting:

Basis of accounting refers to when revenues (receipts) and expenditures or expenses (disbursements) are recognized in the accounts and reported in the financial statements.

These financial statements are presented on a modified cash basis of accounting rather than a accrual/modified accrual basis of accounting. The cash basis has been modified by including certificates of deposit whose maturity when purchased is more than 90 days and customer deposits. Revenues (receipts) are recognized when received and expenditures or expenses (disbursements) are recognized when paid. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for enterprise fund types would use the full accrual basis of accounting. All government-wide financials would be presented on the full accrual basis of accounting.

#### d. Program Receipts and General Receipts:

##### *Program Receipts*

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

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

## *General Receipts*

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

### e. Enterprise Funds Receipt and Disbursement Classifications:

In both the government-wide statements and fund financial statements, enterprise fund receipts and disbursements are classified in a manner consistent with how they are classified in the statement of cash flows. Accordingly, transactions in which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating receipts and disbursements.

In both the government-wide statements and fund financial statements, enterprise fund operating receipts, such as charges for water and sewer services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating receipts, if any, such as grants, investment earnings, and transfers, result from non-exchange transactions.

### f. Cash and Cash Equivalents:

The City pools its cash resources for depositing and investing purposes, giving enterprise funds access to their cash resources on demand. Accordingly, all reported enterprise fund cash deposits (including certificates of deposit, if any) are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

### g. Equity Classifications:

#### *Government-wide Statements*

Equity is classified as net cash assets and is displayed in two components:

1. Restricted Net Position - Consists of net position with constraints placed on its use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position - All other net position that does not meet the definition of "restricted net position".

#### *Fund Financial Statements*

Governmental fund equity is classified as fund balance, and may distinguish between "reserved" and "unreserved" components. Enterprise fund equity is classified the same as in the government-wide financial statements.

### h. 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 a disbursement is incurred which can be charged to either restricted or unrestricted net position.

### i. Interfund Transactions:

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

j. Fund Balance Classification Policies and Procedures:

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

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

The City of Hoven fund balance classifications are made up of:

<u>Fund Balance Classifications</u>	<u>Account or Fund</u>	<u>Authority or Action</u>	<u>Amount</u>
Nonspendable	None		0
Restricted	None		0
Committed	1st Cent fund	Ordinance	329,385
Committed	2nd Cent fund	Ordinance	174,599
Assigned	None		0
Unassigned	General		21,619
			-----
			525,603

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

The City's special revenue funds are funded from sales tax receipts and grants. See page 14.

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund. The following are overdrafts of departmental disbursement compared to appropriations for the general fund and all special revenue funds that have a budget:

2013: General Fund:		
Public Works/Highways and Streets		\$ 583
Public Works/Sanitation		312
1st Cent Sales Tax Fund:		
Transfers out		32,028
2nd Cent Sales Tax Fund:		
Transfers out		6,045

2012: General Fund:

Health and Welfare/Mosquito	\$ 319
Culture and Recreation/Pool and Park	4,681
1st Cent Sales Tax Fund:	
Sewer improvements	101,333
Transfers out	34,875
2nd Cent Sales Tax Fund:	
Transfers out	4,914

The City expects to make use of contingency transfers and supplemental appropriations to eliminate overdrafts in the future.

3. DEPOSITS AND INVESTMENTS

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

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

Actual bank balances at December 31, 2013 were as follows: Insured \$255,482, Collateralized \*\* \$730,675 for a total of \$986,157.

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

The carrying amount of these deposits at December 31, 2013 was \$1,004,512 held as follows.

Plains Commerce Bank:	
Checking	\$ 5,407
Savings	724,646
Certificates of deposit	271,019
	-----
	1,001,072
Petty cash	2,200
Lottery tickets and cash	1,240
	-----
	\$ 1,004,512

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

The City had no investments during the two years ending December 31, 2013. Certificates of deposit, with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

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

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

Custodial Investment Risk - The risk that the City will not be able to recover the value of its investment, or collateral securities that are in the possession of an outside party. The City had no investments during the two years ending December 31, 2013 and was not exposed to custodial investment risk.

Concentration of Credit Risk - the City places no limit on the amount that may be deposited or invested in any one institution.

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 deposits and investments to the fund making the deposit or investment.

#### 4. INTERFUND TRANSFERS

Net transfers "in" and "(out)" between funds are:

2013: For operations:	Governmental	Enterprise
General	29,859	
1st Cent	(32,028)	
2nd Cent	( 6,045)	
Liquor		(21,250)
Water		12,610
Sewer		16,854
	-----	-----
	( 8,214)	8,214
2012: For operations:	Governmental	Enterprise
General	51,164	
1st Cent	(34,875)	
2nd Cent	(4,914)	
Liquor		(56,250)
Sewer		9,875
Airport		35,000
	-----	-----
	11,375	(11,375)

#### 5. RESTRICTED NET POSITION

The following table shows the December 31, 2013 net position restricted for specific purposes as shown on the statement of net position

Purpose:	Restricted By:	Governmental	Business-Type
Sewer debt service	Covenants		13,368 **
Sewer asset replacement	Covenants		13,915
		-----	-----
Total Restricted Net Position		0	27,283

\*\* One year of payments

#### 6. LONG-TERM DEBT

A summary of changes in long-term liabilities is presented as supplementary information on page 34. The City did not have any short-term or conduit debt in 2012 or 2013.

## 7. FUTURE REVENUES PLEDGED TO SECURE DEBT

All sewer fund revenue net revenue (after normal operating, repair and maintenance expenses) is pledged to secure a Rural Development (USDA) loan which has a remaining balance of \$303,044. The loan was made to cover the cost of sewer improvements and is described on page 34. The loan will mature in 2051. In 2013 the loan had pledged revenue of \$5,336 before loan payments of \$13,368.

## 8. RETIREMENT PLAN

All employees, except for part-time employees working less than 20 hours a week and seasonal employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the years ending December 31, 2013, 2012, and 2011 were \$7,970, \$7,657 and \$7,243 (employer's share) respectively, equal to the required contribution each year.

There are no deferred contributions.

## 9. PROPERTY TAX

Taxes are levied on or before October 1, attach as an enforceable lien on property, become due and payable on the following January 1, and are payable in two installment on or before the following April 30 and October 31. The county bills and collects the City's taxes and remits them to the City. Because the City is on the modified cash basis of accounting, all property taxes received in cash are considered revenue for the period in which it was collected.

## 10. INSURANCE

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 two years ending December 31, 2013 the City managed its risks as follows:

### Employee Health Insurance:

The City reimburses employees a set amount for their purchases health insurance from a commercial carrier.

### Liability Insurance:

The City purchases liability insurance from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

### Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governments. The City pays an annual

premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$250,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,750,000 per individual 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.

11. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The City has one major utility customer which generates approximately 12% or \$10,000 of water revenues and 12% or \$8,000 of sewer revenues.

The city has a rubble site. It does not have a landfill with any associated closure costs or liabilities.

The City is not involved in any significant litigation.

The City does not offer any "Other Post Employment Benefits".

In 2014 the City began construction of a water line and water meter replacement project for a total cost of \$2,048,000. Funding will be a Rural Development (USDA) loan of \$822,000; a Rural Development forgivable loan of \$750,000; a CDBG grant of \$412,000; and City cash of \$64,000. In 2013 \$100,880 of the forgivable loan was spent on engineering fees for this project.

In September 2013 the City passed a motion to keep City Hall on Main Street with the clinic. In November 2013 the City passed a motion to deed City Hall land to the Hoven Area Health Care Clinic.

CITY OF HOVEN

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

GENERAL FUND	Budgeted Amounts				Actual	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental	Final		
<b>Receipts:</b>						
Receipts from local sources:						
<b>Taxes:</b>						
Ad valorem taxes	155,900			155,900	126,948	(28,952)
Amusement tax				0	72	72
Licenses and permits:				0	350	350
Intergovernmental receipts:						
State shared receipts:						
Bank franchise tax				0	2,432	2,432
Motor vehicle commercial				0	1,208	1,208
Liquor tax reversion				0	3,291	3,291
Motor vehicle licenses (5%)				0	4,783	4,783
Highway and bridge				0	17,795	17,795
County shared receipts:						
County highway				0	790	790
Potter County ambulance grant				0	6,000	6,000
Charges for goods and services:						
Sanitation				0	1,360	1,360
Ambulance				0	13,172	13,172
Pool and park	30,000			30,000	5,224	(24,776)
Miscellaneous receipts:						
Interest received				0	9,441	9,441
Donations				0	19,197	19,197
Other	90,000			90,000	8,959	(81,041)
<b>Total receipts</b>	<b>275,900</b>	<b>0</b>	<b>0</b>	<b>275,900</b>	<b>221,022</b>	<b>(54,878)</b>
<b>Disbursements:</b>						
<b>General government:</b>						
Mayor and Council	13,500			13,500	10,597	2,903
Contingency	6,000			6,000		6,000
Amount transferred				0		0
Elections	500			500	54	446
Financial administration	58,400			58,400	51,623	6,777
<b>Public safety:</b>						
Police	22,000			22,000	18,847	3,153
Fire	13,000			13,000	12,690	310
<b>Public works:</b>						
Highways and streets	65,000			65,000	65,583	(583)
Sanitation	3,000			3,000	3,312	(312)
<b>Health and welfare:</b>						
Mosquito	3,000			3,000	1,801	1,199
Ambulance	56,000			56,000	54,152	1,848
<b>Culture and recreation:</b>						
Pool and park	33,500			33,500	33,331	169
<b>Conservation and development:</b>						
Economic development	2,000			2,000	1,423	577
<b>Total disbursements</b>	<b>275,900</b>	<b>0</b>	<b>0</b>	<b>275,900</b>	<b>253,413</b>	<b>22,487</b>
<b>Excess of receipts over (under) disbursements</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(32,391)</b>	<b>(32,391)</b>
<b>Other financing sources (uses):</b>						
Transfer in	30,000			30,000	29,859	(141)
Compensation for damaged property				0	5,849	5,849
<b>Net change in fund balance</b>	<b>30,000</b>	<b>0</b>	<b>0</b>	<b>30,000</b>	<b>3,317</b>	<b>(26,683)</b>
<b>Fund balance:</b>						
January 1, 2013	18,302			18,302	18,302	0
December 31, 2013	48,302	0	0	48,302	21,619	(26,683)

CITY OF HOVEN

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

GENERAL FUND	Budgeted Amounts				Actual	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental	Final		
Receipts:						
Receipts from local sources:						
Taxes:						
Ad valorem taxes	146,400			146,400	130,808	(15,592)
Amusement tax				0	72	72
Licenses and permits:				0	545	545
Intergovernmental receipts:						
State shared receipts:						
Bank franchise tax				0	1,669	1,669
Motor vehicle commercial				0	1,171	1,171
Liquor tax reversion				0	2,605	2,605
Motor vehicle licenses (5%)				0	5,284	5,284
Highway and bridge				0	17,451	17,451
County shared receipts:						
County highway				0	790	790
Potter County ambulance grant				0	6,000	6,000
Charges for goods and services:						
Sanitation				0	3,697	3,697
Ambulance				0	12,407	12,407
Pool and park	30,000			30,000	6,708	(23,292)
Miscellaneous receipts:						
Interest received				0	8,102	8,102
Donations				0	10,500	10,500
Other	90,000			90,000	4,412	(85,588)
<b>Total receipts</b>	<b>266,400</b>	<b>0</b>	<b>0</b>	<b>266,400</b>	<b>212,221</b>	<b>(54,179)</b>
Disbursements:						
General government:						
Mayor and Council	13,000			13,000	11,111	1,889
Contingency	6,000			6,000		6,000
Amount transferred				0		0
Elections	500			500	71	429
Financial administration	57,400			57,400	54,079	3,321
Public safety:						
Police	21,000			21,000	18,234	2,766
Fire	13,000			13,000	11,736	1,264
Public works:						
Highways and streets	63,000			63,000	56,019	6,981
Sanitation	3,000			3,000	2,995	5
Health and welfare:						
Mosquito	2,000			2,000	2,319	(319)
Ambulance	52,000		20,000	72,000	59,256	12,744
Culture and recreation:						
Pool and park	33,500			33,500	38,181	(4,681)
Conservation and development:						
Economic development	2,000			2,000	1,109	891
<b>Total disbursements</b>	<b>266,400</b>	<b>0</b>	<b>20,000</b>	<b>286,400</b>	<b>255,110</b>	<b>31,290</b>
Excess of receipts over (under) disbursements	0	0	(20,000)	(20,000)	(42,889)	(22,889)
Other financing sources (uses):						
Transfer in	30,000			30,000	51,164	21,164
Compensation for damaged property				0	650	650
<b>Net change in fund balance</b>	<b>30,000</b>	<b>0</b>	<b>(20,000)</b>	<b>10,000</b>	<b>8,925</b>	<b>(1,075)</b>
Fund balance:						
January 1, 2012	9,377			9,377	9,377	0
December 31, 2012	39,377	0	(20,000)	19,377	18,302	(1,075)

## CITY OF HOVEN

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

1ST CENT SALES TAX FUND (Reserved for streets and sewer capital improvements)	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
<b>Receipts:</b>					
Receipts from local sources:					
Taxes:					
Sales and use tax	71,000		71,000	78,307	7,307
Miscellaneous receipts:					
Interest received			0	226	226
<b>Total receipts</b>	<b>71,000</b>	<b>0</b>	<b>71,000</b>	<b>78,533</b>	<b>7,533</b>
<b>Disbursements:</b>					
Public works:					
Street improvements	47,334		47,334		47,334
Sewer improvements	23,666		23,666		23,666
<b>Total disbursements</b>	<b>71,000</b>	<b>0</b>	<b>71,000</b>	<b>0</b>	<b>71,000</b>
Excess of receipts over (under) disbursements	0	0	0	78,533	78,533
Other financing sources (uses):					
Transfer (out)			0	(32,028)	(32,028)
Change in fund balance	0	0	0	46,505	46,505
Fund balance:					
January 1, 2013	282,880		282,880	282,880	0
December 31, 2013	282,880	0	282,880	329,385	46,505

## FOR THE YEAR ENDING DECEMBER 31, 2012

1ST CENT SALES TAX FUND (Reserved for streets and sewer capital improvements)	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
<b>Receipts:</b>					
Receipts from local sources:					
Taxes:					
Sales and use tax	71,000		71,000	77,289	6,289
Intergovernmental receipts:					
Federal grants - sewer improvements			0	74,660	74,660
State grant - sewer improvements			0	20,732	20,732
Miscellaneous receipts:					
Interest received			0	397	397
Other			0	750	750
<b>Total receipts</b>	<b>71,000</b>	<b>0</b>	<b>71,000</b>	<b>173,828</b>	<b>102,828</b>
<b>Disbursements:</b>					
Public works:					
Street improvements	47,334		47,334		47,334
Sewer improvements	23,666		23,666	124,999	(101,333)
<b>Total disbursements</b>	<b>71,000</b>	<b>0</b>	<b>71,000</b>	<b>124,999</b>	<b>(53,999)</b>
Excess of receipts over (under) disbursements	0	0	0	48,829	48,829
Other financing sources (uses):					
Transfer (out)			0	(34,875)	(34,875)
Change in fund balance	0	0	0	13,954	13,954
Fund balance:					
January 1, 2012	268,926		268,926	268,926	0
December 31, 2012	268,926	0	268,926	282,880	13,954

## CITY OF HOVEN

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

2ND CENT SALES TAX FUND (Reserved for ambulance and hospital cost)	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
<b>Receipts:</b>					
Receipts from local sources:					
Taxes:					
Sales and use tax	71,000		71,000	78,307	7,307
Miscellaneous receipts:					
Interest received			0	102	102
<b>Total receipts</b>	<b>71,000</b>	<b>0</b>	<b>71,000</b>	<b>78,409</b>	<b>7,409</b>
<b>Disbursements:</b>					
Health and welfare:					
Ambulance	28,400		28,400		28,400
Debt service:					
Hospital bond payment	42,600		42,600	35,976	6,624
<b>Total disbursements</b>	<b>71,000</b>	<b>0</b>	<b>71,000</b>	<b>35,976</b>	<b>35,024</b>
<b>Excess of receipts over (under) disbursements</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>42,433</b>	<b>42,433</b>
<b>Other financing sources (uses):</b>					
Transfer out			0	(6,045)	(6,045)
<b>Change in fund balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>36,388</b>	<b>36,388</b>
<b>Fund balance:</b>					
January 1, 2013	138,211		138,211	138,211	0
December 31, 2013	138,211	0	138,211	174,599	36,388

## FOR THE YEAR ENDING DECEMBER 31, 2012

2ND CENT SALES TAX FUND (Reserved for streets and sewer capital improvements)	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
<b>Receipts:</b>					
Receipts from local sources:					
Taxes:					
Sales and use tax	71,000		71,000	77,280	6,280
Miscellaneous receipts:					
Interest received			0	153	153
<b>Total receipts</b>	<b>71,000</b>	<b>0</b>	<b>71,000</b>	<b>77,433</b>	<b>6,433</b>
<b>Disbursements:</b>					
Health and welfare:					
Ambulance	28,400		28,400		28,400
Health and welfare:					
Hospital bond payment	42,600		42,600	35,976	6,624
<b>Total disbursements</b>	<b>71,000</b>	<b>0</b>	<b>71,000</b>	<b>35,976</b>	<b>35,024</b>
<b>Excess of receipts over (under) disbursements</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>41,457</b>	<b>41,457</b>
<b>Other financing sources (uses):</b>					
Transfer (out)			0	(4,914)	(4,914)
<b>Change in fund balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>36,543</b>	<b>36,543</b>
<b>Fund balance:</b>					
January 1, 2012	101,668		101,668	101,668	0
December 31, 2012	101,668	0	101,668	138,211	36,543

CITY OF HOVEN

NOTES TO SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND AND  
SPECIAL REVENUE FUNDS FOR THE TWO YEARS ENDING DECEMBER 31, 2013

1. BUDGETS AND BUDGETARY ACCOUNTING

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

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. There was one supplemental budget in 2012. See page 30.
- e. Formal budgetary integration is employed as a management control device for the general fund and special revenue funds.
- f. Budgets for the general fund and special revenue funds are not adopted on a basis consistent with generally accepted accounting principles (GAAP) because the City uses a modified cash basis of accounting.

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE:

Financial statements prepared in conformity with U.S.GAAP (within the context of the modified cash basis of accounting) present capital outlay expenditure information as a separate category of disbursements. Under the budgetary basis of accounting, capital outlay disbursements are reported within the function to which they relate. For example, the purchase of a road grader would be reported as a capital disbursement on the governmental funds statement of receipts, disbursement and changes in fund cash balance. However, in the budgetary RSI schedule, the purchase of a road grader would be reported as a disbursement in the public works function of general fund, along with all other current public works disbursements.

CITY OF HOVEN

SUPPLEMENTARY SCHEDULE OF CHANGES IN LONG-TERM DEBT  
FOR THE TWO YEARS ENDING DECEMBER 31, 2013

	Beginning 12-31-11	2012 Additions (Deletions)	2013 Additions (Deletions)	Governmental Ending 12-31-13	Business-Type Ending 12-31-13	Principal Payments Due In 2014
<b>GOVERNMENTAL</b>						
2010 Sales Tax Revenue bond:						
Original Issue of \$400,000						
Maturing on February 4, 2025						
Interest at 4.00%						
Remaining bonds are callable						
Purpose: support hospital operations						
Paid by the 2nd cent fund	380,024	(20,775)	(21,607)	337,642		22,471
<b>BUSINESS-TYPE</b>						
2010 Water and Sewer Project Revenue bond:						
Original Issue of \$311,000						
Maturing on November 11, 2051						
Interest at 3.00%						
Remaining bonds are callable						
Purpose: wastewater improvements		311,000				
Paid by the sewer fund	0	(3,748)	(4,208)		303,044	4,336
2013 Drinking Water SRF Loan:						
Original Issue of \$750,000						
Draw down at December 31, 2013: \$100,880						
All principal forgiven						
Purpose: water improvements			100,880			
Paid by the water fund	0		(100,880)		0	0
<b>Totals</b>	<b>380,024</b>	<b>286,477</b>	<b>(25,815)</b>	<b>337,642</b>	<b>303,044</b>	<b>26,807</b>

	Total Payment	Principal	Interest	Remaining Balance
<b>Payment Schedules:</b>				
2010 Sales Tax Revenue bond:				
2014	35,976	22,471	13,505	315,171
2015	35,976	23,370	12,606	291,801
2016	35,976	24,304	11,672	267,497
2017	35,976	25,277	10,699	242,220
2018	35,976	26,288	9,688	215,932
2019-2023	179,882	148,078	31,804	67,854
2024-2025	71,953	67,854	4,099	0
<b>Totals</b>	<b>431,715</b>	<b>337,642</b>	<b>94,073</b>	

2010 Water and Sewer Project Revenue bond:				
2014	13,368	4,336	9,032	298,708
2015	13,368	4,468	8,900	294,240
2016	13,368	4,541	8,827	289,699
2017	13,368	4,677	8,691	285,022
2018	13,368	4,817	8,551	280,205
2019-2023	66,840	26,849	39,991	253,356
2024-2028	66,840	31,027	35,813	222,329
2029-2033	66,840	36,041	30,799	186,288
2034-2038	66,840	41,866	24,974	144,422
2039-2043	66,840	48,632	18,208	95,790
2044-2048	66,840	56,492	10,348	39,298
2049-2051	40,104	39,298	806	0
<b>Totals</b>	<b>507,984</b>	<b>303,044</b>	<b>204,940</b>	

CITY OF HOVEN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE TWO YEARS ENDING DECEMBER 31, 2013

Grantor Program Name -----	CFDA Number -----	2013 Expenditure: -----	2012 Expenditure: -----
<b>Direct Federal Funding:</b>			
<b>Department of Agriculture:</b>			
Rural Development:			
Water and Waste Disposal Systems for Rural Communities:			
Loan (sewer) - Case # 47-054-0466003552 #1 (note 2)	ARRA 10.781		311,000
Grant (sewer) - Case # 47-054-0466003552 #2 (note 2)	ARRA 10.781	65,696	45,774
		-----	-----
<b>Total Department of Agriculture</b>		<b>65,696</b>	<b>356,774</b>
		-----	-----
<b>Indirect Federal Funding:</b>			
<b>Department of Housing and Urban Development:</b>			
Pass-through the South Dakota Governor's Office of Economic Development: Community Development Block Grant # 0909-118 Water/wastewater improvements			
	14.228		74,660
		-----	-----
<b>Total Dept. of Housing and Urban Development</b>		<b>0</b>	<b>74,660</b>
		-----	-----
<b>Department of Transportation:</b>			
Pass-through State of South Dakota Department of Transportation: Airport Aid Program #AIP 3-46-0021-006-2010 (note 2) Airport Aid Program #AIP 3-46-0021-007-2011 (note 2)			
	20.106	108,176	574,606
		-----	-----
<b>Total Department of Transportation</b>		<b>108,176</b>	<b>574,606</b>
		-----	-----
<b>Environmental Protection Agency:</b>			
Passed through South Dakota Department of Environment and Natural Resources Drinking Water State Revolving Fund DWSRF Project No. C462253-01 - 100% loan forgiveness			
	66.468	100,880	
		-----	-----
<b>Total Environmental Protection Agency</b>		<b>100,880</b>	<b>0</b>
		-----	-----
<b>Grand Total of Expenditures of Federal Awards</b>		<b>274,752</b>	<b>1,006,040</b>
		-----	-----
<b>Federal loans outstanding at December 31, 2013:</b>			
USDA - Rural Development: 2010 Water and Sewer Project Revenue Bond			
		303,044	
		-----	

Note 1:

This schedule of expenditures of federal awards includes federal grant activity for the City of Hoven. It is presented on a modified cash basis of accounting, the same as the City's financial statements. 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".

Note 2:

This represents a major federal financial assistance program.

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

Governing Board  
City of Hoven  
Hoven, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited the modified cash basis financial statements of governmental activities, business-type activities and each major fund of the City of Hoven as of December 31, 2013, and for each of the years in the biennial period then ended, which collectively comprise the City's basic financial statements, and have issued my unqualified report thereon dated September 30, 2014.

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 Controller General of the United States.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the City of Hoven'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of current audit findings as item 2013-01.

Management's response to the finding is described in the accompanying schedule of current audit findings and questioned costs. I did not audit management's response and, accordingly, I express no opinion on it.

I did note other matters involving compliance that I reported to the governing body and management of the City of Hoven in a separate Letter of Comments dated September 30, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Hoven's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hoven's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Hoven's internal control over financial reporting.

A deficiency in internal control exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City of Hoven's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiency in internal control over financial reporting that I consider to be a material weakness as defined above.

However, I did identify a deficiency in internal control over financial reporting, described in the accompanying schedule of current audit findings and questioned cost as item 2013-01, that I consider to be significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

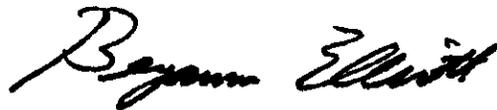
Management response to the finding identified in my audit is described in the accompanying schedule of current audit findings and questioned cost. I did not audit management response and, accordingly, I express no opinion on it.

I did note other matters involving internal control over financial reporting that I reported to the governing body and management of the City of Hoven in a separate Letter of Comments dated September 30, 2014.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the City of Hoven and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDCL 4-11-11, this report is a matter of public record and its distribution is not limited.

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

September 30, 2014



REPORT ON  
COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

Governing Board  
City of Hoven  
Warner, South Dakota

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program

I have audited City of Hoven, Potter County, South Dakota, (City) 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 two years ended December 31, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of current audit findings and questioned costs (page 40).

Management's Responsibility

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

Auditor's Responsibility

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

I conducted my 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 Controller 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 I 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 I considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In my opinion, the City of Hoven complied, in all material respects, with the types of requirements referred to above that could have a direct and material effect on each of its major federal programs for the two years ended December 31, 2013.

Internal Control Over Compliance:

Management of the City of Hoven is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I 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, I 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 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.

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly this report is not suitable for any other purpose.

However, as required by South Dakota Codified Law 4-11-11, this report and my report on compliance for each major federal program are matters of public record and their distribution is not limited.

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



September 30, 2014

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit Findings: None

Prior Other Audit Findings:

2009-01: [Budget Overdrafts] -- Repeated below

SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

Financial Statements

Type of auditor's report issued: Unqualified on:  
Governmental Activities  
Business-Type Activities  
Major Funds

Noncompliance noted: Item 2013-01

Internal control over financial reporting:  
\* Material weakness(es) identified? None Reported

\* Significant deficiency(ies) identified  
that are not considered to be material  
weaknesses? Items 2013-01

Federal Awards

Noncompliance material to major federal  
program identified? None Reported

Internal control over major programs:  
\* Material weakness(es) identified? None Reported

\* Significant deficiency(ies) identified  
that are not considered to be material  
weaknesses? None Reported

Type of auditor's report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are  
required to be reported in accordance with  
section 510(a) of OMB Circular A-133? None Reported

Identification of major programs:

CFDA 10.781 Wastewater Improvement Project (ARRA)  
CFDA 20.106 Airport Aid Program

Dollar threshold used to distinguish between  
type A and type B programs: \$300,000

Auditee qualified as low-risk auditee: No

SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS (continued)

Financial Statements

Finding 2013-01: Budget Overdrafts  
(compliance and internal control)

Criteria:

SDCL 9-21 requires governmental expenditures to be authorized in an annual appropriation ordinance, or by a supplemental appropriation ordinance, by the governing body before the end of year. The City is prohibited from spending in excess of appropriated amounts at the sub-function level.

Condition:

During 2012 and 2013, the City exceeded its appropriation in the following areas:

2013: General Fund:		
Public Works/Highways and Streets	\$	583
Public Works/Sanitation		312
1st Cent Sales Tax Fund:		
Transfers out		32,028
2nd Cent Sales Tax Fund:		
Transfers out		6,045
2012: General Fund:		
Health and Welfare/Mosquito	\$	319
Culture and Recreation/Pool and Park		4,681
1st Cent Sales Tax Fund:		
Sewer improvements		101,333
Transfers out		34,875
2nd Cent Sales Tax Fund:		
Transfers out		4,914

Possible Effect:

Expenditures in excess of a budget can lead to unnecessary expenditures and unnecessary taxation. Also, joint and several liability may attach to any official who approves an expenditure in excess of the amount budgeted for any purpose or department. SDCL 9-21-9 and 9-21-10

Recommendation:

I recommend the City stay within its budget, using contingency transfers and supplemental appropriations to adjust sub-function budget line items when necessary.

Management Response:

In the future, the City expects to make contingency transfers or adopt sufficient supplemental appropriations to cover expenditures that will exceed their original appropriation.

Federal Awards

None Reported.