

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

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
P.O. Box 262
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CITY OF LAKE NORDEN
LAKE NORDEN, 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 Lake Norden
Lake Norden, 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 Lake Norden (City), Hamlin 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.

I did not audit the financial statements of the Lake Norden Housing and Redevelopment Commission or the Lake Norden Development Corporation, which together represents 100% of the assets, net position, receipts and disbursements of the aggregate discretely presented component units on the government-wide statement of net position and statement of activities.

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.

Basis for Disclaimer of Opinion

The financial statements of the Lake Norden Housing and Redevelopment Commission and the Lake Norden Development Corporation have not been audited. I was not engaged to audit the financial statements of these entities as part of my audit of the City of Lake Norden's basic financial statements. The financial statements of these entities are included in the City's basic financial statement as the aggregate discretely presented component units and represents 100% of the assets, net position, receipts and disbursements of the City's aggregate discretely presented component units.

Disclaimer of Opinion

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

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of governmental activities, business-type activities, and each major fund of the City of Lake Norden, 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 Lake Norden's financial statements.

The management's discussion and analysis (page 4 to 9) and the budgetary comparison schedules (page 27 to 29) are presented for purposes of additional analysis and are not a required part of the modified cash basis of accounting financial statements.

The component units combining statement of net position and combining statement of receipts, disbursements, and changes in net position (page 31) are presented for the purpose 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 information and comparing the information for consistency with management's respon-

ses 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 Lake Norden's financial statements.

The schedule of changes in long-term debt (page 30) is presented for the purpose of additional analysis and is not a required part of the modified cash basis of accounting financial statements.

The schedule of changes in long-term debt 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.

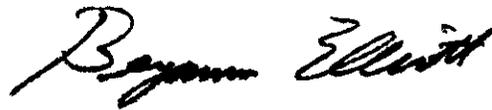
In my opinion, the schedule of changes in long-term debt is fairly stated, in all material respects, in relation to the modified cash basis of accounting financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 32) dated November 21, 2014 on my tests of City of Lake Norden'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

November 21, 2014



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the City of Lake Norden's (City) financial report presents our discussion and analysis of the City's financial performance during the two years ending December 31, 2013 within the limitations of the City's cash basis of accounting. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS	2013	2012
Receipts:		
Charges for goods and services	376,094	366,863
Operating grants	0	0
Capital grants	317,853	102,287
General receipts	430,276	422,263
Loan proceeds	358,070	83,690
	-----	-----
Total	1,482,293	975,103
	-----	-----
Disbursements:		
Governmental	401,881	413,072
Business-type	983,589	539,195
	-----	-----
Total	1,385,470	952,267
	-----	-----
Increase in Net Position	96,823	22,836
Net Position:		
December 31, 2011		314,302

December 31, 2012	337,138	337,138
	-----	=====
December 31, 2013	433,961	
	=====	
Governmental Funds:		
General	158,697	155,133
Water	196,145	153,992
Sewer	67,940	17,399
Solid waste	11,179	10,614
	-----	-----
Total	433,961	337,138
	=====	=====

During 2013, the City:

Received:

- \$ 174,862 from property taxes
- 185,836 from sales taxes
- 441,760 proceeds from a 2013 REED loan.
- 358,310 proceeds from an interim bank loan.
- (442,000) paid-off the interim bank loan.
- 297,713 from a STAG grant.
- 17,770 from FEMA and \$2,370 from the state for disaster related cost.

Paid:

- \$ 575,275 for water improvements.
- 61,029 for street improvements.
- 28,330 principal on the 2004 water revenue bonds.
- 6,080 principal on the 2010 sales tax revenue bond.
- 44,094 principal on the 2013 REED loan.

Transferred \$50,000 from the general fund to the sewer fund for cleaning and televising the sanitary sewer system.

During 2012, the City:

Received:

\$ 177,939 from property taxes
175,451 from sales taxes
83,690 proceeds from an interim bank loan.
102,287 from a STAG grant.

Paid:

\$ 188,605 for water improvements.
79,895 for street improvements.
27,086 principal on the 2004 water revenue bonds.
5,856 principal on the 2010 sales tax revenue bond.
13,422 principal to pay-off a 2007 wheel loader loan.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

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

The financial report consists of three parts: (1) management's discussion and analysis (page 4 to 9), (2) the basic financial statements (page 10 to 26) and (3) other supplementary information (page 27 to 31). The basic financial statements include two types of statements that present the City from two different financial points of view.

Government-wide financial statements (View #1):

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

Fund financial statements (View #2):

The remaining financial statements are fund financial statements that focus on significant operations of the governmental and enterprise activities of the City.

The governmental financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. The only governmental funds operated by the City during 2012 and 2013 is the general fund.

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

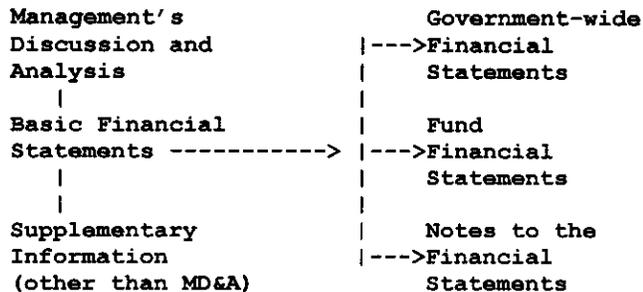
The fiduciary fund financial statements provide information about the financial status of activities in which the City acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. In 2012 and 2013 the City had no fiduciary funds.

The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of supplementary information that presents a budgetary analysis for the general fund and major special revenue funds.

Supplementary Information:

The Management's Discussion and Analysis (page 4 to 9) and the Budgetary Comparison Schedules (page 27 to 29) are supplementary information. Such information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure. The schedule of changes in debt (page 30) and the component units combining statement of net position and combining statement of receipts, disbursements, and changes in net position (page 31) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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



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

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

BASIS OF ACCOUNTING

The City has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues and expenses and related assets are recorded when they result from cash transactions, except for the recording of investments.

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

The government-wide statements (page 10 to 12) 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 it has changed. Net position is the City's petty cash, checking accounts, savings accounts, certificate of deposit and money market accounts. 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 care of streets, fire protection, community center, and solid waste collection. Property taxes, sales taxes, and interest earnings finance most of these activities.

The business-type activities account for the City's water, sewer, and solid waste activities. These services are funded by user fees. Bonds and federal and state grants help pay for capital improvements to the water and sewer systems.

FUND FINANCIAL STATEMENTS

(Reporting the City's most significant funds)

The fund financial statements (page 13 to 17) 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 board establishes other funds to manage money for a specific purpose.

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

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 financial 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 fund: 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 water, sewer and solid waste funds are the only enterprise funds maintained by the City.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

For the Year Ending December 31, 2013

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

	Increase (Decrease)	Reason
Governmental Activities:		
Transfer out	50,000	One time transfer from the general fund to the sewer fund to clean and televise sewer lines.
Business-type Activities:		
Cash	93,000	Excess cash receipts over cash disbursements.
Capital grants	196,000	Additional grants for water project.
Water costs	447,000	Water project completed in 2013.
Water loan	275,000	Additional loans for the water project.
Transfer in	50,000	One time transfer from the general fund to the sewer fund to clean and televise sewer lines.

For the Year Ending December 31, 2012

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

	Increase (Decrease)	Reason
Governmental Activities:		
Capital grants	(181,000)	No grants in 2012.
Culture and rec.	(547,000)	Completed construction of a Community Center in 2011.
Loan proceeds	(444,000)	Sales tax revenue bond proceeds received in 2011.
Business-type Activities:		
Capital grants	102,000	Grants for water project.
Water costs	166,000	Water project started in 2012.
Water loan	83,000	Interim loan for the water project.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

In 2013 the City adopted a general fund budget of \$513,048 which is an increase of \$34,081 or 7.12% from 2012. The increase was spread across several line items. There were supplemental appropriations to the general fund budget in 2013. See page 27 for more information.

In 2012 the City adopted a general fund budget of \$478,967 which is a decrease of \$573,401 or 54.49% from 2011. The decrease was related to the construction of the Community Center in 2011. There was one supplemental appropriation to the general fund budget in 2012. See page 28 for more information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Significant capital asset activity is reported above.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

Significant long-term debt activity is reported above.
See also page 30 for more information.

CURRENTLY KNOWN FACTS

In May 2014 the Council approved a motion to purchase a 1998 Ford LT 9000 dump truck from South Dakota Federal Surplus Property for \$29,900 with a loan secured from First Premier Bank.

In September 2014 the City submitted an application to be on the State Water Plan.

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 Lake Norden's finance office at P.O. Box 213, Lake Norden, SD 57248 or telephone us at (605) 785-3602.

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
Cash assets:									
Cash and equivalents	151	150	137	205	96	113	356	246	250
Cash and equivalents, restricted	8	5	3	70	86	62	78	91	65
Total cash assets	159	155	140	275	182	175	434	337	315
Net position:									
Restricted	8	5	3	70	86	65	78	91	68
Unrestricted	151	150	137	205	96	110	356	246	247
Total net position	159	155	140	275	182	175	434	337	315

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
Receipts:									
Program receipts:									
Charges for services	7	10	9	369	357	333	376	367	342
Operating grants and contri.									
Capital grants and contri.	20		181	298	102		318	102	181
General receipts:									
Property taxes	175	178	176				175	178	176
Sales tax	186	175	176				186	175	176
State shared receipts	23	22	18				23	22	18
County shared receipts	4	4	2				4	4	2
Interest received	1	1	4	2	2	2	3	3	6
Rents and franchise	32	29	29				32	29	29
Other general receipts	1	8	1				1	8	1
Total receipts	449	427	596	669	461	335	1,118	888	931
Disbursements:									
General government	86	84	146				86	84	146
Public safety	23	21	20				23	21	20
Public works	164	167	169				164	167	169
Health and welfare	2	2	4				2	2	4
Culture and recreation	85	73	620				85	73	620
Economic development	17	27	36				17	27	36
Debt service	23	37	52				23	37	52
Other	2	2	5				2	2	5
Water				908	461	295	908	461	295
Sewer				47	51	83	47	51	83
Solis waste				29	27	26	29	27	26
Total disbursements	402	413	1,052	984	539	404	1,386	952	1,456
Excess of receipts over (under) disbursements	47	14	(456)	(315)	(78)	(69)	(268)	(64)	(525)
Transfers	(50)			50			0	0	0
Compensation for property damag.	7	1	1		2	4	7	3	5
Loan proceeds			444	358	83		358	83	444
Change in net position	4	15	(11)	93	7	(65)	97	22	(76)
Net position:									
December 31, 2010, adjusted			151			240			391
December 31, 2011		140	140		175	175		315	315
December 31, 2012	155	155		182	182		337	337	
December 31, 2013	159			275			434		

CITY OF LAKE NORDEN

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

	Primary Government			NOT AUDITED Component Units
	Governmental Activities	Business- Type Activities	Total	
Assets:				
Cash and cash equivalents	75,919	205,193	281,112	291,578
Certificates of deposit	75,000		75,000	
Restricted assets:				
Cash and cash equivalents	7,778	25,071	32,849	
Certificates of deposit		45,000	45,000	
Total assets	<u>158,697</u>	<u>275,264</u>	<u>433,961</u>	<u>291,578</u>
Net position:				
Restricted for:				
Debt service:				
Surcharge fees		3,237	3,237	
Retirement	7,178	48,909	56,087	
Equipment replacement		3,000	3,000	
Deposits	600	14,925	15,525	
Unrestricted	150,919	205,193	356,112	291,578
Total net position	<u>158,697</u>	<u>275,264</u>	<u>433,961</u>	<u>291,578</u>

See accompanying notes.

STATEMENT OF ACTIVITIES
 MODIFIED CASH BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2013

Functions/Programs:	Program Receipts			Net Receipts (Disbursements) and Changes in Net Position			NOT AUDITED Component Units
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	85,793	815			(84,978)		(84,978)
Public safety	22,922				(22,922)		(22,922)
Public works	164,327	300		20,140	(143,887)		(143,887)
Health and welfare	2,264				(2,264)		(2,264)
Culture and recreation	84,657	313			(84,344)		(84,344)
Economic development	17,012				(17,012)		(17,012)
Debt service	23,268				(23,268)		(23,268)
Liquor	250	5,338			5,088		5,088
Other	1,388				(1,388)		(1,388)
Total governmental activities	401,881	6,766	0	20,140	(374,975)	0	(374,975)
Business-type activities:							
Water	908,261	292,894		297,713		(317,654)	(317,654)
Sewer	46,981	47,522				541	541
Solid waste	28,347	28,912				565	565
Total business-type activities	983,589	369,328	0	297,713	0	(316,548)	(316,548)
Total primary government	1,385,470	376,094	0	317,853	(374,975)	(316,548)	(691,523)
Component unit activity:							
Lake Norden Housing & Redev Commission	108,992	57,093	25,768	22,069			(4,062)
Lake Norden Development Corporation	40,091	19,243	12,000				(8,848)
General receipts:							
Taxes:							
Property taxes					174,862		174,862
Sales taxes					185,836		185,836
Amusement taxes					60		60
State shared receipts					22,708		22,708
County shared receipts					3,695		3,695
Interest received					1,067	1,737	2,804
Rentals and cable franchise					32,073		32,073
Donations					305		305
Miscellaneous receipts					480		480
Compensation for property damage					7,453		7,453
Interim bank loan proceeds						358,310	358,310
Interim bank loan pay-off						(442,000)	(442,000)
REED loan proceeds						441,760	441,760
Transfers					(50,000)	50,000	0
Total general receipts and transfers					378,539	409,807	788,346
Change in net position					3,564	93,259	96,823
Net position:							
January 1, 2013					155,133	182,005	337,138
December 31, 2013					158,697	275,264	433,961

See accompanying notes.

CITY OF LAKE NORDEN

STATEMENT OF ACTIVITIES
 MODIFIED CASH BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2012

Functions/Programs:	Program Receipts				Net Receipts (Disbursements) and Changes in Net Position			NOT AUDITED Component Units
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Primary government:								
<i>Governmental activities:</i>								
General government	83,726	1,139			(82,587)		(82,587)	
Public safety	21,331				(21,331)		(21,331)	
Public works	167,141	250			(166,891)		(166,891)	
Health and welfare	2,215				(2,215)		(2,215)	
Culture and recreation	73,398	1,143			(72,255)		(72,255)	
Economic development	26,543				(26,543)		(26,543)	
Debt service	36,926				(36,926)		(36,926)	
Liquor	250	7,289			7,039		7,039	
Other	1,542				(1,542)		(1,542)	
Total governmental activities	413,072	9,821	0	0	(403,251)	0	(403,251)	0
<i>Business-type activities:</i>								
Water	461,230	282,513		102,287		(76,430)	(76,430)	
Sewer	51,354	47,180				(4,174)	(4,174)	
Solid waste	26,611	27,349				738	738	
Total business-type activities	539,195	357,042	0	102,287	0	(79,866)	(79,866)	0
Total primary government	952,267	366,863	0	102,287	(403,251)	(79,866)	(483,117)	0
<i>Component unit activity:</i>								
Lake Norden Housing & Redev Commission	87,386	54,089	36,078	12,024				14,805
Lake Norden Development Corporation	23,474	7,870	22,000					6,396
General receipts:								
<i>Taxes:</i>								
Property taxes					177,939		177,939	
Sales taxes					175,451		175,451	
Amusement taxes					60		60	
State shared receipts					21,997		21,997	
County shared receipts					3,829		3,829	
Interest received					1,287	1,791	3,078	2,507
Rentals and cable franchise					28,909		28,909	
Donations					7,727		7,727	
Miscellaneous receipts					484		484	
Compensation for property damage					1,083	1,706	2,789	
Interim bank loan proceeds						83,690	83,690	
Total general receipts					418,766	87,187	505,953	2,507
Change in net position					15,515	7,321	22,836	23,708
Net position:								
January 1, 2012					139,618	174,684	314,302	278,118
December 31, 2012					<u>155,133</u>	<u>182,005</u>	<u>337,138</u>	<u>301,826</u>

See accompanying notes.

CITY OF LAKE NORDEN

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

	General Fund

Assets:	
Cash and cash equivalents	75,919
Certificates of deposit	75,000
Restricted assets:	
Cash and cash equivalents	7,778

Total assets	158,697
	=====
Fund balances:	
Nonspendable	0
Restricted	7,778
Committed	0
Assigned	42,842
Unassigned	108,077

Total fund balances	158,697 *
	=====

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

See accompanying notes.

CITY OF LAKE NORDEN

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

	General Fund	
	2013	2012
Receipts:		
Receipts from local sources:		
Taxes:		
Ad valorem taxes	174,862	177,939
General sales and use taxes	185,836	175,451
Amusement taxes	60	60
Licenses and permits:	815	1,023
Intergovernmental receipts:		
Federal shared receipts: Grant - FEMA	17,770	
State shared receipts:		
Grant - FEMA	2,370	
Bank franchise tax	706	752
Commercial prorate	1,299	1,390
Liquor tax reversion	2,781	2,876
Motor vehicle licenses (5%)	4,392	6,330
Highway and bridge	13,530	10,649
County shared receipts:		
County road	864	864
Wheel	77	76
PILOT	2,754	2,889
Charges for goods and services:		
Mowing	300	250
Culture and recreation	313	1,143
Fines and forfeits:	0	116
Miscellaneous receipts:		
Interest received	1,067	1,287
Rents and cable franchise	32,073	28,909
Donations	305	7,727
Liquor	5,338	7,289
Other	480	484
Total receipts	447,992	427,504
Disbursements:		
Current:		
General government:		
Mayor and Council	12,727	13,966
Elections	27	642
Financial administration	45,513	49,772
Government buildings and other	18,588	19,346
Public safety:		
Police	22,694	20,625
Fire	228	706
Public works:		
Highways and streets	97,163	82,139
Rubble site	6,135	5,107
Health and welfare:		
Animal control	900	900
West Nile	200	85
Clinic building	1,164	1,230
Culture and recreation:		
Recreation	7,057	6,343
Community organizations	11,138	8,220
Parks	33,718	39,826
Community center	14,404	13,871
Museum	2,582	2,579
Conservation and development:		
Economic development	17,012	26,543
Debt service: principal	6,080	19,279
interest	17,188	17,647
Liquor	250	250
Other	1,388	1,542
Capital outlay	85,725	82,454
Total disbursements	401,881	413,072
Excess of receipts over (under) disbursements	46,111	14,432
Other financing sources (uses):		
Compensation for property damage	7,453	1,083
Transfer to sewer fund	(50,000)	
Net change in fund balance	3,564	15,515 *
Fund balance:		
January 1, 2012		139,618
December 31, 2012	155,133	155,133
December 31, 2013	158,697	

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

See accompanying notes.

CITY OF LAKE NORDEN

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

	Water Fund	Sewer Fund	Solid Waste Fund	Total Enterprise Funds
	-----	-----	-----	-----
Assets:				
Cash and cash equivalents	126,074	67,940	11,179	205,193
Restricted cash:				
Cash and cash equivalents	25,071			25,071
Certificates of deposit	45,000			45,000
	-----	-----	-----	-----
Total assets	196,145	67,940	11,179	275,264
	=====	=====	=====	=====
 Net position:				
Restricted for:				
Debt service:				
Surcharge fees	3,237			3,237
Bond retirement	48,909			48,909
Equipment replacement	3,000			3,000
Deposits	14,925			14,925
Unrestricted	126,074	67,940	11,179	205,193
	-----	-----	-----	-----
Total net position	196,145	67,940	11,179	275,264
	=====	=====	=====	=====

See accompanying notes.

CITY OF LAKE NORDEN

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN NET POSITION -- ENTERPRISE FUNDS
 MODIFIED CASH BASIS
 FOR THE ONE YEAR ENDING DECEMBER 31, 2013
 FOR THE ONE YEAR ENDING DECEMBER 31, 2012

	2013				2012			
	Water Fund	Sewer Fund	Solid Waste Fund	Total	Water Fund	Sewer Fund	Solid Waste Fund	Total
Operating receipts:								
Charges for goods and services	292,894	47,522	28,912	369,328	282,513	47,180	27,349	357,042
Total operating receipts	292,894	47,522	28,912	369,328	282,513	47,180	27,349	357,042
Operating disbursements:								
Personal services	54,856	9,070		63,926	54,160	9,313		63,473
Other current services	150,640	34,942	1,807	187,389	153,395	42,041	1,625	197,061
Cost of goods sold	1,527		26,540	28,067	1,527		24,986	26,513
Capital assets	575,275	2,969		578,244	188,605			188,605
Total operating disbursements	782,298	46,981	28,347	857,626	397,687	51,354	26,611	475,652
Net operating receipts (disbursements)	(489,404)	541	565	(488,298)	(115,174)	(4,174)	738	(118,610)
Nonoperating receipts (disbursements):								
Interest received				1,737	1,791			1,791
Compensation for property damage				0	1,050	656		1,706
Debt service - principal	(72,424)			(72,424)	(27,086)			(27,086)
- interest	(49,101)			(49,101)	(36,457)			(36,457)
- fees	(4,438)			(4,438)				0
Total nonoperating receipts (disbursements)	(124,226)	0	0	(124,226)	(60,702)	656	0	(60,046)
Income (loss) before transfers, capital contributions, and loan activity	(613,630)	541	565	(612,524)	(175,876)	(3,518)	738	(178,656)
Transfer in		50,000		50,000				
STAG grant receipts	297,713			297,713	102,287			102,287
Interim bank loan proceeds	358,310			358,310	83,690			83,690
Interim bank loan pay-off	(442,000)			(442,000)				0
REED loan proceeds	441,760			441,760				0
Change in net position	42,153	50,541	565	93,259	10,101	(3,518)	738	7,321
Net position:								
January 1, 2012					143,891	20,917	9,876	174,684
December 31, 2012	153,992	17,399	10,614	182,005	153,992	17,399	10,614	182,005
December 31, 2013	196,145	67,940	11,179	275,264				

See accompanying notes.

CITY OF LAKE NORDEN

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

	2013				2012			
	Water Fund	Sewer Fund	Solid Waste Fund	Total	Water Fund	Sewer Fund	Solid Waste Fund	Total
Cash flows from:								
Operating activities:								
Receipts from customers	292,894	47,522	28,912	369,328	282,513	47,180	27,349	357,042
Cash paid to employees	(54,856)	(9,070)		(63,926)	(54,160)	(9,313)		(63,473)
Cash paid to suppliers	(152,167)	(34,942)	(28,347)	(215,456)	(154,922)	(42,041)	(26,611)	(223,574)
Net cash provided (used) by operating activities	85,871	3,510	565	89,946	73,431	(4,174)	738	69,995
Noncapital financing activities:								
Transfer in from general fund		50,000		50,000				0
Compensation for property damage				0	1,050	656		1,706
Capital financing activities:								
STAG grant	297,713			297,713	102,287			102,287
Interim bank loan:								
Proceeds	358,310			358,310	83,690			83,690
Paid-off	(442,000)			(442,000)				
REED loan proceeds	441,760			441,760				
Cash paid for:								
Water improvements	(575,275)			(575,275)	(188,605)			(188,605)
Sewer improvements		(2,969)		(2,969)				
Debt payments - principal	(72,424)			(72,424)	(27,086)			(27,086)
- interest	(49,101)			(49,101)	(36,457)			(36,457)
- fees	(4,438)			(4,438)				
Investing activities:								
Interest received	1,737			1,737	1,791			1,791
Net increase (decrease) in cash and cash equivalents	42,153	50,541	565	93,259	10,101	(3,518)	738	7,321
Cash and cash equivalents:								
January 1, 2012					58,891	20,917	9,876	89,684
Prior year correction:								
Redeemed cert. of deposits					40,000			40,000
January 1, 2012, adjusted					98,891	20,917	9,876	129,684
December 31, 2012	108,992	17,399	10,614	137,005	108,992	17,399	10,614	137,005
December 31, 2013	151,145	67,940	11,179	230,264				
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:								
Operating income (loss)	(489,404)	541	565	(488,298)	(115,174)	(4,174)	738	(118,610)
Add back capital outlay	575,275	2,969		578,244	188,605			188,605
Net cash provided (used) by operating activities	85,871	3,510	565	89,946	73,431	(4,174)	738	69,995

Noncash investing, capital and financing activities: None

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity:

The funds included in this report are controlled by or dependent upon the City of Lake Norden's (City) governing board.

At December 31, 2013 City officials are:

Governing Board:	Finance Officer:
Jason Aho, Mayor	Delores Kangas
Renae Jager, President	Attorney:
Larry Aho	Gunderson, Evenson, Boyd, Knight
Janet Andrews	& Stoltenburg, LLP
Dan Koistinen	
John Layman	
Dorene Lemme	

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

Primary government: City of Lake Norden

Component units: Lake Norden Housing & Redevelopment Commission
Lake Norden Development Corporation

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 Lake Norden 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 Lake Norden Housing and Redevelopment Commission (LNHRC) and the Lake Norden Development Corporation (LNDC) are component units of the City of Lake Norden and represents 100% of the balances and activity of the discretely presented component unit column of these financial statements.

LNHRC is a Housing and Redevelopment Commission, established under SDCL 11-7-7 to provide housing through the operation of a rental housing complex. Financial information about LNHRC is available at Lake Norden's City Hall.

LNDC is a non-profit corporation which can (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money, however it received the bulk of its revenue in 2012 and 2013 from the City of Lake Norden. Financial information about LNDC is available at Lake Norden's City Hall.

Based upon the application of these criteria, the Lake Norden Housing and Redevelopment Commission and the Lake Norden Development Corporation are considered to be component units of the City of Lake Norden.

b. Basis of Presentation:

Government-wide Financial Statements:

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

The Statement of Net Position reports all cash assets. Net position is displayed in two components: restricted (distinguishing between major categories of restrictions) 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 City's business-type activities. Direct disbursements are associated with a specific program or function and 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, are presented as general receipts.

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its 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 if it meets the following criteria:

- a. Total cash, receipts or disbursements of the 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.

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

Governmental Funds

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

Enterprise Funds (Business-Type)

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

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

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

Solid Waste Fund - A fund allowed by SDCL 9-32-11 and SDCL 9-34A-6 to provide garbage services to customers within the City of Lake Norden.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

The City of Lake Norden has no fiduciary funds.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses (disbursements) are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The City's basis of accounting is the modified cash basis of accounting, which is a basis of accounting other than US-GAAP. Under US-GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis of accounting, transactions are recorded when cash is received or disbursed.

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipts and disbursement transactions. Under the modified cash basis of accounting, the statement of net position reports only cash and cash equivalents. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements are certificates of deposit (if any) whose maturity when purchased is more than 90 days.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City applied US-GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for enterprise funds and fiduciary funds (if any) would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

d. Cash and Cash Equivalents:

For purposes of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments (if any) in open-end mutual funds shares or similar investments in external investment pools, are also considered to be cash equivalents.

The City's certificates of deposit have a maturity of more than three months when purchased and are not considered a cash equivalent.

e. Interfund Transactions:

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

f. 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 in three categories, as follows:

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

3. Program-specific capital grants and contribution - These arise from mandatory and voluntary non-exchange transactions with other government, 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.

g. Enterprise Fund Receipt Classifications:

In both the government-wide statements and fund financial statements, enterprise fund operating receipts, such as charges for water, sewer, and solid waste 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 revenues, if any, such as grants, operating subsidies, interest received, and transfers in, result from nonexchange transactions.

h. Equity Classifications:

Government-wide financial Statements:

Equity is classified as net position and is displayed in two components:

1. Restricted Net Position - Consists of net position with constraints placed on their use either by (a) external groups such as 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 "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Enterprise fund equity is classified as "Net Position", the same as in the government-wide financial statements. Fiduciary fund equity (if any) (except for agency funds, which have no fund equity) is reported as "Net Position Held in Agency Capacity."

i. Application of Net Position:

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

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 cash balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- * Restricted - includes fund cash 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 cash 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 cash balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund cash balance may be assigned by the Board of Trustees or Finance Officer.
- * Unassigned - includes positive fund cash balance within the general fund which has not been classified within the above categories and negative fund balance amounts in other governmental funds.

The City of Lake Norden fund cash balance classifications are made up of:

<u>Fund Balance</u> <u>Classifications</u>	<u>Account</u> <u>or Fund</u>	<u>Authority</u> <u>or Action</u>	<u>Amount</u>
	General Fund:		
Nonspendable	None		0
Restricted	Bond guarantee	Covenants	7,178
	Community Center deposits	Contracts	600
Committed	None		0
Assigned	Next year's budget	Finance Officer	42,842
Unassigned			108,077

			158,697

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

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

The City has no special revenue funds.

2. DEPOSITS, INVESTMENTS AND RELATED RISKS

Except for restricted cash held by 3rd parties and bank certificates of deposit purchased for an individual fund, the City follows the practice of aggregating deposits of its various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The City 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 \$435,932, Collateralized ** \$0, for a total of \$435,932.

** 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 \$433,961 held as follows.

First Premier Bank, (Lake Norden, SD):	
Checking	147,338
Savings	166,373
Certificates of deposit	120,000

	433,711
Petty cash	250

	433,961
	=====

Certificates of deposit (if any), with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

3. INVESTMENTS AND RELATED RISKS

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

During 2012 and 2013 the City had no investments.

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 Risk (Investments) - The risk that, in the event of a default by the counterparty to a transaction, the City will not be able to recover the value of an investment or collateral securities held by the counterparty. During 2012 the City had no investment and was not exposed to custodial risk for investments.

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

Concentration of Credit Risk - the City places no limit on the amount that may be invested in any one institution. The amount of investment in an institution is shown above.

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 general fund except for certificates of deposit.

4. 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
Debt Service	Covenants	7,178	55,146
Deposits	Contracts	600	14,925
		-----	-----
Total Restricted Net Position		7,778	70,071

5. LONG-TERM DEBT

FUTURE REVENUES PLEDGED TO SECURE DEBT

A summary of changes in long-term debt is presented as supplementary information on page 30. The City received an interim bank loan of \$83,690 in 2012 and 358,310 in 2013 for water improvements. This interim bank loan was paid-off in 2013 from a new \$441,760 REED loan. The City does not have any conduit debt.

All water fund revenue net revenue (after normal operating, repair and maintenance expenses) is pledged to secure two Rural Development (USDA) loans which have remaining balance of \$761,883. The loans were made to cover the cost of water improvements and are described on page 30. The loans will mature in 2026 and 2034. In 2013 the loans had pledged revenue of \$85,871 before loan payments of \$63,308.

6. INTERFUND TRANSFERS

In 2013 the City transferred \$50,000 from the general fund to the sewer fund for cleaning and televising the sanitary sewer system.

7. OPERATING LEASES - WATER PURCHASE AGREEMENT, COPIER

The City of Lake Norden entered into a 40 year operating lease with Kingbrook Rural Water System, Inc. (Kingbrook), to provide water to the City. The lease matures August 2017. A monthly service charge in the amount of \$127.26 is paid by the City to Kingbrook along with a charge of \$1.90 per 1,000 gallons of water consumed. The monthly service charge represents a contribution by the City to aid in construction of the facilities necessary to bring water to the City. The City will not acquire ownership of any of these water facilities through the lease payments. Payments are made from the City's water fund. Remaining payments are \$1,527 per year for 2014 through 2016 and \$1,019 in 2017 for a total of \$5,600.

In 2012 the City entered into a copier lease at \$149.48 per month for 39 months with a fair market value purchase option.

8. RETIREMENT PLAN

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. SDRS provides retirement, disability and survivors 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.

General employees are required by statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9% respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% 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 \$5,759, \$5,587 and \$5,850 (employer's share) respectively, equal to the required contributions 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.

The City is permitted by state statute to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the City: a) general fund \$27.00; b) bond redemption funds: Amts required by Bond Agreements; c) judgment fund (upon a judgment being made) \$10.00. State statute allows the tax rates to be raised by special election of the voters.

10. MAJOR CUSTOMER

In 2013 approximately 70% of water fund and sewer fund receipts were received from Davisco International, Inc.

11. 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 purchased health insurance for its employees from a commercial carrier. 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 coverage during the past three years.

Liability Insurance:

The City purchased liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial carrier. 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 coverage during the past three years.

Worker's Compensation:

The City purchased liability insurance for worker's compensation from a commercial carrier. 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 coverage during the past three years.

Unemployment Benefits:

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

12. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

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

The City is not involved in any significant litigation.

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

In May 2014 the Council approved a motion to purchase a 1998 Ford LT 9000 dump truck from South Dakota Federal Surplus Property for \$29,900 with a loan secured from First Premier Bank.

In September 2014 the City submitted an application to be on the State Water Plan.

CITY OF LAKE NORDEN

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

GENERAL FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental		
Receipts:					
Receipts from local sources:					
Taxes:					
Ad valorem taxes	175,860			175,860	(998)
Sales and use tax	178,218			178,218	7,618
Amusement tax	60			60	0
Licenses and permits:	960			960	815
Intergovernmental receipts:					
Federal shared receipts: FEMA			17,770	17,770	17,770
State shared receipts: FEMA			2,370	2,370	2,370
State shared receipts:					
Bank franchise tax	752			752	706
Commercial prorate	1,347			1,347	1,299
Liquor tax reversion	2,702			2,702	2,781
Motor vehicle licenses (5%)	4,842			4,842	4,392
Highway and bridge	8,378			8,378	13,530
County shared receipts:	3,830			3,830	3,695
Charges for goods and services:					
Mowing	200			200	300
Culture and recreation	910			910	313
Fines and forfeits:	250			250	0
Miscellaneous receipts:					
Interest received	1,263			1,263	1,067
Rents and cable franchise	28,751			28,751	32,073
Donations	1,000			1,000	305
Liquor	6,000			6,000	5,338
Other	6,148			6,148	480
Total receipts	421,471	0	20,140	441,611	447,992
Disbursements:					
General government:					
Mayor and Council	26,392	51	25	26,468	12,727
Contingency	16,310			16,310	16,310
Amount transferred		(16,310)		(16,310)	(16,310)
Elections	730			730	27
Financial administration	48,527	104		48,631	45,513
Government buildings and other	27,264	4,702		31,966	27,526
Public safety:					
Police	22,881			22,881	22,694
Fire	2,963			2,963	228
Public works:					
Highways and streets	168,537	3,569	5,433	177,539	158,192
Rubble site	8,600	282		8,882	6,135
Health and welfare:	8,628			8,628	2,264
Culture and recreation:					
Recreation	6,686	752		7,438	7,057
Community organizations	8,550	2,588		11,138	11,138
Parks	51,389	2,512	22,135	76,036	46,761
Community Center	21,123	1,288		22,411	17,119
Museum	2,494	462		2,956	2,582
Conservation and development:					
Economic development	35,189			35,189	17,012
Debt service:	25,596			25,596	23,268
Liquor:	250			250	250
Other:	3,346			3,346	1,388
Total disbursements	485,455	0	27,593	513,048	401,881
Excess of receipts over (under) disbursements	(63,984)	0	(7,453)	(71,437)	46,111
Other financing sources (uses):					
Compensation for property damage			7,453	7,453	7,453
Transfer in (out)			(50,000)	(50,000)	(50,000)
Net change in fund balance	(63,984)	0	(50,000)	(113,984)	3,564
Fund balance:					
January 1, 2013	155,133			155,133	155,133
December 31, 2013	91,149	0	(50,000)	41,149	158,697

CITY OF LAKE NORDEN

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

GENERAL FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)	
	Original	Contingency Transfers	Supplemental			Final
Receipts:						
Receipts from local sources:						
Taxes:						
Ad valorem taxes	175,860			175,860	177,939	2,079
Sales and use tax	174,464			174,464	175,451	987
Amusement tax	96			96	60	(36)
Licenses and permits:	860			860	1,023	163
Intergovernmental receipts:						
State shared receipts:						
Bank franchise tax	685			685	752	67
Commercial prorate	1,158			1,158	1,390	232
Liquor tax reversion	2,630			2,630	2,876	246
Motor vehicle licenses (5%)	4,422			4,422	6,330	1,908
Highway and bridge	8,150			8,150	10,649	2,499
County shared receipts:	2,343			2,343	3,829	1,486
Charges for goods and services:						
Mowing	200			200	250	50
Culture and recreation	1,760			1,760	1,143	(617)
Fines and forfeits:	250			250	116	(134)
Miscellaneous receipts:						
Interest received	2,835			2,835	1,287	(1,548)
Rents and cable franchise	31,051			31,051	28,909	(2,142)
Donations	1,000			1,000	7,727	6,727
Liquor	6,183			6,183	7,289	1,106
Other	6,038			6,038	484	(5,554)
Total receipts	419,985	0	0	419,985	427,504	7,519
Disbursements:						
General government:						
Mayor and Council	20,725			20,725	13,966	6,759
Contingency	23,350			23,350		23,350
Amount transferred		(23,350)		(23,350)		(23,350)
Elections	675			675	642	33
Financial administration	48,218	5,404		53,622	49,772	3,850
Government buildings and other	28,692	1,112		29,804	19,346	10,458
Public safety:						
Police	20,875			20,875	20,625	250
Fire	2,407	555		2,962	706	2,256
Public works:						
Highways and streets	155,205	16,200		171,405	162,034	9,371
Rubble site	6,823	79	635	7,537	5,107	2,430
Health and welfare:	8,275		258	8,533	2,215	6,318
Culture and recreation:						
Recreation	6,677		1,029	7,706	6,343	1,363
Community organizations	7,900		320	8,220	8,220	0
Parks	38,704		5,558	44,262	39,826	4,436
Community Center	25,977		1,336	27,313	16,430	10,883
Museum	1,988		666	2,654	2,579	75
Conservation and development:						
Economic development	29,228		1,461	30,689	26,543	4,146
Debt service:	38,370			38,370	36,926	1,444
Liquor:	250			250	250	0
Other:	3,365			3,365	1,542	1,823
Total disbursements	467,704	0	11,263	478,967	413,072	65,895
Excess of receipts over (under) disbursements	(47,719)	0	(11,263)	(58,982)	14,432	73,414
Other financing sources (uses):						
Compensation for property damage				0	1,083	1,083
Net change in fund balance	(47,719)	0	(11,263)	(58,982)	15,515	74,497
Fund balance:						
January 1, 2012	139,618			139,618	139,618	0
December 31, 2012	91,899	0	(11,263)	80,636	155,133	74,497

CITY OF LAKE NORDEN

BUDGETARY SUPPLEMENTARY INFORMATION

NOTES TO THE BUDGETARY COMPARISON SCHEDULES FOR THE
GENERAL FUND FOR THE TWO YEARS ENDING DECEMBER 31, 2013

1. BUDGETS AND BUDGETARY ACCOUNTING

The City of Lake Norden (City) follows these procedures in establishing the budgetary data reflected in the budgetary supplementary information:

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2012 and 2013 there were supplemental budgets to the general fund. See page 27 and 28.
- e. Formal budgetary integration is employed as a management control device for the general fund.
- f. The budget for the general fund is not adopted on a basis consistent with generally accepted accounting principles (GAAP) because all accounting, and the adoption of the all budgets, is on a modified cash basis of accounting.

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE:

The financial statements prepared in conformity with US-GAAP (within the context of the modified cash basis of accounting) present capital outlay disbursement 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 outlay disbursement in the governmental funds statement of receipts, disbursements 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 LAKE NORDEN
 NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
 CHANGES IN LONG-TERM DEBT
 FOR THE ONE YEAR ENDING DECEMBER 31, 2013

	2012	2013	Governmental	Business-Type	Principal
	2012	2013	Activities	Activities	Due in
	2012	2013	Ending	Ending	2014
	Beginning	Additions	12-31-13	12-31-13	
	12-31-11	(Deletions)			
GOVERNMENTAL					
2007 Bank Wheel Loader loan:					
Original loan: \$104,710					
Maturing on December 1, 2012, interest at 5.25%					
Purpose: Purchase of 621D Wheel Loader					
Paid by the general fund	13,422	(13,422)	0		0
2010 Sales Tax Revenue Bond, Series 2010:					
Build America Bond - Direct Pay					
Original amount: \$481,000					
Maturing in 2050, interest at 3.25%					
Monthly payments of \$1,939					
Paid by the general fund	466,986	(5,856)	455,050		6,204
Totals	480,408	(19,278)	455,050		6,204
BUSINESS-TYPE					
2004 Water Revenue Bonds:					
Original face amount: \$660,000					
Bond holder: USDA - Rural Development					
Maturing in 2034, interest at 4.50%					
Payments of \$3,597 per month					
Purpose: Water improvement projects					
Paid by the water fund	604,104	(16,314)		570,727	17,481
2004 Water Revenue Bonds:					
Original face amount: \$237,600					
Bond holder: USDA - Rural Development					
Maturing in 2026, interest at 4.50%					
Payments of \$1,679 per month					
Purpose: Water improvement projects					
Paid by the water fund	213,195	(10,772)		191,156	11,542
2013 REED Loan:					
Original face amount: \$441,760					
Lender: Rural Electric Economic Development, Inc. (a non-profit corporation)					
Maturing on July 15, 2033, interest at 4.15%					
Purpose: Water treatment plant improvements			441,760		
Paid by the water fund	0		(44,094)	397,666	16,350
Totals	817,299	(27,086)	369,336	1,159,549	45,373
Payment Schedules:					
	Total Payment	Principal	Interest	Balance	
2010 Sales Tax Revenue Bond, Series 2010:					
2014	23,268	6,204	17,064	448,846	
2015	23,268	6,436	16,832	442,410	
2016	23,268	6,678	16,590	435,732	
2017	23,268	6,928	16,340	428,804	
2018	23,268	7,188	16,080	421,616	
2019-2023	116,340	40,190	76,150	381,426	
2024-2028	116,340	48,313	68,027	333,113	
2029-2033	116,340	58,077	58,263	275,036	
2034-2038	116,340	69,814	46,526	205,222	
2039-2043	116,340	83,923	32,417	121,299	
2044-2048	116,340	100,884	15,456	20,415	
2049-2050	21,180	20,415	765	0	
Totals	835,560	455,050	380,510		
2004 Water Revenue Bonds - \$660,000:					
2014	43,164	17,481	25,683	553,246	
2015	43,164	18,268	24,896	534,978	
2016	43,164	19,090	24,074	515,888	
2017	43,164	19,949	23,215	495,939	
2018	43,164	20,847	22,317	475,092	
2019-2023	215,820	119,479	96,341	355,613	
2024-2028	215,820	148,892	66,928	206,721	
2029-2033	215,820	185,547	30,273	21,174	
2034	22,127	21,174	953	0	
Totals	885,407	570,727	314,680		
2004 Water Revenue Bonds - \$237,600:					
2014	20,144	11,542	8,602	179,614	
2015	20,144	12,062	8,082	167,552	
2016	20,145	12,605	7,540	154,947	
2017	20,144	13,172	6,972	141,775	
2018	20,145	13,764	6,381	128,011	
2019-2023	100,722	78,690	22,032	49,321	
2024-2026	53,523	49,321	4,202	0	
Totals	254,967	191,156	63,811		
2013 REED Loan:					
2014	32,544	16,350	16,194	381,316	
2015	32,544	17,041	15,503	364,275	
2016	32,544	17,762	14,782	346,513	
2017	32,544	18,513	14,031	328,000	
2018	32,544	19,297	13,247	308,703	
2019-2023	162,721	109,439	53,282	199,264	
2024-2028	162,721	134,627	28,094	64,637	
2029-2033	67,574	64,637	2,937	0	
Totals	555,736	397,666	158,070		

CITY OF LAKE NORDEN

COMPONENT UNITS

COMBINING STATEMENT OF NET POSITION - MODIFIED CASH BASIS
AS OF JUNE 30, 2013 and 2012
AS OF DECEMBER 31, 2013 and 2012

NOT
AUDITED

	Lake Norden Housing & Redevelopment Commission 6-30-2013	Lake Norden Development Corporation 12-31-2013	Total Component Units 2013	Lake Norden Housing & Redevelopment Commission 6-30-2012	Lake Norden Development Corporation 12-31-2012	Total Component Units 2012
Cash assets:						
Cash	7,914	6,643	14,557	4,704	15,491	20,195
Investments	277,021		277,021	281,631		281,631
	284,935	6,643	291,578	286,335	15,491	301,826
Net position:						
Unrestricted	284,935	6,643	291,578	286,335	15,491	301,826
Total net position	284,935	6,643	291,578	286,335	15,491	301,826

COMPONENT UNITS

COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE YEARS ENDING OF JUNE 30, 2013 and 2012
FOR THE YEARS ENDING OF DECEMBER 31, 2013 and 2012

NOT
AUDITED

	Lake Norden Housing & Redevelopment Commission 6-30-2013	Lake Norden Development Corporation 12-31-2013	Total Component Units 2013	Lake Norden Housing & Redevelopment Commission 6-30-2012	Lake Norden Development Corporation 12-31-2012	Total Component Units 2012
Receipts:						
Tenant rents and other receipts	53,386		53,386	51,802		51,802
Total receipts	53,386	0	53,386	51,802	0	51,802
Disbursements:						
Administrative	18,680		18,680	20,139		20,139
Tenant services			0	250		250
Utilities	25,666		25,666	22,796		22,796
Maintenance and Protective	31,826		31,826	32,609		32,609
Insurance and taxes	8,098		8,098	7,918		7,918
Equipment purchases	5,350		5,350	3,674		3,674
Other	19,372		19,372			0
Development		40,091	40,091		23,474	23,474
Total disbursements	108,992	40,091	149,083	87,386	23,474	110,860
Excess of receipts over (under) disbursements	(55,606)	(40,091)	(95,697)	(35,584)	(23,474)	(59,058)
Other financing sources (uses):						
Interest received	2,662		2,662	2,507		2,507
Housing rent subsidy (HUD)	25,768		25,768	36,078		36,078
Capital grants (HUD)	22,069		22,069	12,024		12,024
Subsidy (City of Lake Norden)		12,000	12,000		22,000	22,000
Contract for deed receipts		7,380	7,380		6,765	6,765
Rents		1,260	1,260		1,100	1,100
Lot sold		10,603	10,603			0
Other receipts	3,707		3,707	2,287	5	2,292
Change in net position	(1,400)	(8,848)	(10,248)	17,312	6,396	23,708
Net position:						
June 30, December 31, 2011				269,023	9,095	278,118
June 30, December 31, 2012	286,335	15,491	301,826	286,335	15,491	301,826
June 30, December 31, 2013	284,935	6,643	291,578			

See accompanying notes.

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 Lake Norden
Lake Norden, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of governmental activities, business-type activities, and each major fund, of the City of Lake Norden (City), Hamlin County, South Dakota, as of December 31, 2013 and for each year the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's modified cash basis of accounting financial statements and have issued my report thereon dated November 21, 2014 which was unmodified.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the City of Lake Norden'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 did not disclose an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

I did note minor matters involving compliance that I reported to the governing body and management of the City of Lake Norden in separate Letters of Comments dated November 21, 2014.

Internal Control Over Financial Reporting

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

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

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

A *significant deficiency*, is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

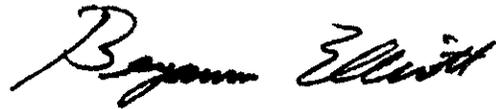
I did note minor matters involving internal control that I reported to the governing body and management of the City of Lake Norden in separate Letters of Comments dated November 21, 2014.

Purpose of this Report

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

As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

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



November 21, 2014

CITY OF LAKE NORDEN
SCHEDULES OF FINDINGS
DECEMBER 31, 2013

Schedule of Prior Audit Findings:

Prior Federal Compliance Audit finding: None

Prior Other Audit Findings: None

Schedule of Current Audit Findings and Responses:

Type of auditor's report issued:	Disclaimer of Opinion: Component Units Unqualified on: Governmental Activities, Business-Type Activities All Funds
Noncompliance noted:	None Reported
Internal control over financial reporting: * Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Reported
* Material weakness(es) identified?	None Reported