

**MUNICIPALITY OF LEOLA
LEOLA, SOUTH DAKOTA
AUDIT REPORT
FOR THE YEARS THEN ENDED
DECEMBER 31, 2013 AND 2012**

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CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

Municipal Council
Municipality of Leola
Leola, South Dakota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the Municipality of Leola, 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 comprises the Municipality's basic financial statements and have issued our report thereon dated June 18, 2014, which was adverse on the aggregate discretely presented component units because the financial statements do not include financial data for the Municipality's legally separate component unit.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items 2013-02, 2013-03 & 2013-04, to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2013-01.

Municipality's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 Section .320 (a), this report is a matter of public record and its distribution is not limited.

Caull Bowen

Mobridge, South Dakota

June 18, 2014



CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

City Council
Municipality of Leola
Leola, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the Municipality of Leola, South Dakota (Municipality) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Municipality's major federal programs for the biennial period ended December 31, 2013. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Municipality's compliance with those requirements.

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Opinion on Each Major Federal Program

In our opinion, the Municipality of Leola, South Dakota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the biennial period ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2013-01. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However as identified below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items 2013-01 to be a material weakness.

The Municipality's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. The Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of the Report

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

Cabell Bauer

Mobridge, South Dakota

June 18, 2014

**MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2013**

PRIOR FEDERAL AUDIT FINDINGS

No Single Audit requirements existed in prior years. The Municipality has no written prior audit findings.

SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

Financial Statements

- a. An unqualified opinion was issued on the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. An adverse opinion was issued on the aggregate discretely presented component units.
- b. Material weakness's were disclosed by our audit of the financial statements as discussed in findings number 2013-02, 2013-03 and 2013-04.
- c. Our audit did not disclose any noncompliance which was material to the financial statements.

Federal Awards

- d. A material weakness was disclosed for internal control over major federal programs affecting the Equipment and Real Property compliance requirement category as discussed in finding number 2013-01.
- e. An unqualified opinion was issued on compliance with the requirements applicable to major programs.
- f. Our audit disclosed an audit finding required to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a). See finding 2013-01.
- g. The federal awards tested as major programs were:
 - 1. 14.228 Community Development Block Grant/State's Program**
 - 2. 10.770 Waste Water Development Grant/Loan**
 - 3. 81.128 Energy Efficiency and Conservation Block Grant Program**
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
- i. Municipality of Leola did not qualify as a low-risk auditee.

**MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2013**

CURRENT FEDERAL AUDIT FINDINGS:

Internal Control-Related Findings and Federal Compliance-Related Findings - Material Weaknesses:

Finding 2013-01:

The major federal programs affected are 14.228 and 10.770.

Criteria:

The Equipment and Real Property compliance requirement requires organizations to maintain an adequate equipment and property management system. Fixed asset records should include comprehensive lists of all land, buildings, improvements and equipment that have a cost greater than the Municipality's capitalization policy. The Municipality's lists of such assets were found to be incomplete and lacking in supporting documentation.

Condition Found:

Fixed asset records are inadequate.

Effect:

Inaccurate financial statement and/or misappropriations of funds could result from inadequate maintenance of records.

Questioned Costs

There are no questioned costs involved.

Recommendation

The Municipality should conduct a comprehensive physical inventory of all fixed assets and update the subsidiary records accordingly. Costs (or estimated costs) of the assets should be properly documented.

Corrective Action Plan

The Municipality finance officer, Candice Kappes, is the contact person responsible for the corrective action plan for this comment. The Municipality agrees with the finding and has started to work on updating their records.

**MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2013**

CURRENT OTHER AUDIT FINDINGS

Internal Control-Related Findings - Material Weaknesses:

Finding 2013-02:

Criteria:

To obtain adequate internal control over cash management, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process.

Condition Found:

A lack of proper segregation of duties existed for the duties for cash, equity, revenue, expenditures and the payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This lack of segregation of duties has a direct effect on the cash management of the Municipality.

Effect:

The Municipality of Leola, has a limited number of employees who prepare all records for cash, revenues, equity, expenditures and payroll. This lack of segregation of duties could result in inaccurate financial statement and/or misappropriations of funds.

Questioned Costs

There are no questioned costs involved.

Recommendation

We recommend that Municipality officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever and wherever possible and practical.

Corrective Action Plan

The Municipality of Leola agrees with this finding and is willing to accept the risk. The Municipality is continuing its work on correcting this deficiency and implementing compensating controls where possible and practical.

**MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2013**

Finding 2013-03:

Criteria:

An organization's internal control structure should provide for the preparation of financial statements in accordance with other comprehensive basis of accounting - modified cash basis.

Condition Found:

The Municipality does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements.

Effect:

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

Recommendation

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

The Municipality's finance officer, Candice Kappes, is the contact person responsible for the corrective action plan for this comment. The Municipality is continuing its work on correcting this deficiency.

**MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2013**

Finding 2013-04:

Criteria:

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that the accounting records are in accordance with other comprehensive basis of accounting - modified cash basis.

Condition Found:

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

Effect:

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

Recommendation

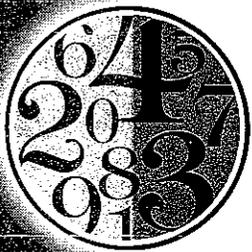
It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of the cost of other considerations.

Corrective Action Plan

The Municipality of Leola is continuing its work in correcting this deficiency.

Closing Conference

The contents of this report were discussed with Candice Kappes, Finance Officer, Pam Schaffner, Deputy Finance Officer, Dean Schock, Mayor, and Norman Tschappat on May 15, 2014.



CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Municipal Council
Municipality of Leola
Leola, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Leola South Dakota, as of December 31, 2013, and for the biennial period then ended, and the related notes to the financial statements, which collectively comprises the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality'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 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality'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 Municipality's internal control. Accordingly, we do not express such an opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinions.

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Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for the Municipality's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Municipality's primary government unless the Municipality also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Municipality has not issued such reporting entity financial statements.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the Municipality of Leola, South Dakota, as of December 31, 2013 and December 31, 2012.

Unmodified Opinions

In our 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Leola, South Dakota, as of December 31, 2013, and the respective changes in financial position and cash flows, thereof for the biennial periods then ended in accordance with the modified cash basis of accounting described in Note 1.c, to the financial statements.

Basis of Accounting

We draw attention to Note 1.c 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. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Schedule of Expenditures of Federal Awards, which as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, the Budgetary Comparison Schedule, and the Combining Statements listed in the Table of Contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected 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 our 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, we have also issued our report dated June 18, 2014 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Municipality's internal control over financial reporting and compliance.

Cahill Bauer

Mobridge, South Dakota
June 18, 2014

INDEPENDENT AUDITORS' REPORT

Municipal Council
Municipality of Leola
Leola, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Leola South Dakota, as of December 31, 2013, and for the biennial period then ended, and the related notes to the financial statements, which collectively comprises the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality'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 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality'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 Municipality's internal control. Accordingly, we do not express such an opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinions.

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for the Municipality's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Municipality's primary government unless the Municipality also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Municipality has not issued such reporting entity financial statements.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the Municipality of Leola, South Dakota, as of December 31, 2013 and December 31, 2012.

Unmodified Opinions

In our 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Leola, South Dakota, as of December 31, 2013, and the respective changes in financial position and cash flows, thereof for the biennial periods then ended in accordance with the modified cash basis of accounting described in Note 1.c, to the financial statements.

Basis of Accounting

We draw attention to Note 1.c 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. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Schedule of Expenditures of Federal Awards, which as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, the Budgetary Comparison Schedule, and the Combining Statements listed in the Table of Contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected 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 our 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, we have also issued our report dated June 18, 2014 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Municipality's internal control over financial reporting and compliance.

Cahiel Bowen

Mobridge, South Dakota
June 18, 2014

MUNICIPALITY OF LEOLA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 137,366	\$ 77,756	\$ 215,122
Restricted Assets			
Cash and cash equivalents	66,711	59,472	126,183
TOTAL ASSETS	204,077	137,228	341,305
NET POSITION:			
Restricted for			
Swimming Pool Trust Fund	1,600	-	1,600
Library Trust Fund	656	-	656
Park Trust Fund	3,383	-	3,383
Revolving Loan Fund	66,711	-	66,711
Revenue Contingency Bonds	-	59,472	59,472
Unrestricted	131,727	77,756	209,483
TOTAL NET POSITION	\$ 204,077	\$ 137,228	\$ 341,305

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

MUNICIPALITY OF LEOLA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental activities							
General government	\$ 134,193	\$ 6,559	\$ -	\$ -	\$ (127,634)	\$ -	\$ (127,634)
Public safety	52,318	212	-	-	(52,106)	-	(52,106)
Public works	51,838	450	24,182	-	(27,206)	-	(27,206)
Health and welfare	1,630	97	-	-	(1,533)	-	(1,533)
Culture and recreation	111,786	4,701	-	-	(107,085)	-	(107,085)
Conservation and development	9,004	-	-	-	(9,004)	-	(9,004)
Total governmental activities	360,769	12,019	24,182	-	(324,568)	-	(324,568)
Business-type activities							
Water	114,632	90,063	-	-	-	(24,569)	(24,569)
Sewer	1,409,018	112,002	-	1,335,843	-	38,827	38,827
Total business-type activities	1,523,650	202,065	-	1,335,843	-	14,258	14,258
Total primary government	\$ 1,884,419	\$ 214,084	\$ 24,182	\$ 1,335,843	\$ (324,568)	\$ 14,258	\$ (310,310)
General Revenues							
Taxes							
Property taxes					182,895	-	182,895
Sales tax					127,863	-	127,863
State shared revenue					3,374	-	3,374
Grants and contributions not restricted to specific programs					6,924	-	6,924
Unrestricted investment earnings					1,122	-	1,122
Miscellaneous revenue					24,400	10,554	34,954
Total general revenues					346,578	10,554	357,132
Change in net position					22,010	24,812	46,822
Net position - beginning					182,067	112,416	294,483
Net position - ending					\$ 204,077	\$ 137,228	\$ 341,305

MUNICIPALITY OF LEOLA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 112,131	\$ 8,273	\$ -	\$ 14,525	\$ (89,333)	\$ -	\$ -	\$ (89,333)
Public safety	44,389	134	-	-	(44,255)	-	-	(44,255)
Public works	44,994	23,497	-	-	(21,497)	-	-	(21,497)
Health and welfare	257	110	-	-	(147)	-	-	(147)
Culture and recreation	99,619	6,762	-	-	(92,857)	-	-	(92,857)
Conservation and developm	4,038	-	-	-	(4,038)	-	-	(4,038)
Total governmental activ	305,428	38,776	-	14,525	(252,127)	-	-	(252,127)
Business-type activities								
Water	105,596	95,163	-	-	-	(10,433)	-	(10,433)
Sewer	1,542,068	109,130	-	1,447,906	-	14,968	-	14,968
Total business-type activ	1,647,664	204,293	-	1,447,906	-	4,535	-	4,535
Total primary government	\$ 1,953,092	\$ 243,069	\$ -	\$ 1,462,431	\$ (252,127)	\$ 4,535	\$ -	\$ (247,592)
General Revenues								
Taxes								
Property taxes					171,957	-	-	171,957
Sales tax					100,453	-	-	100,453
State shared revenue					3,430	-	-	3,430
Grants and contributions not restricted to specific programs					3,869	-	-	3,869
Unrestricted investment earnings					1,375	-	-	1,375
Miscellaneous revenue					43,187	-	-	43,187
Total general revenues					324,271	-	-	324,271
Change in net position					72,144	4,535	-	76,679
Net position - beginning					109,923	107,881	-	217,804
Net position - ending					\$ 182,067	\$ 112,416	\$ -	\$ 294,483

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

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

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 131,727	\$ 5,639	\$ 137,366
Restricted cash	-	66,711	66,711
TOTAL ASSETS	\$ 131,727	\$ 72,350	\$ 204,077
FUND BALANCES			
Assigned	-	72,350	72,350
Unassigned	131,727	-	131,727
TOTAL FUND BALANCES	\$ 131,727	\$ 72,350	\$ 204,077

MUNICIPALITY OF LEOLA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2013

	Primary Government		
	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes			
General property taxes	\$ 182,045	\$ -	\$ 182,045
General sales and use taxes	127,863	-	127,863
Amusement taxes	192	-	192
Penalties and interest on delinquent taxes	658	-	658
Licenses and permits	2,946	-	2,946
State shared revenue			
Bank franchise tax	399	-	399
Motor vehicle commercial prorate	2,506	-	2,506
Liquor tax reversion	2,975	-	2,975
Motor vehicle licenses (5%)	5,692	-	5,692
Local government highway and bridge fund	9,677	-	9,677
County shared revenue			
County road tax (25%)	6,307	-	6,307
Charges for goods and services			
General government	612	-	612
Public safety	69	-	69
Highways and streets	97	-	97
Sanitation	450	-	450
Culture and recreation	4,291	410	4,701
Other	418	-	418
Fines and forfeits			
Court fines and costs	143	-	143
Miscellaneous revenue			
Investment earnings	102	1,020	1,122
Rentals	3,001	-	3,001
Contributions and donations from private sources	6,924	-	6,924
Other	-	21,928	21,928
Total Revenues	\$ 357,367	\$ 23,358	\$ 380,725

MUNICIPALITY OF LEOLA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED
CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Primary Government		
	General Fund	Other Governmental Funds	Total Governmental Funds
EXPENDITURES			
General government			
Executive	\$ 13,924	\$ -	\$ 13,924
Elections	842	-	842
Financial administration	44,435	-	44,435
Other	74,992	-	74,992
Public safety			
Police	51,493	-	51,493
Fire	825	-	825
Public works			
Highways and streets	48,328	-	48,328
Sanitation	3,510	-	3,510
Health and welfare			
Health	1,630	-	1,630
Culture and recreation			
Recreation	61,651	22,909	84,560
Parks	12,973	-	12,973
Libraries	13,215	938	14,153
Historical preservation	100	-	100
Conservation and development			
Urban redevelopment and housing	6,715	-	6,715
Economic development and assistance (Industrial development)	2,289	-	2,289
Total expenditures	<u>336,922</u>	<u>23,847</u>	<u>360,769</u>
Excess of revenue over (under) expenditures	20,445	(489)	19,956
Other financing sources (uses)			
Compensation of loss of capital assets	250	-	250
Sale of municipal property	1,804	-	1,804
Total other financing sources	<u>2,054</u>	<u>-</u>	<u>2,054</u>
Net change in fund balances	22,499	(489)	22,010
Fund balance - beginning	<u>109,228</u>	<u>72,839</u>	<u>182,067</u>
Fund Balance - Ending	<u>\$ 131,727</u>	<u>\$ 72,350</u>	<u>\$ 204,077</u>

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

MUNICIPALITY OF LEOLA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED
CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Primary Government		
	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes			
General property taxes	\$ 171,172	\$ -	\$ 171,172
General sales and use taxes	100,453	-	100,453
Amusement taxes	144	-	144
Penalties and interest on delinquent taxes	641	-	641
Licenses and permits	4,017	-	4,017
Intergovernmental revenue			
Federal grants	14,525	-	14,525
State shared revenue			
Bank franchise tax	354	-	354
Motor vehicle commercial prorata	2,678	-	2,678
Liquor tax reversion	3,076	-	3,076
Motor vehicle licenses (5%)	4,991	-	4,991
Local government highway and bridge fund	10,828	-	10,828
County shared revenue			
County road tax (25%)	2,539	-	2,539
County wheel tax	2,354	-	2,354
Charges for goods and services			
General government	703	652	1,355
Public safety	13	-	13
Highways and streets	110	-	110
Sanitation	107	-	107
Culture and recreation	6,762	-	6,762
Other	95	-	95
Fines and forfeits			
Court fines and costs	120	1	121
Miscellaneous revenue			
Investment earnings	86	1,289	1,375
Rentals	2,901	-	2,901
Contributions and donations from private sources	832	3,037	3,869
Other	11	20,910	20,921
Total Revenues	\$ 329,512	\$ 25,889	\$ 355,401

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

MUNICIPALITY OF LEOLA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED
CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Primary Government		Total
	General	Other	
EXPENDITURES			
General government			
Executive	\$ 15,221	\$ -	\$ 15,221
Elections	2,098	-	2,098
Financial administration	62,473	-	62,473
Other	32,339	-	32,339
Public safety			
Police	34,706	-	34,706
Fire	9,683	-	9,683
Public works			
Highways and streets	38,964	-	38,964
Sanitation	6,030	-	6,030
Health and welfare			
Health	157	-	157
Hospital, nursing homes and rest homes	100	-	100
Culture and recreation			
Recreations	66,192	-	66,192
Parks	14,551	6,635	21,186
Libraries	11,763	378	12,141
Historical preservation	100	-	100
Conservation and development			
Urban redevelopment and housing	1,889	-	1,889
Economic development and assistance (Industrial development)	2,149	-	2,149
Total expenditures	<u>298,415</u>	<u>7,013</u>	<u>305,428</u>
Excess of revenue over (under) expenditures	31,097	18,876	49,973
Other financing sources (uses)			
Compensation of loss or Damage to assets	20,000	-	20,000
Sale of municipal property	2,171	-	2,171
Total other financing sources	<u>22,171</u>	<u>-</u>	<u>22,171</u>
Net change in fund balances	53,268	18,876	72,144
Fund balance - Beginning	<u>55,960</u>	<u>53,963</u>	<u>109,923</u>
Fund Balance - Ending	<u>\$ 109,228</u>	<u>\$ 72,839</u>	<u>\$ 182,067</u>

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

MUNICIPALITY OF LEOLA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2013

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current assets			
Cash and cash equivalents	\$ 5,057	\$ 72,699	\$ 77,756
Restricted cash	-	59,472	59,472
TOTAL ASSETS	\$ 5,057	\$ 132,171	\$ 137,228
NET POSITION:			
Restricted for			
Revenue bond contingency	-	59,472	59,472
Unrestricted	5,057	72,699	77,756
TOTAL NET POSITION	\$ 5,057	\$ 132,171	\$ 137,228

MUNICIPALITY OF LEOLA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET
POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
OPERATING REVENUE			
Charges for goods and services	\$ 90,063	\$ 112,002	\$ 202,065
Total operating revenue	<u>90,063</u>	<u>112,002</u>	<u>202,065</u>
OPERATING EXPENSES			
Personal services	20,384	20,174	40,558
Other current expense	71,734	3,519	75,253
Capital assets	22,514	-	22,514
Total Operating Expenses	<u>114,632</u>	<u>23,693</u>	<u>138,325</u>
Operating income	<u>(24,569)</u>	<u>88,309</u>	<u>63,740</u>
NONOPERATING REVENUES (EXPENSES)			
Grants	-	1,335,843	1,335,843
Capital assets	-	(1,337,073)	(1,337,073)
Debt service (principal)	-	(23,231)	(23,231)
Interest expense and fiscal charges	-	(25,021)	(25,021)
Compensation for loss on capital assets	10,554	-	10,554
Total nonoperating revenues	<u>10,554</u>	<u>(49,482)</u>	<u>(37,698)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEMS, EXTRAORDINARY ITEMS AND TRANSFERS			
	<u>(14,015)</u>	<u>38,827</u>	<u>24,812</u>
CHANGE IN NET POSITION	(14,015)	38,827	24,812
NET POSITION - BEGINNING	<u>19,072</u>	<u>93,344</u>	<u>112,416</u>
NET POSITION - ENDING	<u>\$ 5,057</u>	<u>\$ 132,171</u>	<u>\$ 137,228</u>

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

MUNICIPALITY OF LEOLA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 90,063	\$ 112,002	\$ 202,065
Payments to employees for services	(20,384)	(20,174)	(40,558)
Payments to suppliers of goods and services	(94,248)	(3,519)	(97,767)
Net cash provided by operating activities	<u>(24,569)</u>	<u>88,309</u>	<u>63,740</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies	-	1,078,695	1,078,695
Net cash provided by noncapital financing activities	-	1,078,695	1,078,695
CASH FLOWS FROM (FOR) CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	-	257,148	257,148
Purchases of capital improvements	-	(1,337,073)	(1,337,073)
Sale of capital assets	10,554	-	10,554
Principal paid on capital debt	-	(23,231)	(23,231)
Interest paid on capital debt	-	(25,021)	(25,021)
Net cash used by capital and related financing activities	<u>10,554</u>	<u>(1,128,177)</u>	<u>(1,117,623)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(14,015)	38,827	24,812
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	19,072	93,344	112,416
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,057	\$ 132,171	\$ 137,228
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income	\$ (24,569)	\$ 88,309	\$ 63,740

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

MUNICIPALITY OF LEOLA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET
POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
OPERATING REVENUE			
Charges for goods and services	\$ 95,163	\$ 109,130	\$ 204,293
Total operating revenue	<u>95,163</u>	<u>109,130</u>	<u>204,293</u>
OPERATING EXPENSES			
Personal services	22,125	21,991	44,116
Other current expense	80,173	6,040	86,213
Capital assets	3,298	115	3,413
Total Operating Expenses	<u>105,596</u>	<u>28,146</u>	<u>133,742</u>
Operating income	<u>(10,433)</u>	<u>80,984</u>	<u>70,551</u>
NONOPERATING REVENUES (EXPENSES)			
Grants	-	1,447,906	1,447,906
Capital assets	-	(1,481,754)	(1,481,754)
Debt service (principal)	-	(29,016)	(29,016)
Interest expense and fiscal charges	-	(3,152)	(3,152)
Total nonoperating revenues	<u>-</u>	<u>(66,016)</u>	<u>(32,168)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEMS, EXTRAORDINARY ITEMS AND TRANSFERS			
	<u>(10,433)</u>	<u>14,968</u>	<u>4,535</u>
CHANGE IN NET POSITION	<u>(10,433)</u>	<u>14,968</u>	<u>4,535</u>
NET POSITION - BEGINNING	<u>29,505</u>	<u>78,376</u>	<u>107,881</u>
NET POSITION - ENDING	<u>\$ 19,072</u>	<u>\$ 93,344</u>	<u>\$ 112,416</u>

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

MUNICIPALITY OF LEOLA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 95,163	\$ 109,130	\$ 204,293
Payments to employees for services	(22,125)	(21,991)	(44,116)
Payments to suppliers of goods and services	(83,471)	(6,155)	(89,626)
Net cash provided by operating activities	(10,433)	80,984	70,551
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating Subsidies	-	378,554	378,554
Net cash provided by noncapital financing activities	-	378,554	378,554
CASH FLOWS FROM (FOR) CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	-	1,069,352	1,069,352
Purchases of capital improvements	-	(1,481,754)	(1,481,754)
Principal paid on capital debt	-	(29,016)	(29,016)
Interest paid on capital debt	-	(3,152)	(3,152)
Net cash used by capital and related financing activities	-	(444,570)	(444,570)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,433)	14,968	4,535
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29,505	78,376	107,881
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 19,072	\$ 93,344	\$ 112,416
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income	\$ (10,433)	\$ 80,984	\$ 70,551

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

MUNICIPALITY OF LEOLA
NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(See Independent Auditors' Report)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c, these financial statements are presented on the 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. Financial Reporting Entity

The reporting entity of the Municipality of Leola (Municipality), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those 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 Municipality 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 Municipality. The Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality.

The Housing and Redevelopment Commission of the Municipality of Leola, South Dakota (Commission), is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission.

The Municipality has created a Housing and Redevelopment Commission under the authority of South Dakota Codified Law 11-7-7. The financial information of the component unit is available upon request from the Leola Housing and Redevelopment Commission, Leola, South Dakota.

b. Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. 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.

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

Fund Financial Statements

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

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

The funds of the Municipality financial reporting entity are described below within their respective fund types:

Governmental Funds

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

The Special Revenue funds are not considered major funds: Park Trust Fund, Library Trust Fund, Swimming Pool Trust Fund and the Revolving Loan Fund. These funds are reported on the fund financial statements as "Other Governmental Funds".

Proprietary Funds

Enterprise Fund Types - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

a. Water Fund - financed primarily by user charges this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDL 9-47-1) This is a major fund.

b. Sewer Fund - financed primarily by user charges this fund accounts for the construction and operation of the municipal sanitary system and related facilities. (SDL 9-48-2) This is a major fund.

c. Measurement Focus and Basis of Accounting:

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

NOTES TO FINANCIAL STATEMENTS - Page 4
(See Independent Auditors' Report)

The Municipality's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, 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 defined 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 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 and business-type 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 receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). 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 that cash has been received or disbursed.

Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

- a. Recording long-term investments (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

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 or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Municipality applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

NOTES TO FINANCIAL STATEMENTS - Page 5
(See Independent Auditors' Report)

d. Deposits and Investments:

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

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investments authorized by South Dakota Codified Law (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

e. Long-Term Liabilities

Long-term liabilities include, but are not limited to, General Obligation Bonds, Revenue Bonds and Compensated Absences.

As discussed in Note 1c. Above the government-wide State of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The Municipality has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the Municipality. The Municipality does report the principal and interest payments on long-term debt as Debt Service expenditures on the State of Revenues, Expenditures and

f. Program Revenues

Program revenues derive directly from the program itself or from parties other than the Municipality's taxpayers or citizenry, as a whole. Program revenues are classified into three categories:

- a: 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.
- b: Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
- c: Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

g. Proprietary Funds Revenue and Expense Classifications

In the Proprietary Fund's Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

h. Cash and Cash Equivalents:

The Municipality pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

i. Capital Assets:

Under the modified cash basis of accounting, capital assets are recorded as an expense when they result from cash transactions. The accounting treatment for property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Under the modified cash basis of accounting, capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. In the Statement of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary to match the cost with the program that benefits from the use of the capital assets.

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund when paid for in cash. Capital assets acquired for use in proprietary fund operations are accounted for in the same manner as in the government-wide financial statements.

j. Equity Classifications

Government-wide Statements

Equity is classified as Net Position and is displayed in two component:

a: Restricted Net Position - Consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

b: Unrestricted Net Position - All other net assets that do not meet the definition of "restricted" or "net invested in capital assets."

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

k. Application of Net Positions

It is the Municipality's policy to first use restricted Net Position, prior to the use of unrestricted Net Position, when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

l. Fund Balance Classification and Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Municipality 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 of 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 Municipal Council or Finance Officer.

Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

The Municipality 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 Municipality's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.11 and 9-22-6.2 and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in 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.

Interest Rate Risk - The Municipality 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.

Credit Risk - State law limits eligible investments for the Municipality. The Municipality has no investment policy that would further limit its investment choices.

Custodial Credit Risk - The risk that, in the even of a depository failure, the Municipality's deposits may not be returned to it. The Municipality does not have a deposit policy for custodial credit risk. As of December 31, 2013, none of the Municipality's deposits were exposed to custodial credit risk.

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 Municipality's policy is to credit all income to the fund making the investment.

NOTE 3 - PROPERTY TAXES

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payables as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The Municipality is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the Municipality.

NOTE 4- RETIREMENT PLAN

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and 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. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2013, 2012, and 2011 were \$5,358, \$4,404 and \$4,896 respectively, equal to the required contributions each year.

NOTE 5 - RISK MANAGEMENT

The Municipality 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 year ended December 31, 2013, the Municipality managed its risks as follows:

Liability

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

Workmen's Compensation

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

The Municipality'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 Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,675,000 per individual per incident.

The Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Unemployment Benefits

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

SUPPLEMENTARY INFORMATION

MUNICIPALITY OF LEOLA
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes				
General property tax	\$ 170,000	\$ 170,000	\$ 182,045	\$ 12,045
General sales and use tax	90,000	90,000	127,863	37,863
Amusement taxes	-	-	192	192
Penalties and interest on delinquent	-	-	658	658
Licenses and permits	2,600	2,600	2,946	346
Intergovernmental revenue				
State shared revenue				
Bank franchise tax	600	600	399	(201)
Motor vehicle commercial prorata	2,000	2,000	2,506	506
Liquor tax reversion	2,500	2,500	2,975	475
Motor vehicle licenses (5%)	2,800	2,800	5,692	2,892
Local government highway and bridge fund	7,800	7,800	9,677	1,877
County shared revenue				
County road tax (25%)	2,500	2,500	6,307	3,807
Charges for goods and services				
General government	150	150	612	462
Public safety	-	-	69	69
Highways and streets	-	-	97	97
Sanitation	-	-	450	450
Culture and recreation	3,350	3,350	4,291	941
Other	1,500	1,500	418	(1,082)
Fines and forfeits				
Court fines and penalties	-	-	143	143
Miscellaneous revenue				
Investment earnings	400	400	102	(298)
Rentals	2,600	2,600	3,001	401
Contributions and donations				
from private sources	2,000	2,000	6,924	4,924
Other	2,000	2,000	-	(2,000)
Total revenue	\$ 292,800	\$ 292,800	\$ 357,367	\$ 64,567

MUNICIPALITY OF LEOLA
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES				
General government				
Contingency	\$ 28,700	\$ 28,700	\$ -	\$ -
Amount transferred	-	-	-	28,700
Executive	24,200	24,200	13,924	10,276
Elections	1,000	1,000	842	158
Financial administration	48,450	48,450	44,435	4,015
Other	69,750	69,750	74,992	(5,242)
Public safety				
Police	68,000	68,000	51,493	16,507
Fire	1,000	1,000	825	175
Public works				
Highways and streets	62,000	62,000	48,328	13,672
Sanitation	6,425	6,425	3,510	2,915
Health and welfare				
Health	2,700	2,700	1,630	1,070
Hospital and nursing homes	100	100	-	100
Culture and recreation				
Recreation	64,000	64,000	61,651	2,349
Parks	24,750	24,750	12,973	11,777
Libraries	13,450	13,450	13,215	235
Historical Preservation	100	100	100	-
Conservation and development				
Urban redevelopment and housing	5,000	5,000	6,715	(1,715)
Economic development and assistance (industrial development)	2,750	2,750	2,289	461
Total Expenditures	422,375	422,375	336,922	85,453
Excess revenue over/under expenditures	(129,575)	(129,575)	20,445	150,020
Other financing sources/(uses)				
Transfers in	25,000	25,000	-	25,000
Compensation for loss of assets	-	-	250	(250)
Sale of municipal property	-	-	1,804	1,804
Total other financing sources (uses)	25,000	25,000	2,054	26,554
Net change in fund balances	(104,575)	(104,575)	22,499	127,074
Fund balance - beginning	109,228	109,228	109,228	-
Fund balance - ending	\$ 4,653	\$ 4,653	\$ 131,727	\$ 127,074

MUNICIPALITY OF LEOLA
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - BUDGETARY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes				
General property tax	\$ 150,000	150,000	171,172	\$ 21,172
General sales and use tax	90,000	90,000	100,453	10,453
Amusement taxes	100	100	144	44
Penalties and interest on delinquent taxes	400	400	641	241
Licenses and permits	3,000	3,000	4,017	1,017
Intergovernmental revenue				
Federal grants	-	-	14,525	14,525
State shared revenue				
Bank franchise tax	600	600	354	(246)
Motor vehicle commercial prorata	2,000	2,000	2,678	678
Liquor tax reversion	2,500	2,500	3,076	576
Motor vehicle licenses (5%)	2,800	2,800	4,991	2,191
Local government highway and bridge fund	7,800	7,800	10,828	3,028
County shared revenue				
County road tax (25%)	2,500	2,500	4,893	2,393
Charges for goods and services				
General government	150	150	703	553
Public safety	10	10	13	3
Highways and streets	15	15	110	95
Sanitation	25	25	107	82
Culture and recreation	2,300	2,300	6,762	4,462
Other	100	100	95	(5)
Fines and forfeits				
Court fines and costs	-	-	120	120
Miscellaneous revenue				
Investment earnings	400	400	86	(314)
Rentals	2,000	2,000	2,901	901
Contributions and donations				
from private sources	1,000	1,000	832	(168)
Other	2,000	2,000	11	(1,989)
Total revenue	\$ 269,700	\$ 269,700	\$ 329,512	\$ 59,812

(Continued on next page)

MUNICIPALITY OF LEOLA
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - BUDGETARY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
EXPENDITURES				
General government				
Contingency	\$ 27,000	\$ 27,000	\$ -	\$ -
Amount transferred	-	(9,500)	-	17,500
Executive	18,800	18,800	15,221	3,579
Elections	1,000	1,000	2,098	(1,098)
Financial administration	69,000	69,000	62,473	6,527
Other	37,250	37,250	32,339	4,911
Public safety				
Police	29,360	29,360	34,706	(5,346)
Fire	1,000	1,000	9,683	(8,683)
Public works				
Highways and streets	62,000	62,000	38,964	23,036
Sanitation	6,425	6,425	6,030	395
Health and welfare				
Health	2,700	2,700	157	2,543
Hospital and nursing homes	100	100	100	-
Culture and recreation				
Recreation	63,500	63,500	66,192	(2,692)
Parks	25,250	25,250	14,551	10,699
Libraries	12,250	12,250	11,763	487
Historical preservation	100	100	100	-
Conservation and development				
Urban development and housing	5,000	5,000	1,889	3,111
Economic development and assistance (industrial development)	2,950	2,950	2,149	801
Total Expenditures	363,685	354,185	298,415	55,770
Excess revenue over/under expenditures	(93,985)	(84,485)	31,097	115,582
Other financing sources/(uses)				
Transfers in	25,000	25,000	-	(25,000)
Compensation of loss or damage to assets	-	-	20,000	20,000
Sale of municipal property	-	-	2,171	2,171
Total other financing sources (uses)	25,000	25,000	22,171	(2,829)
Net change in fund balances	(68,985)	(59,485)	53,268	112,753
Fund balance - beginning	55,960	55,960	55,960	-
Fund balance - ending	\$ (13,025)	\$ (3,525)	\$ 109,228	\$ 112,753

MUNICIPALITY OF LEOLA
NOTES TO SUPPLEMENTARY INFORMATION
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board/Municipality Commission introduces the annual appropriation ordinance for ensuing fiscal year.
2. After adoption by the Governing Board/Municipality Commission, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board/Municipality Commission to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the Governing Board/Municipality Commission.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, special revenue funds and capital projects funds.

The Municipality did not encumber any amounts at December 31, 2013 or December 31, 2012.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and major special revenue funds.

MUNICIPALITY OF LEOLA

NOTES TO SUPPLEMENTARY INFORMATION - Page 2

**SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 2 - OTHER COMPREHENSIVE BASIS OF ACCOUNTING MODIFIED CASH
BASIS/BUDGETARY ACCOUNTING BASIS DIFFERENCES**

The financial statements prepared in conformity with USGAAP applied within the context of the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

MUNICIPALITY OF LEOLA
COMBINING BALANCE SHEET - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Pool Trust Fund	Library Trust Fund	Park Trust Fund	Revolving Fund	
ASSETS:					
Cash and Cash Equivalents	\$ 1,600	\$ 656	\$ 3,383	\$ -	\$ 5,639
Restricted Cash and Cash Equivalents	-	-	-	66,711	66,711
TOTAL ASSETS	<u>1,600</u>	<u>656</u>	<u>3,383</u>	<u>66,711</u>	<u>72,350</u>
FUND BALANCES:					
Assigned	1,600	656	3,383	66,711	72,350
TOTAL FUND BALANCES	<u>\$ 1,600</u>	<u>\$ 656</u>	<u>\$ 3,383</u>	<u>\$ 66,711</u>	<u>\$ 72,350</u>

**MUNICIPALITY OF LEOLA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Pool Trust Fund	Library Trust Fund	Park Trust Fund	Revolving Fund	
Revenues:					
Charges for Goods and Services:					
Culture and Recreation	\$ 410	\$ -	\$ -	\$ -	\$ 410
Miscellaneous Revenue:					
Investment Earnings	4	-	-	1,016	1,020
Other	-	631	13,409	7,888	21,928
Total Revenue	414	631	13,409	8,904	23,358
Expenditures:					
Culture and Recreation:					
Recreation	2,786	-	20,123	-	22,909
Libraries	-	938	-	-	938
Total Expenditures	2,786	938	20,123	-	23,847
Excess of Revenues Over (Under) Expenditures	(2,372)	(307)	(6,714)	8,904	(489)
Net Change in Fund Balances	(2,372)	(307)	(6,714)	8,904	(489)
FUND BALANCE - BEGINNING	3,972	963	10,097	57,807	72,839
FUND BALANCE - ENDING	\$ 1,600	\$ 656	\$ 3,383	\$ 66,711	\$ 72,350

**MUNICIPALITY OF LEOLA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Special Revenue Funds</u>				Total Nonmajor Governmental Funds
	Pool Trust Fund	Library Trust Fund	Park Trust Fund	Revolving Fund	
Revenues:					
Charges for Goods and Services:					
Parks	\$ -	\$ -	\$ 652	\$ -	\$ 652
Fines and Forfeits:					
Library Fines	-	1	-	-	1
Miscellaneous Revenue:					
Investment Earnings	1	-	-	1,288	1,289
Contributions and Donations from Private Sources	3,037	-	-	-	3,037
Other	-	188	16,080	4,642	20,910
Total Revenue	<u>3,038</u>	<u>189</u>	<u>16,732</u>	<u>5,930</u>	<u>25,889</u>
Expenditures:					
Culture and Recreation:					
Parks	-	-	6,635	-	6,635
Libraries	-	378	-	-	378
Total Expenditures	<u>-</u>	<u>378</u>	<u>6,635</u>	<u>-</u>	<u>7,013</u>
Excess of Revenues Over (Under) Expenditures	3,038	(189)	10,097	5,930	18,876
Net Change in Fund Balances	3,038	(189)	10,097	5,930	18,876
FUND BALANCE - BEGINNING	934	1,152	-	51,877	53,963
FUND BALANCE - ENDING	<u>\$ 3,972</u>	<u>\$ 963</u>	<u>\$ 10,097</u>	<u>\$ 57,807</u>	<u>\$ 72,839</u>

MUNICIPALITY OF LEOLA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures 2013	Expenditures 2012
US Department of Housing and Urban Development:				
CDBG - State-Administered CDBG Cluster:				
Indirect Federal Funding				
SD Governor's Office of Economic Development, Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii				
	14.228	N/A	-	207,500
Total US Department of Housing and Urban Development			-	207,500
US Department of Agriculture:				
Indirect Federal Funding:				
Rural Development				
Water and Waste Disposal Loans and Grants				
	10.770	N/A	1,069,352	1,172,019
Total US Department of Energy			1,069,352	1,172,019
Indirect Federal Funding:				
Energy Emergency and Conservation Block Grant - ARRA				
	81.128	N/A	-	6,324
Total US Department of Energy			-	6,324
GRAND TOTAL			\$ 1,069,352	\$ 1,385,843

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

Note 2: The Municipality had the following loan balances outstanding at December 31, 2013. The loan balances outstanding which have continuing compliance requirements are also included in the federal expenditures presented in the schedule.

Cluster/Program Title	Federal CFDA Number	Amount Outstanding	Included as Federal Expenditure on this Schedule	Included as Federal Expenditure on this Schedule
USDA: Rural Development: Water & Waste Disposal Loan	10.770	-	1,069,352.00	257,148.00