

CITY OF LAKE PRESTON
LAKE PRESTON, 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
Madison, South Dakota 57042

CITY OF LAKE PRESTON
LAKE PRESTON, SOUTH DAKOTA
TABLE OF CONTENTS TO THE FINANCIAL REPORT
FOR THE TWO YEARS ENDING DECEMBER 31, 2013

FINANCIAL SECTION

- 1 Independent Auditor's Report
- 3 Management's Discussion and Analysis (MD&A)
(Supplementary Information)
- Basic Financial Statements: (Modified Cash Basis of Accounting)
 - Government-Wide Financial Statements:
 - 9 Statement of Net Position as of December 31, 2013
 - 10 Statement of Activities for the Year Ending December 31, 2013
 - 11 Statement of Activities for the Year Ending December 31, 2012
 - Fund Financial Statements:
 - Governmental Funds:
 - 12 Balance Sheet as of December 31, 2013
 - 13 Statement of Receipts, Disbursements, and Changes in Fund
Balances for the Year Ending December 31, 2013
 - 13 Statement of Receipts, Disbursements, and Changes in Fund
Balances for the Year Ending December 31, 2012
 - Enterprise Funds:
 - 14 Statement of Net Position as of December 31, 2013
 - 15 Statement of Receipts, Disbursements, and Changes in Net Position
for the Year Ending December 31, 2013
 - 15 Statement of Receipts, Disbursements, and Changes in Net Position
for the Year Ending December 31, 2012
 - 16 Statement of Cash Flows For the Year Ending December 31, 2013
 - 16 Statement of Cash Flows For the Year Ending December 31, 2012
- 17 Notes to the Financial Statements

SUPPLEMENTARY INFORMATION SECTION

- Budgetary Comparison Schedule - Budgetary Basis
 - 27 General Fund for the Year Ending December 31, 2013
 - 28 General Fund for the Year Ending December 31, 2012
 - 29 Notes to Budgetary Supplementary Information
- 30 Schedule of Long-Term Debt -- For the Two Years Ending December 31, 2013

GOVERNMENTAL SECTION

- 31 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*
- 33 Schedule of Prior Audit Findings
- 33 Schedule of Current Audit Findings and Responses

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

Benjamin Elliott, CPA
P.O. Box 262
Madison, South Dakota 57042
605.483.3225

Governing Board
City of Lake Preston
Lake Preston, 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 Preston (City), Kingsbury 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 1c - this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the 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 the governmental activities, business-type activities, and each major fund of the City of Lake Preston, Kingsbury County, 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 1c to the financial statements.

Basis of Accounting

I draw attention to Note 1c of the financial statements, which describes the basis of accounting. The 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 - 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 Preston's financial statements.

The management's discussion and analysis (page 3 to 8) and the budgetary comparison schedules (page 27 to 29) listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic 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 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 - 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's financial statements.

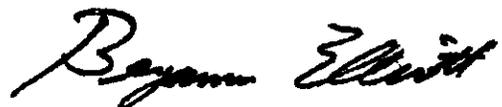
The schedule of long-term debt (page 30) listed in the table of contents as supplementary information, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subject to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such 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 information is fairly stated in all material respects in relation to the basic 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 31) dated March 26, 2014 on my test of the City'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



March 26, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of the City of Lake Preston (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	298,564	296,791
Operating grants	0	0
Capital grants	0	0
General receipts	486,858	478,553
	-----	-----
Total	785,422	775,344
Disbursements:		
Governmental	479,026	465,965
Business-type	240,807	213,780
	-----	-----
Total	719,833	679,745
	-----	-----
Increase (Decrease) in Net Position	65,589	95,599
Net Position:		
December 31, 2011		658,677

December 31, 2012	754,276	754,276
	-----	=====
December 31, 2013	819,865	
	=====	
Governmental Funds:		
General	786,101	674,582
Library Improvement	2,901	6,646
Business-Type Funds:		
Water	17,573	18,874
Sewer	13,290	54,174
	-----	-----
Total	819,865	754,276
	=====	=====

During 2013, the City:

- * Received \$263,629 in property taxes, \$167,444 in sales tax, \$123,137 from water sales, and \$75,485 from sewer sales.
- * Made street improvements for \$31,126.
- * Paid down the general obligation bond by \$25,000.
- * Paid down the water/sewer loan by \$2,772.
- * Made contribution in aid of construction to Kingbrook Rural Water of \$19,668.

During 2012, the City:

- * Received \$240,336 in property taxes, \$167,159 in sales tax, \$116,145 from water sales, and \$76,255 from sewer sales.
- * Received a \$25,000 donation to support the library (\$5,000), fire department (\$10,000) and ambulance service (\$10,000).
- * Transferred \$7,880 from the water fund to the general fund for operations.
- * Transferred \$12,032 from the water fund to the sewer fund for operations.
- * Made street improvements for \$48,555.
- * Paid down the general obligation bond by \$20,000.
- * Paid down the water/sewer loan by \$2,657.
- * Made contribution in aid of construction to Kingbrook Rural Water of \$19,668.

USING THIS REPORT

This report is presented in a format consistent with the presentation requirements of the Government Accounting Standards Board (GASB) Statement No. 34, as applicable to the City's modified cash basis of accounting.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

The financial report consists of three parts: (1) management's discussion and analysis (page 3 to 8), (2) the basic financial statements (page 9 to 26) and (3) supplementary information (page 27 to 30). 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. Governmental funds operated by the City during 2012 and 2013 are the general fund and library improvement 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 during 2012 and 2013 are the water fund and sewer fund.

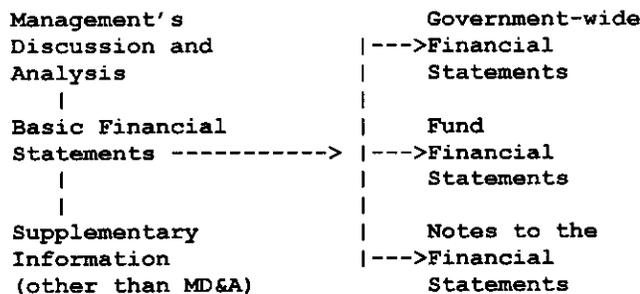
The fiduciary fund financial statements provide information about the financial status of activities in which the City acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. In 2012 and 2013 the City had no fiduciary funds.

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 3 to 8) 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.

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 and library)	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 Statement of Cash Flows
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 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, 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 care of streets, police protection, sanitation, and the ambulance. Property taxes, sales taxes, fees, and interest received finance most of these activities.

The business-type activities account for the City's water and sewer activities. These services are funded by user fees. Loans and transfers in from the general fund 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 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 Council establishes other funds to manage money for a specific purpose, like a capital project.

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 and sewer 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 \$30,000)

(Material changes for business-type activities = changes greater than \$20,000)

	Increase (Decrease)	Reason
Governmental Activities:		
Cash	108,000	Excess cash receipts from operations.
Business-type Activities:		
Cash	(42,000)	Excess cash disbursements from operations.
Water operations	(20,000)	Reduced personnel cost.
Sewer operations	47,000	Paid for sewer relining.

For the Year Ending December 31, 2012

(Material changes for governmental activities = changes greater than \$30,000)

(Material changes for business-type activities = changes greater than \$20,000)

	Increase (Decrease)	Reason
Governmental Activities:		
Cash	125,000	Excess cash receipts.
General government	(65,000)	More capital asset purchases in 2011.
Public works	(246,000)	Completed street project in 2011.
Transfers	(53,000)	Completed street project in 2011.
Business-type Activities:		
Cash	(29,000)	Excess cash disbursements from operations.
Water operations	44,000	Repair and equipment cost of \$28,060
Sewer operations	(36,000)	Reduced professional fees of \$21,578.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

In 2013 the City adopted a general fund budget of \$641,776 which is an increase of \$30,036 or 4.91% from 2012. The largest portion of this increase was for police. There were no supplemental appropriations in 2013. See page 27 for more information.

In 2012 the City adopted a general fund budget of \$611,740 which is a decrease of \$253,490 or 29.30% from 2011. The largest portion of this decrease was for streets. There were no supplemental appropriations 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. The City incurred no new debt in 2012 or 2013. The City is current on all its debt. See page 30 for more information.

CURRENTLY KNOWN FACTS

In February 2014 the Council voted to increase water rates by 25 cents per 1,000 gallons used.

In March 2014 the Council voted to have Hydro Klean finish relining the remaining 390 feet of sewer line on North Fremont Avenue for \$39,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City'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 Preston's finance office at P.O. Box 397, Lake Preston, SD 57249 or telephone us at 605.847.4140.

CITY OF LAKE PRESTON

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	694	583	475	18	33	82	712	616	557
Cash and equivalents, restricted	95	98	81	13	40	20	108	138	101
Total cash assets	789	681	556	31	73	102	820	754	658
Net position:									
Restricted	95	98	81	13	40	20	108	138	101
Unrestricted	694	583	475	18	33	82	712	616	557
Total net position	789	681	556	31	73	102	820	754	658

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	100	104	119	198	192	193	298	296	312
Operating grants and contri.									
Capital grants and contri.			26				0	0	26
General receipts:									
Property taxes	264	241	235				264	241	235
Sales tax	167	167	189				167	167	189
State shared receipts	41	39	30				41	39	30
County shared receipts	2	5	2				2	5	2
Interest received	2		1				2		1
Rents and franchise	9	9	12				9	9	12
Other general receipts	2	18	1				2	18	1
Total receipts	587	583	615	198	192	193	785	775	808
Disbursements:									
General government	143	148	213				143	148	213
Public safety	35	13	33				35	13	33
Public works	197	191	437				197	191	437
Health and welfare	41	46	70				41	46	70
Culture and recreation	62	66	52				62	66	52
Economic development	1	2					1	2	
Water				124	144	100	124	144	100
Sewer				116	69	105	116	69	105
Total disbursements	479	466	805	240	213	205	719	679	1,010
Excess of receipts over (under) disbursements	108	117	(190)	(42)	(21)	(12)	66	96	(202)
Transfers		8	(45)		(8)	45	0	0	0
Sale of surplus property			14						14
Change in net position	108	125	(221)	(42)	(29)	33	66	96	(188)
Net position:									
December 31, 2010, adjusted			777			69			846
December 31, 2011		556	556		102	102		658	658
December 31, 2012	681	681		73	73		754	754	
December 31, 2013	789			31			820		

CITY OF LAKE PRESTON

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

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS:			
Cash and cash equivalents	468,770	17,573	486,343
Savings	201,414		201,414
Certificates of deposit	24,203		24,203
Restricted assets:			
Cash and cash equivalents	2,901	13,290	16,191
Savings	57,466		57,466
Certificates of deposit	34,248		34,248
Total assets	789,002	30,863	819,865
	=====	=====	=====
NET POSITION:			
Restricted for:			
Ambulance	91,714		91,714
Library	2,901		2,901
Debt service		13,290	13,290
Unrestricted	694,387	17,573	711,960
Total net position	789,002	30,863	819,865
	=====	=====	=====

See accompanying notes.

CITY OF LAKE PRESTON

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			
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Primary government:							
Governmental activities:							
General government	142,766	373			(142,393)		(142,393)
Public safety	34,856				(34,856)		(34,856)
Public works	197,303	37,441			(159,862)		(159,862)
Health and welfare	41,550	51,893			10,343		10,343
Culture and recreation	61,915	2,543			(59,372)		(59,372)
Economic development	636				(636)		(636)
Liquor	0	7,692			7,692		7,692
Total governmental activities	479,026	99,942	0	0	(379,084)	0	(379,084)
Business-type activities:							
Water	124,438	123,137				(1,301)	(1,301)
Sewer	116,369	75,485				(40,884)	(40,884)
Total business-type activities	240,807	198,622	0	0	0	(42,185)	(42,185)
Total primary government	719,833	298,564	0	0	(379,084)	(42,185)	(421,269)
General receipts:							
Taxes:							
Property taxes					263,629		263,629
Sales taxes					167,444		167,444
Amusement taxes					144		144
State shared receipts					40,658		40,658
County shared receipts					1,854		1,854
Interest received					2,615		2,615
Rentals and cable franchise					8,910		8,910
Donations					558		558
Miscellaneous receipts					1,046		1,046
Total general receipts					486,858	0	486,858
Change in net position					107,774	(42,185)	65,589
Net position:							
January 1, 2013					681,228	73,048	754,276
December 31, 2013					789,002	30,863	819,865

See accompanying notes.

CITY OF LAKE PRESTON

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		
	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	148,029	350			(147,679)		(147,679)
Public safety	13,038				(13,038)		(13,038)
Public works	191,181	38,190			(152,991)		(152,991)
Health and welfare	45,578	53,450			7,872		7,872
Culture and recreation	65,662	3,621			(62,041)		(62,041)
Economic development	2,202				(2,202)		(2,202)
Liquor	275	8,780			8,505		8,505
Total governmental activities	465,965	104,391	0	0	(361,574)	0	(361,574)
<i>Business-type activities:</i>							
Water	144,455	116,145				(28,310)	(28,310)
Sewer	69,325	76,255				6,930	6,930
Total business-type activities	213,780	192,400	0	0	0	(21,380)	(21,380)
Total primary government	679,745	296,791	0	0	(361,574)	(21,380)	(382,954)
General receipts:							
<i>Taxes:</i>							
Property taxes					240,336		240,336
Sales taxes					167,159		167,159
Amusement taxes					132		132
State shared receipts					39,329		39,329
County shared receipts					4,807		4,807
Interest received					437		437
Rentals and cable franchise					8,626		8,626
Donations					16,007		16,007
Miscellaneous receipts					1,720		1,720
Transfers					7,880	(7,880)	0
Total general receipts					486,433	(7,880)	478,553
Change in net position					124,859	(29,260)	95,599
Net position:							
January 1, 2012					556,369	111,287	667,656
Correction of prior period error: Remove prior period "calculated" late charges						(8,979)	(8,979)
January 1, 2012, adjusted					556,369	102,308	658,677
December 31, 2012					681,228	73,048	754,276

See accompanying notes.

CITY OF LAKE PRESTON

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

	General Fund	Library Improvement Fund	Total Governmental Funds
	-----	-----	-----
ASSETS:			
Cash and cash equivalents	468,770		468,770
Savings	201,414		201,414
Certificates of deposit	24,203		24,203
Restricted assets:			
Cash and cash equivalents		2,901	2,901
Savings	57,466		57,466
Certificates of deposit	34,248		34,248
	-----	-----	-----
Total assets	786,101	2,901	789,002
	=====	=====	=====
FUND BALANCE:			
Nonspendable			0
Restricted	91,714	2,901	94,615
Committed			0
Assigned	60,000		60,000
Unassigned	634,387		634,387
	-----	-----	-----
Total fund balances	786,101	2,901	789,002 *
	=====	=====	=====

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

See accompanying notes.

CITY OF LAKE PRESTON

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	Library Improvement Fund	Total	General Fund	Library Improvement Fund	Total
Receipts:						
Receipts from local sources:						
Taxes:						
Ad valorem taxes	263,629		263,629	240,336		240,336
General sales and use taxes	167,444		167,444	167,159		167,159
Amusement taxes	144		144	132		132
Licenses and permits:	306		306	350		350
Intergovernmental receipts:						
State shared receipts:						
Bank franchise tax	2,669		2,669	1,697		1,697
Liquor tax reversion	4,746		4,746	4,907		4,907
5% Motor vehicle licenses	9,387		9,387	9,331		9,331
Highway and bridge	23,856		23,856	23,394		23,394
County shared receipts:						
County road	1,854		1,854	4,807		4,807
Charges for goods and services:						
Sanitation collection	37,441		37,441	38,190		38,190
Ambulance	51,893		51,893	53,450		53,450
Pool	2,543		2,543	3,576	45	3,621
Fines and forfeits:	67		67			0
Miscellaneous receipts:						
Interest received	2,614	1	2,615	436	1	437
Rents and cable franchise	8,910		8,910	8,626		8,626
Donations	558		558	10,772	5,235	16,007
Liquor	7,692		7,692	8,780		8,780
Other	1,046		1,046	1,720		1,720
Total receipts	586,799	1	586,800	577,663	5,281	582,944
Disbursements:						
Current:						
General government:						
Mayor and Council	15,316		15,316	10,285		10,285
Elections	0		0	0		0
Financial administration	95,155		95,155	85,511		85,511
Government buildings	25,260		25,260	34,655		34,655
Public safety:						
Police	16,200		16,200	0		0
Fire	7,826		7,826	5,754		5,754
Public works:						
Highways and streets	128,438		128,438	107,386		107,386
Sanitation collection	34,058		34,058	34,241		34,241
Airport	181		181	0		0
Cemetery	3,500		3,500	1,000		1,000
Health and welfare:						
West Nile	554		554			0
Ambulance	30,996		30,996	45,578		45,578
Culture and recreation:						
Pool	34,481		34,481	36,229		36,229
Parks	9,334		9,334	12,071		12,071
Library	10,519	3,746	14,265	12,226	783	13,009
Economic development:						
Promotion	636		636	2,202		2,202
Liquor			0	275		275
Capital outlay	62,826		62,826	77,769		77,769
Total disbursements	475,280	3,746	479,026	465,182	783	465,965
Excess of receipts over (under) disbursements	111,519	(3,745)	107,774	112,481	4,498	116,979
Other financing sources (uses):						
Transfer in			0	7,880		7,880
Net change in fund balance	111,519	(3,745)	107,774 *	120,361	4,498	124,859 *
Fund balance:						
January 1, 2012				554,221	2,148	556,369
December 31, 2012	674,582	6,646	681,228	674,582	6,646	681,228
December 31, 2013	786,101	2,901	789,002			

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

See accompanying notes.

CITY OF LAKE PRESTON

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

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
ASSETS:			
Cash and cash equivalents	17,573		17,573
Restricted assets:			
Cash and cash equivalents		13,290	13,290
	-----	-----	-----
Total assets	17,573	13,290	30,863
	=====	=====	=====
 NET POSITION:			
Restricted - debt service		13,290	13,290
Unrestricted	17,573		17,573
	-----	-----	-----
Total net position	17,573	13,290	30,863
	=====	=====	=====

See accompanying notes.

CITY OF LAKE PRESTON

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	Total	Water Fund	Sewer Fund	Total
Operating receipts:						
Charges for goods and services	123,137	75,485	198,622	116,145	76,255	192,400
Total operating receipts	123,137	75,485	198,622	116,145	76,255	192,400
Operating disbursements:						
Personal services	20,738	10,281	31,019	34,922	300	35,222
Other current services	28,871	65,365	94,236	27,875	32,513	60,388
Cost of goods sold	46,518		46,518	48,555		48,555
Capital assets	8,643		8,643	13,435		13,435
Total operating disbursements	104,770	75,646	180,416	124,787	32,813	157,600
Net operating receipts (disbursements)	18,367	(161)	18,206	(8,642)	43,442	34,800
Nonoperating receipts (disbursements):						
Contri. in aid of construction	(19,668)		(19,668)	(19,668)		(19,668)
Debt service - principal		(27,772)	(27,772)		(22,657)	(22,657)
- interest		(12,540)	(12,540)		(13,855)	(13,855)
- fees		(411)	(411)			0
Total nonoperating receipts (disbursemen	(19,668)	(40,723)	(60,391)	(19,668)	(36,512)	(56,180)
Income (loss) before transfers	(1,301)	(40,884)	(42,185)	(28,310)	6,930	(21,380)
Transfer in			0		12,032	12,032
Transfer (out)			0	(19,912)		(19,912)
Change in net assets	(1,301)	(40,884)	(42,185)	(48,222)	18,962	(29,260)
Net assets:						
January 1, 2012				76,075	35,212	111,287
Correction of prior period error: Remove prior period "calculated" late charges				(8,979)		(8,979)
January 1, 2012, adjusted				67,096	35,212	102,308
December 31, 2012	18,874	54,174	73,048	18,874	54,174	73,048
December 31, 2013	17,573	13,290	30,863			

See accompanying notes.

CITY OF LAKE PRESTON

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	Total	Water Fund	Sewer Fund	Total
Cash flows from:						
Operating activities:						
Receipts from customers	123,137	75,485	198,622	116,145	76,255	192,400
Payments to employees	(20,738)	(10,281)	(31,019)	(34,922)	(300)	(35,222)
Payments to suppliers	(75,389)	(65,365)	(140,754)	(76,430)	(32,513)	(108,943)
Payments for capital assets	(8,643)		(8,643)	(13,435)		(13,435)
Net cash provided (used) by operating activities	18,367	(161)	18,206	(8,642)	43,442	34,800
Noncapital financing activities:						
Transfer in			0		12,032	12,032
Transfer out			0	(19,912)		(19,912)
Capital financing activities:						
Contri. in aid of construction	(19,668)		(19,668)	(19,668)		(19,668)
Debt service - principal		(27,772)	(27,772)		(22,657)	(22,657)
Debt service - interest		(12,540)	(12,540)		(13,855)	(13,855)
Debt service - fees		(411)	(411)			0
Investing activities:						
None			0			0
Net increase (decrease) in cash and cash equivalents	(1,301)	(40,884)	(42,185)	(48,222)	18,962	(29,260)
Cash and cash equivalents:						
January 1, 2012				76,075	35,212	111,287
Correction of prior period error: Remove prior period "calculated" late charges				(8,979)		(8,979)
January 1, 2012, adjusted				67,096	35,212	102,308
December 31, 2012	18,874	54,174	73,048	18,874	54,174	73,048
December 31, 2013	17,573	13,290	30,863			
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	18,367	(161)	18,206	(8,642)	43,442	34,800
Net cash provided (used) by operating activities	18,367	(161)	18,206	(8,642)	43,442	34,800
Noncash investing, capital and financing activities: None						

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lake Preston 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 Lake Preston's (City) governing board. At December 31, 2013 City officials are:

Mayor:	Finance Officer:
Benny Mogler	Jackie Baldwin
Governing Board:	Attorney:
Janean Woodcock, President	Steven Britzman
Brandon Karban	
Bonnie Noem	
Rick Olson	
Joe Schnell	
Carol Zeeck	

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

Financial Reporting Entity:
Primary Government: - The City of Lake Preston
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 Lake Preston 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 Lake Preston has one component unit, the Lake Preston Housing and Redevelopment Commission (HRC), which was organized in 1969. However, the HRC is inactive and there are no financial transactions to report in these financial statements of the City of Lake Preston.

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 Lake Preston) 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 report on the City's 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 assets, 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 assets, receipts, or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (cash assets, 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 is always a major fund.

Special Revenue Funds - 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 funds:

Library Improvement Fund - A fund allowed by SDCL 14-2-42 to account for fines, donations and similar receipts, deposited in a library board bank account subject to checks by the librarian for library purposes. The library improvement fund is a major fund.

Enterprise Funds:

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 Preston. The water fund is a major fund.

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

Fiduciary Funds:

The City of Lake Preston 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. 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 financial statements would be presented on the full accrual basis of accounting.

d. Program Receipts and General Receipts:

Program Receipts:

In the government-wide statement of cash 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 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, rents, 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 Fund 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. Equity Classifications:

Government-wide 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 - 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 trust for a purpose.

g. 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. Also, enterprise fund certificates of deposit (if any) are for 90 days or less. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the statement of cash flows.

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 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 Lake Preston 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	Library	Statute	2,901
Restricted	Ambulance activity	Contract	91,714
Committed	None		0
Assigned	Capital projects	Finance officer	60,000
Unassigned	General		634,387

			789,002

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

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

The City's special revenue library fund receipts are from donations and miscellaneous sources. See page 13.

2. DEPOSITS, INVESTMENTS AND RELATED RISKS

The City follows the practice of aggregating the cash assets of 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 account is the add-on type.

Actual bank balances at December 31, 2013 were as follows: Insured \$453,685, Collateralized ** \$243,409 for a total of \$697,094.

** 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 \$683,899:

First National Bank, (Lake Preston, SD):	
Checking	366,568
Savings	258,880
Certificates of deposit	58,451

	683,899
Petty cash	80

	683,979
	=====

Cash Equivalent - Certificates of deposit, with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

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. Investments are stated at cost or amortized cost plus accrued interest.

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.

At December 31, 2013 the City had the following investment.

	Credit Rating	Maturity Value	Fair Value	Interest Rate Risk
At South Dakota FIT: (100%) memo B				
Govt. Cash Reserve Money Market	Unrated	\$135,886	\$135,886	memo A

memos

- A. Fixed principal. Interest rate varies. Not subject to interest rate risk.
- B. South Dakota Public Funds Investment Trust (FIT) is an external investment pool created for South Dakota local government investing. It is regulated by a 9 member board with representation from municipalities, school districts, and counties. The net asset value of the South Dakota FIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

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 in financial institutions were not exposed to custodial credit 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 was not exposed to custodial investment risk during the two years ending December 31, 2013.

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

3. INTERFUND TRANSFERS

In 2012 the water fund transferred \$7,880 to the general fund for operations and the water fund transferred \$12,032 to the sewer fund for operations.

4. RESTRICTED NET POSITION

The following are restricted amounts shown on the statement of net position.

Purpose:	Restricted By:	Government-Wide	Business-Type
Ambulance	Contract	91,714	
Library	Statute	2,901	
Debt service	Covenant		13,290
		-----	-----
		94,615	13,290

5. LONG-TERM DEBT

A summary of changes in long-term liabilities is presented as supplementary information on page 30. The City did not have any short-term or conduit debt in 2012 or 2013.

6. FUTURE REVENUES PLEDGED TO SECURE DEBT

All sewer fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure 2003 Sewer and Water Revenue Bonds which have a remaining balance of \$180,614 at December 31, 2013. This debt was incurred to cover the cost of sewer and water improvements. The bonds will mature in 2044. In 2013 this debt had pledged revenue of \$75,485 and total payments of \$10,512. See page 30.

7. OPERATING LEASE

In June, 1993, the City entered into a 40 year operating lease with Kingbrook Rural Water to provide water to the City. A monthly service charge in the amount of \$1,639 is paid by the City to Kingbrook along with a present charge of \$2.05 per 1,000 gallons of water consumed. The monthly service charge represents a contribution by the City to aid Kingbrook in the construction of the improvements needed to provide the City with water. The City will not acquire ownership of any of these improvements through the operating lease payments. Payments are made from the water fund. Following are the minimum remaining payments on the operating lease.

2014	\$ 19,668	2019-2023	\$ 98,340
2015	19,668	2024-2028	98,340
2016	19,668	2029-2033	98,340
2017	19,668		
2018	19,668		

8. RETIREMENT PLAN

All employees, except seasonal 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.

Covered employees are required by 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% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ending December 31, 2013, 2012, and 2011 were \$5,106, \$5,340 and \$5,256 (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.

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 purchases 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 the liability coverage during the past three years.

Liability Insurance:

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

The agreement with the SDPAA provides that the above coverage's will be provided to a \$1,000,000 upper limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The City carries a \$500 maximum deductible for its various coverages.

The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower cost for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed above, under a claims-made policy and the premiums are accrued on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage.

At December 31, 2013 the City has \$14,681 of vested benefits on deposit in the SDPAA Cumulative Reserve Fund.

The City also carries insurance with Continental Western Company which provides property, general liability, auto and inland marine coverage for the Lake Preston Volunteer Fire Department and the Lake Preston Ambulance Service. The agreement with Continental Western Insurance Company provides coverage up to a \$2,000,000 upper limit. The City carries a \$250 deductible for its various coverages.

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

Worker's Compensation:

The City joined the South Dakota Municipal League Workers' Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$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 objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The

City pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospective rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The City may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs.

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

Unemployment Benefits: The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota. No unemployment payments were made during the two years ending December 31, 2013 and none are expected in 2014.

11. LITIGATION

The City can be a party to litigation. No determination can be made at this time regarding the potential outcome of such matters. However, as discussed in the risk management note above, the City has liability coverage for itself and its employees through South Dakota Public Assurance Alliance. Therefore, any litigation is not expected to have a potential material effect on the City's financial statements.

12. OTHER DISCLOSURES

The City has no material unallowed related party activity.

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

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

CITY OF LAKE PRESTON

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: Final			
Receipts:						
Receipts from local sources:						
Taxes:						
Ad valorem taxes	262,126		262,126	263,629	1,503	
General sales and use taxes	176,000		176,000	167,444	(8,556)	
Amusement tax			0	144	144	
Licenses and permits:	200		200	306	106	
Intergovernmental receipts:						
State shared receipts:						
Bank franchise tax	1,700		1,700	2,669	969	
Liquor tax reversion	5,100		5,100	4,746	(354)	
Titles and registration (5%)	5,100		5,100	9,387	4,287	
Highway and bridge	14,000		14,000	23,856	9,856	
County shared receipts:	1,600		1,600	1,854	254	
Charges for goods and services:						
Sanitation	39,000		39,000	37,441	(1,559)	
Ambulance fees	60,000		60,000	51,893	(8,107)	
Pool and park	3,050		3,050	2,543	(507)	
Fines and forfeitures:			0	67	67	
Miscellaneous receipts:						
Interest received	1,200		1,200	2,614	1,414	
Rents and franchise fee	12,700		12,700	8,910	(3,790)	
Donations			0	558	558	
Liquor - 5% mark-up	7,000		7,000	7,692	692	
Other	3,000		3,000	1,046	(1,954)	
Total receipts	591,776	0	0	591,776	586,799	(4,977)
Disbursements:						
General government:						
Mayor and Council	15,250	270	15,520	15,316	204	
Contingency	30,000		30,000		30,000	
Amount transferred		(1,270)	(1,270)		(1,270)	
Elections	600		600	0	600	
Financial administration	104,300		104,300	95,155	9,145	
Buildings	57,770		57,770	32,295	25,475	
Public safety:						
Police	21,100		21,100	16,200	4,900	
Fire	24,400		24,400	18,656	5,744	
Other	500		500		500	
Public works:						
Highways and streets	184,430		184,430	159,564	24,866	
Sanitation	40,850		40,850	34,058	6,792	
Airport	1,000		1,000	181	819	
Cemetery	2,500	1,000	3,500	3,500	0	
Health and welfare:						
West Nile	1,000		1,000	554	446	
Ambulance	50,350		50,350	40,996	9,354	
Culture and recreation:						
Pool	44,900		44,900	34,481	10,419	
Parks	42,106		42,106	9,334	32,772	
Library	17,540		17,540	14,354	3,186	
Economic development:	2,930		2,930	636	2,294	
Liquor license:	250		250		250	
Total disbursements	641,776	0	0	641,776	475,280	166,496
Excess of receipts over (under) disbursements	(50,000)	0	0	(50,000)	111,519	161,519
Other financing sources (uses):						
Transfer (out)	(10,000)		(10,000)		10,000	
Net change in fund balance	(60,000)	0	0	(60,000)	111,519	171,519
Fund balance:						
January 1, 2013	674,582		674,582	674,582	0	
December 31, 2013	614,582	0	0	786,101	171,519	

CITY OF LAKE PRESTON

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	247,600		247,600	240,336	(7,264)	
General sales and use taxes	176,000		176,000	167,159	(8,841)	
Amusement tax			0	132	132	
Licenses and permits:	200		200	350	150	
Intergovernmental receipts:						
State shared receipts:						
Bank franchise tax	1,500		1,500	1,697	197	
Liquor tax reversion	5,000		5,000	4,907	(93)	
Titles and registration	5,000		5,000	9,331	4,331	
Highway and bridge			0	23,394	23,394	
County shared receipts:	14,000		14,000	4,807	(9,193)	
Charges for goods and services:						
Sanitation	39,000		39,000	38,190	(810)	
Ambulance fees	50,000		50,000	53,450	3,450	
Pool and park	3,040		3,040	3,576	536	
Fines and forfeitures:			0		0	
Miscellaneous receipts:						
Interest received	1,200		1,200	436	(764)	
Rents and franchise fee	5,000		5,000	8,626	3,626	
Donations			0	10,772	10,772	
Liquor - 5% mark-up	7,000		7,000	8,780	1,780	
Other	7,200		7,200	1,720	(5,480)	
Total receipts	561,740	0	0	561,740	577,663	15,923
Disbursements:						
General government:						
Mayor and Council	14,850		14,850	10,285	4,565	
Contingency	30,000		30,000		30,000	
Amount transferred		(8,080)	(8,080)		(8,080)	
Elections	600		600		600	
Financial administration	110,775		110,775	85,511	25,264	
Other	52,070	245	52,315	52,233	82	
Public safety:						
Police			0	0	0	
Fire	28,400		28,400	13,038	15,362	
Other protection	500		500		500	
Public works:						
Highways and streets	192,378		192,378	155,940	36,438	
Sanitation	42,850		42,850	34,241	8,609	
Airport	1,250		1,250		1,250	
Cemetery	2,000		2,000	1,000	1,000	
Health and welfare:						
West Nile	1,000		1,000		1,000	
Ambulance	39,700	7,200	46,900	45,578	1,322	
Culture and recreation:						
Pool and recreation	35,775	610	36,385	36,229	156	
Parks	37,670		37,670	14,784	22,886	
Library	15,742		15,742	13,866	1,876	
Economic development:	5,930		5,930	2,202	3,728	
Liquor license:	250	25	275	275	0	
Total disbursements	611,740	0	0	611,740	465,182	146,558
Excess of receipts over (under) disbursements	(50,000)	0	0	(50,000)	112,481	162,481
Other financing sources (uses):						
Transfer in			0	7,880	7,880	
Transfer (out)	(10,000)		(10,000)		10,000	
Net change in fund balance	(60,000)	0	0	(60,000)	120,361	180,361
Fund balance:						
January 1, 2012	554,221		554,221	554,221	0	
December 31, 2012	494,221	0	0	674,582	180,361	

CITY OF LAKE PRESTON

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

1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures to establish the budgetary data reflected in 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 were no supplemental budgets in 2012 or 2013. See page 27 and 28 for more information.
- e. Formal budgetary integration is employed as a management control device for the general fund.
- f. Budgets for the general fund were 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, disbursements and changes in fund balances. However, in the budgetary supplementary information 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 PRESTON

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
GOVERNMENTAL						
None						
BUSINESS-TYPE						
2000 General Obligation Bond:						
Original Issue of \$280,000						
Maturing on July 1, 2015						
Interest at 6.00% for bonds maturing after 2008						
Remaining bonds are callable at any time						
Purpose: improvements to city's main street including water and sewer lines						
Paid by the sewer fund	100,000	(20,000)	(25,000)		55,000	25,000
2003 Sewer and Water Revenue Bond:						
Original Issue of \$200,000						
Maturing on November, 2044						
Interest at 4.25%						
Callable at any time						
Purpose: water and sewer improvements						
Paid by the sewer fund	186,043	(2,657)	(2,772)		180,614	2,922
Totals	286,043	(22,657)	(27,772)	0	235,614	27,922

	Total Payment	Principal	Interest	Remaining Balance
Payment Schedules:				
2000 General Obligation Bond:				
2014	28,300	25,000	3,300	30,000
2015	31,800	30,000	1,800	0
Totals	60,100	55,000	5,100	
2003 Sewer and Water Revenue Bond:				
2014	10,512	2,922	7,590	177,692
2015	10,512	3,045	7,467	174,647
2016	10,512	3,173	7,339	171,474
2017	10,512	3,307	7,205	168,167
2018	10,512	3,445	7,067	164,722
2019-2023	52,560	19,525	33,035	145,197
2024-2028	52,560	23,987	28,573	121,210
2029-2033	52,560	29,468	23,092	91,742
2034-2038	52,560	36,202	16,358	55,540
2039-2043	52,560	44,474	8,086	11,066
2044	11,574	11,066	508	0
Totals	326,934	180,614	146,320	

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 Preston
Lake Preston, 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 Preston (City), Kingsbury County, South Dakota, as of December 31, 2013 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated March 26, 2014 which was unmodified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lake Preston's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion.

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

I did note minor matters involving compliance that I reported to the governing body and management of the City of Lake Preston in a separate Letter of Comments dated March 26, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Lake Preston'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 Preston'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 Edgemont School District'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 a material weakness. However, material weaknesses may exist that have not been identified.

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

The City of Lake Preston's response to the finding identified in my audit is described in the accompanying schedule of current audit findings and responses. The City's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on the response.

I did note minor matters involving internal control that I reported to the governing body and management of the City of Lake Preston in a separate Letter of Comments dated March 26, 2014.

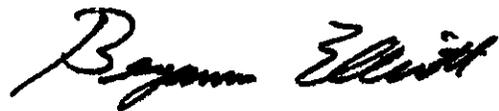
Purpose of this Report

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 City of Lake Preston'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 City of Lake Preston's compliance and internal control over financial reporting. Accordingly, this communication is not suitable for any other purpose.

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

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

March 26, 2014



SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit Findings: None

Prior Other Audit Findings:

2007-02 (Lack of Proper Segregation of Duties): Repeated below

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Finding 2013-01: Lack of Proper Segregation of Duties
(internal control)

Criteria:

Management of a municipality is responsible for establishing and maintaining an internal control structure to provide management and the taxpayers with reasonable assurance: 1) that assets are safeguarded against loss from unauthorized use or disposition, 2) that transactions are executed in accordance with management's authorization, and 3) that transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

A key element of an effective internal control structure is the separation of duties so one person isn't responsible of all aspects of a transaction.

Condition:

The finance officer processed most revenue transactions from beginning to end. The finance officer receives money, issues receipts, records receipts in the accounting records, prepares bank deposits, reconciles bank statements and prepares financial statements. As a result, an inadequate segregation of duties exist in the revenue function at the City of Lake Preston.

Effect:

Inadequate segregation of duties can lead to the misappropriation of funds.

Recommendation:

I recommend the City of Lake Preston's management be cognizant of this lack of segregation of duties for receipts and attempt to provide compensating internal controls whenever, and wherever possible and practical. For example, someone other than the finance officer should reconcile bank statements.

Response:

This comment is a result of the size of the City, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City has determined it is not cost beneficial to employ additional personnel just to adequately segregate duties. The City of Lake Preston is aware of this problem and is attempting to provide compensating controls whenever and wherever possible and practical. However, this lack of segregation of duties in the revenue function is expected to continue to exist.