

CITY OF SELBY
SELBY, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE TWO YEARS ENDING DECEMBER 31, 2012
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

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CITY OF SELBY
SELBY, SOUTH DAKOTA

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FOR THE TWO YEARS ENDING DECEMBER 31, 2012

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

INDEPENDENT AUDIT SERVICES, PC

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Governing Board
City of Selby
Selby, 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 Selby (City), Walworth County, South Dakota as of December 31, 2012 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 Selby, Walworth County, South Dakota, as of December 31, 2012, 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.

Other Matters - 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 Selby's financial statements.

The management's discussion and analysis (page 4 to 9) 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 formation and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on this information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Matters - 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 July 31, 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

A handwritten signature in black ink that reads "Benjamin Elliott". The signature is written in a cursive style with a large, sweeping initial "B".

July 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the City of Selby's (City) financial report presents our discussion and analysis of the City's financial performance during the two years ending December 31, 2012 within the limitations of the City's cash basis of accounting. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS	2012	2011
Receipts:		
Charges for goods and services	305,534	282,846
Operating grants	0	4,186
Capital grants	216,681	143,931
General receipts	508,476	577,430
	-----	-----
Total	1,030,691	1,008,393
	-----	-----
Disbursements:		
Governmental	518,125	405,978
Business-type	336,566	418,611
	-----	-----
Total	854,691	824,589
	-----	-----
Increase in Net Position	176,000	183,804
Net Position:		
December 31, 2010		775,818

December 31, 2011	959,622	959,622
	-----	=====
December 31, 2012	1,135,622	
	=====	
Governmental Funds:		
General	609,770	567,003
Water	95,010	42,055
Sewer	430,842	350,564
	-----	-----
Total	1,135,622	959,622
	=====	=====

During 2012, the City:

- * Received federal forgivable loans of \$84,781 to help pay for the Phase II water improvement project.
- * Received a federal forgivable loan of \$126,000 to help pay for a sewer improvement project.
- * Purchased fire equipment for \$5,900.
- * Made street improvements costing \$121,826.
- * Purchased library books for \$1,975.
- * Paid down two water revenue bonds by \$8,184.

During 2011, the City:

- * Received federal grants of \$143,931 to help pay for the Phase II water improvement project.
- * Made street improvements costing \$22,712.
- * Purchased library books for \$1,836.
- * Borrowed \$82,700 from Rural Development for the water improvement project.
- * Paid down two water revenue bonds by \$7,391.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

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

The financial report consists of three parts: (1) management's discussion and analysis (page 4 to 9), (2) the basic financial statements (page 10 to 26) and (3) other supplementary information (page 27 to 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. The governmental fund operated by the City for the two years ending of December 31, 2012 is the general fund.

The enterprise fund financial statements offer short-term and long-term financial information about the activities of the City that operate like a business. Enterprise funds operated by the City for the two years ending December 31, 2012 are the water and sewer funds.

The fiduciary fund financial statements provide information about the financial status of activities in which the City acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. In 2011 and 2012 the City had no fiduciary funds.

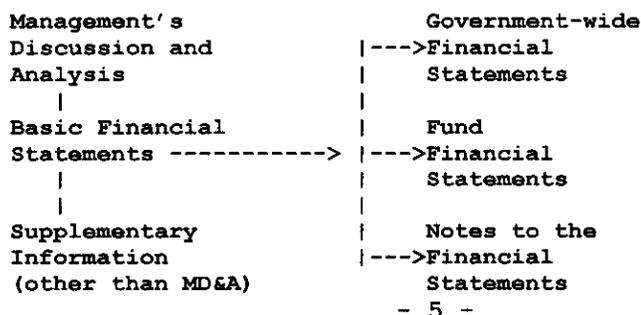
The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of supplementary information that presents a budgetary analysis for the general fund.

Supplementary Information:

The Management's Discussion and Analysis (page 4 to 9) and the Budgetary Comparison Schedules (page 27 to 29) are supplementary information. Such information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

The schedule of changes in debt (page 30) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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



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

	Government-wide Statements	Fund Statements-----	
		Governmental Funds	Enterprise Funds
Scope	Entire City (including component units if any)	City activities except enterprise (water and sewer)	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 Cash Receipts, Disbursements and Changes in Net Position
Basis of Accounting	Modified Cash	Modified Cash	Modified Cash
Measurement Focus	Modified Cash	Modified Cash	Modified Cash
Types of assets & Liabilities	Only cash No liabilities	Only cash No liabilities	Only cash No liabilities
Types of Revenue and Expenditures or Expense	Cash receipts Cash disbursements	Cash receipts Cash disbursements	Cash receipts Cash disbursements

BASIS OF ACCOUNTING

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

GOVERNMENT-WIDE STATEMENTS

(Reporting the City as a whole)

The government-wide statements (page 10 to 12) report information about the City as a whole using cash accounting methods similar to those used by private-sector companies. The statement of net position includes all of the City's cash. The statement of activities includes all of a 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, savings, money market 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 and fire protection, solid waste disposal, pool, and library. Property taxes, sales taxes, rents and interest earnings finance most of these activities. Bonds and federal and state grants help pay for capital improvements.

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

FUND FINANCIAL STATEMENTS

(Reporting the City's most significant funds)

The fund financial statements (page 13 to 17) provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools used to keep track of the City's receipts and disbursements. State law requires the use of some funds and the City 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, 2012

(Material changes for governmental activities = changes greater than \$50,000)

(Material changes for business-type activities = changes greater than \$30,000)

	Increase (Decrease)	Reason
Governmental Activities:		
Public works	52,544	Additional street work in 2012.
Business-type Activities:		
Cash	133,233	Excess cash receipts over cash disbursements.
Capital grants	66,850	Phase II water project completed in 2011.
Water costs	(178,020)	Phase II water project completed in 2011.
Sewer costs	95,975	Began sewer project in 2012.
Loan proceeds	(82,700)	No new loans

For the Year Ending December 31, 2011

(Material changes for governmental activities = changes greater than \$50,000)

(Material changes for business-type activities = changes greater than \$30,000)

	Increase (Decrease)	Reason
Governmental Activities:		
Cash	137,811	Excess cash receipts over cash disbursements.
Public safety	(60,651)	No police chief for much of 2011.
Business-type Activities:		
Cash	45,993	Excess cash receipts over cash disbursements.
Capital grants	(197,619)	Phase II water project completed in 2011.
Water costs	(463,752)	Phase II water project completed in 2011.
Loan proceeds	(182,457)	Fewer loans for Phase II water project.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

In 2012 the City adopted a general fund budget of \$649,500 which is an increase of \$84,650 or 14.99% from 2011. The increase was spread across several line items. There were no supplemental appropriations to the general fund budget. See page 27 for more information.

In 2011 the City adopted a general fund budget of \$564,850 which is a decrease of \$102,407 or 15.35% from 2010. The decrease was spread across several line items. There were no supplemental appropriations to the general fund budget. See page 28 for more information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Significant capital asset activity is reported above.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

During 2012 the City made principal payments of \$4,180 and \$4,004 on two water revenue bonds. At December 31, 2012 these loans had a balance of \$345,346 and \$269,279. During 2012 the City also received the balance of a forgivable loan of \$8,104 and a new forgivable loan of \$126,000.

During 2011 the City made principal payments of \$3,848 and \$3,543 on two water revenue bonds. At December 31, 2011 these loans had a balance of \$349,526 and \$273,283.

See also page 30 for more information.

CURRENTLY KNOWN FACTS

In September 2011 the City secured funding for a \$3,230,000 wastewater improvement project. It will be financed from a \$515,000 Community Development Block Grant, a \$700,000 SRF principal forgiveness loan, a \$1,815,000 Rural Development loan, and \$200,000 of local cash. Proceeds of \$126,000 were received in 2012 and \$574,000 were received in 2013 from the \$700,000 SRF principal forgiveness loan.

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 Selby's business office at P.O. Box 346, Selby, SD 57472. Phone 605.649.7301.

CITY OF SELBY

TABLE 1 - NET POSITION
 MODIFIED CASH BASIS - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 AS OF DECEMBER 31, 2012, DECEMBER 31, 2011, AND DECEMBER 31, 2010

	Governmental Activities			Business-Type Activities			Total Government		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Assets:									
Petty cash	57	57	57	25	25	25	82	82	82
Checking	14,156	18,664	14,057	13,626	(5,740)	19,140	27,782	12,924	33,197
Savings	531,794	450,696	318,472	401,820	221,191	151,939	933,614	671,887	470,411
Cert of deposit	63,763	97,586	96,606	110,381	177,143	175,522	174,144	274,729	272,128
Total assets	609,770	567,003	429,192	525,852	392,619	346,626	1,135,622	959,622	775,818
Net position:									
Restricted:									
Debt service				10,649	7,464	4,440	10,649	7,464	4,440
Water repair				3,000	3,000	3,000	3,000	3,000	3,000
Capital projects				11,787		1,233	11,787	0	1,233
Customer deposits				11,000	11,000		11,000	11,000	0
Unrestricted	609,770	567,003	429,192	489,416	371,155	337,953	1,099,186	938,158	767,145
Total net position	609,770	567,003	429,192	525,852	392,619	346,626	1,135,622	959,622	775,818

TABLE 2 - CHANGES IN NET CASH ASSETS
 MODIFIED CASH BASIS - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 FOR THE THREE YEARS ENDING DECEMBER 31, 2012

	Governmental Activities			Business-Type Activities			Total Government		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Receipts:									
Program receipts:									
Charges for service	48,377	47,376	57,059	257,157	235,470	208,048	305,534	282,846	265,107
Operating grants		4,186	16,199					4,186	16,199
Capital grants	5,900		1,950	210,781	143,931	341,550	216,681	143,931	343,500
General receipts:									
Property taxes	221,557	213,928	208,217				221,557	213,928	208,217
Sales taxes	210,348	207,841	208,535				210,348	207,841	208,535
State receipts	34,201	26,595	27,941				34,201	26,595	27,941
County receipts	2,576	2,035	1,903				2,576	2,035	1,903
Interest received	3,004	3,601	4,405	1,861	2,503	4,096	4,865	6,104	8,501
Rents	30,406	25,801	30,166				30,406	25,801	30,166
Other receipts	4,523	12,426	4,560				4,523	12,426	4,560
Total receipts	560,892	543,789	560,935	469,799	381,904	553,694	1,030,691	925,693	1,114,629
Disbursements:									
General government	70,334	64,780	80,705				70,334	64,780	80,705
Public safety	82,928	53,033	113,684				82,928	53,033	113,684
Public works	270,386	217,842	203,251				270,386	217,842	203,251
Health and welfare	4,725	7,148	9,008				4,725	7,148	9,008
Culture and recreat	86,277	62,790	67,660				86,277	62,790	67,660
Economic developmer	3,475	385	336				3,475	385	336
Water				199,126	377,146	840,898	199,126	377,146	840,898
Sewer				137,440	41,465	39,647	137,440	41,465	39,647
Total disbursements	518,125	405,978	474,644	336,566	418,611	880,545	854,691	824,589	1,355,189
Excess of receipts over (under) disbursemer	42,767	137,811	86,291	133,233	(36,707)	(326,851)	176,000	101,104	(240,560)
Loan proceeds					82,700	265,157		82,700	265,157
Sale of property			5,973						5,973
Change in net positioic	42,767	137,811	92,264	133,233	45,993	(61,694)	176,000	183,804	30,570
Net position:									
January 1, 2010			336,928			408,320			745,248
December 31, 2010		429,192	429,192		346,626	346,626		775,818	775,818
December 31, 2011	567,003	567,003		392,619	392,619		959,622	959,622	
December 31, 2012	609,770			525,852			1,135,622		

CITY OF SELBY

STATEMENT OF NET POSITION
 MODIFIED CASH BASIS OF ACCOUNTING
 AS OF DECEMBER 31, 2012

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS:			
Petty cash	57	25	82
Checking	14,156	1,839	15,995
Checking - restricted		11,787	11,787
Savings - clinic	37,347		37,347
Money market	494,447	401,820	896,267
Certificates of deposit	63,763	110,381	174,144
Total assets	609,770	525,852	1,135,622
NET POSITION:			
Restricted for:			
Debt service		10,649	10,649
Water repair and replacement		3,000	3,000
Sewer project construction		11,787	11,787
Customer deposits		11,000	11,000
Unrestricted	609,770	489,416	1,099,186
Total net position	609,770	525,852	1,135,622

See accompanying notes.

CITY OF SELBY

STATEMENT OF ACTIVITIES
 MODIFIED CASH BASIS OF ACCOUNTING
 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:							
Governmental activities:							
General government	70,334	6,982			(63,352)		(63,352)
Public safety	82,928	30		5,900	(76,998)		(76,998)
Public works	270,386	32,652			(237,734)		(237,734)
Health and welfare	4,725				(4,725)		(4,725)
Culture and recreation	86,277	8,713			(77,564)		(77,564)
Economic development	3,475				(3,475)		(3,475)
Total governmental activities	518,125	48,377	0	5,900	(463,848)	0	(463,848)
Business-type activities:							
Water	199,126	166,753		84,781		52,408	52,408
Sewer	137,440	90,404		126,000		78,964	78,964
Total business-type activities	336,566	257,157	0	210,781	0	131,372	131,372
Total primary government	854,691	305,534	0	216,681	(463,848)	131,372	(332,476)
General receipts:							
Taxes:							
Property taxes					221,557		221,557
Sales taxes					210,348		210,348
Gross receipts tax					829		829
Amusement taxes					204		204
State shared receipts					34,201		34,201
County shared receipts					2,576		2,576
Interest received					3,004	1,861	4,865
Rentals and cable franchise					30,406		30,406
Miscellaneous					3,490		3,490
Total general receipts					506,615	1,861	508,476
Change in net position					42,767	133,233	176,000
Net position:							
January 1, 2012					567,003	392,619	959,622
December 31, 2012					609,770	525,852	1,135,622

See accompanying notes.

CITY OF SELBY

STATEMENT OF ACTIVITIES
 MODIFIED CASH BASIS OF ACCOUNTING
 FOR THE YEAR ENDING DECEMBER 31, 2011

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	64,780	5,983			(58,797)		(58,797)
Public safety	53,033		2,886		(50,147)		(50,147)
Public works	217,842	33,295			(184,547)		(184,547)
Health and welfare	7,148				(7,148)		(7,148)
Culture and recreation	62,790	8,098	1,300		(53,392)		(53,392)
Economic development	385				(385)		(385)
Total governmental activities	405,978	47,376	4,186	0	(354,416)	0	(354,416)
<i>Business-type activities:</i>							
Water	377,146	149,061		143,931		(84,154)	(84,154)
Sewer	41,465	86,409				44,944	44,944
Total business-type activities	418,611	235,470	0	143,931	0	(39,210)	(39,210)
Total primary government	824,589	282,846	4,186	143,931	(354,416)	(39,210)	(393,626)
General receipts:							
Taxes:							
Property taxes					213,928		213,928
Sales taxes					207,841		207,841
Gross receipts tax					748		748
Amusement taxes					228		228
State shared receipts					26,595		26,595
County shared receipts					2,035		2,035
Interest received					3,601	2,503	6,104
Rentals and cable franchise					25,801		25,801
Miscellaneous					11,450		11,450
Rural Development loan proceeds						82,700	82,700
Total general receipts					492,227	85,203	577,430
Change in net position					137,811	45,993	183,804
Net position:							
January 1, 2011					429,192	346,626	775,818
December 31, 2011					567,003	392,619	959,622

See accompanying notes.

CITY OF SELBY

BALANCE SHEET -- GOVERNMENTAL FUNDS
MODIFIED CASH BASIS OF ACCOUNTING
AS OF DECEMBER 31, 2012

	General Fund

ASSETS	
Petty cash	57
Checking	14,156
Savings - clinic	37,347
Money market	494,447
Certificates of deposit	63,763

Total assets	609,770
	=====
 FUND BALANCES:	
Nonspendable	0
Restricted	0
Committed	0
Assigned - clinic	37,347
Unassigned	572,423

Total fund balance	609,770 *
	=====

* Also equals net position on
statement of net position

See accompanying notes.

CITY OF SELBY

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
-- MODIFIED CASH BASIS OF ACCOUNTING -- GOVERNMENTAL FUNDS
FOR THE TWO YEARS ENDING DECEMBER 31, 2012

	General Fund	
	2012	2011
	-----	-----
Receipts:		
Receipts from local sources:		
Taxes:		
Ad valorem taxes	221,557	213,928
General sales and use taxes	210,348	207,841
Gross receipts tax	829	748
Amusement taxes	204	228
Licenses and permits:	6,965	5,945
Intergovernmental receipts:		
Federal shared receipts:		
Grant - fire	5,900	
State shared receipts:		
Grants		4,186
Commercial prorata	1,363	1,310
Bank franchise tax	7,326	4,329
Liquor tax reversion	4,900	4,604
Motor vehicle license	5,613	4,552
Highway and bridge	14,999	11,800
County shared receipts:		
Road taxes	2,576	2,035
Charges for goods and services:		
Public safety	30	
Refuse collection	32,097	33,295
Swimming pool	8,713	8,098
Cemetery	555	
Fines and forfeits:	17	38
Miscellaneous receipts:		
Interest and dividends received	3,004	3,601
Rents and franchise fees	30,406	25,801
Other	3,490	11,450
Total receipts	560,892	543,789
	-----	-----
Disbursements:		
General government:		
Mayor and Council	17,483	15,800
Elections	556	13
Financial administration	43,141	42,206
Other	9,154	6,761
Public safety:		
Police	52,093	29,572
Fire	24,935	23,461
Public works:		
Streets	111,693	156,993
Solid waste disposal	32,093	34,467
Cemetery	4,774	3,670
Health and welfare:		
Clinic	2,761	4,807
West Nile		86
Ambulance	1,964	2,255
Culture and recreation:		
Swimming pool	60,876	37,099
Parks	14,364	13,026
Library	9,062	10,829
Economic development	3,475	385
Capital outlay	129,701	24,548
Total disbursements	518,125	405,978
	-----	-----
Excess of receipts over (under) disbursements	42,767	137,811
Other financing sources (uses):		
None	0	0
	-----	-----
Net change in fund balances	42,767	137,811
	-----	-----
Fund balances:		
January 1, 2011		429,192
December 31, 2011	567,003	567,003
December 31, 2012	609,770	
	-----	-----

* Equals change in net position on statement of activities

See accompanying notes.

CITY OF SELBY

STATEMENT OF NET POSITION -- ENTERPRISE FUNDS
 MODIFIED CASH BASIS OF ACCOUNTING
 AS OF DECEMBER 31, 2012

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
Assets:			
Petty cash	25		25
Checking	1,621	218	1,839
Checking - restricted		11,787	11,787
Money market	63,294	338,526	401,820
Certificates of deposit	30,070	80,311	110,381
	-----	-----	-----
Total assets	95,010	430,842	525,852
	=====	=====	=====
Net Position:			
Restricted for debt service	10,649		10,649
Restricted for water repairs	3,000		3,000
Restricted for sewer project		11,787	11,787
Restricted for customer deposits	11,000		11,000
Unrestricted	70,361	419,055	489,416
	-----	-----	-----
Total net position	95,010	430,842	525,852
	=====	=====	=====

See accompanying notes.

CITY OF SELBY

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

	2012			2011		
	Water Fund	Sewer Fund	Total Enterprise Funds	Water Fund	Sewer Fund	Total Enterprise Funds
Operating receipts:						
Charges for goods and services	166,753	90,404	257,157	149,061	86,409	235,470
Total operating receipts	166,753	90,404	257,157	149,061	86,409	235,470
Operating disbursements:						
Personal services	17,126	17,126	34,252	16,932	16,924	33,856
Other current services	20,804	6,254	27,058	23,254	24,541	47,795
Cost of goods sold	71,569		71,569	61,278		61,278
Water project costs - Phase II	57,779		57,779	243,834		243,834
Sewer project costs		114,060	114,060			
Total operating disbursements	167,278	137,440	304,718	345,298	41,465	386,763
Excess of operating receipts over operating disbursements	(525)	(47,036)	(47,561)	(196,237)	44,944	(151,293)
Nonoperating receipts (disbursements):						
Interest earnings	547	1,314	1,861	538	1,965	2,503
Debt service: Principal	(8,184)		(8,184)	(7,391)		(7,391)
Interest	(23,664)		(23,664)	(24,457)		(24,457)
Total nonoperating receipts (disbursements)	(31,301)	1,314	(29,987)	(31,310)	1,965	(29,345)
Total receipts (disbursements) before other receipts and transfers	(31,826)	(45,722)	(77,548)	(227,547)	46,909	(180,638)
Federal loan proceeds - RD			0	82,700		82,700
Federal loan proceeds - SRF (forgiven)	8,104	126,000	134,104			
Federal grant - RD	76,677		76,677	143,931		143,931
Change in net position	52,955	80,278	133,233	(916)	46,909	45,993
Net position:						
January 1, 2011				42,971	303,655	346,626
December 31, 2011	42,055	350,564	392,619	42,055	350,564	392,619
December 31, 2012	95,010	430,842	525,852			

See accompanying notes.

CITY OF SELBY

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
 MODIFIED CASH BASIS OF ACCOUNTING
 FOR THE TWO YEARS ENDING DECEMBER 31, 2012

	2012			2011		
	Water Fund	Sewer Fund	Total Enterprise Funds	Water Fund	Sewer Fund	Total Enterprise Funds
Cash flows from:						
Operating activities:						
Receipts from customers	166,063	90,033	256,096	148,393	86,016	234,409
Interfund services provided	690	371	1,061	668	393	1,061
Cash paid to employees	(17,126)	(17,126)	(34,252)	(16,932)	(16,924)	(33,856)
Cash paid to suppliers	(92,373)	(6,254)	(98,627)	(84,532)	(24,541)	(109,073)
Net cash provided (used) by operating activities	57,254	67,024	124,278	47,597	44,944	92,541
Noncapital financing activities:						
None			0			0
Capital financing activities:						
Federal loan proceeds - RD				82,700		82,700
Federal loan proceeds - SRF (forgiven)	8,104	126,000	134,104			
Federal grant - RD	76,677		76,677	143,931		143,931
Cash paid for water improvements:	(57,779)		(57,779)	(243,834)		(243,834)
Cash paid for sewer improvements:		(114,060)	(114,060)			
Debt service payments - principal	(8,184)		(8,184)	(7,391)		(7,391)
- interest	(23,664)		(23,664)	(24,457)		(24,457)
Investing activities:						
Interest received	547	1,314	1,861	538	1,965	2,503
Interest added back to CDs	(439)	(436)	(875)	(496)	(1,125)	(1,621)
Redeemed certificate of deposit		67,637	67,637			
Net increase (decrease) in cash and cash equivalents	52,516	147,479	199,995	(1,412)	45,784	44,372
Cash and cash equivalents:						
January 1, 2011				13,836	157,268	171,104
December 31, 2011	12,424	203,052	215,476	12,424	203,052	215,476
December 31, 2012	64,940	350,531	415,471			
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	(525)	(47,036)	(47,561)	(196,237)	44,944	(151,293)
Add back capital outlay	57,779	114,060	171,839	243,834		243,834
Net cash provided (used) by operating activities	57,254	67,024	124,278	47,597	44,944	92,541
Noncash investing, capital and financing activities: None						
See accompanying notes.						

CITY OF SELBY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity:

The funds included in this report are controlled by or dependent upon the City of Selby's (City) Governing Board.

The City's officials at December 31, 2012 are:

Mayor:	Finance Officer:
Jeffrey Kusters	Carmen Schorg
Council Members:	Attorney:
Alan Schorg, President	John Von Wald
Don Bohle	
Josh Boll	
CJ Niemiller	
Gene Perkins	
Kurt Wolf	

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

Financial Reporting Entity:
Primary Government: - The City of Selby
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 Flandreau 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 Selby does not have any component units.

b. Basis of Presentation:

Government-wide Financial Statements:

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

The Statement of Net Position reports all cash assets. Net position is displayed in two components: restricted (distinguishing between major categories of restrictions) and unrestricted.

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

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its cash, net position, receipts and disbursements. Funds are organized into three major categories: governmental, enterprise, and fiduciary (if any). An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the City or if it meets the following criteria:

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

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

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

Governmental Funds

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

Enterprise Funds
(Business-Type)

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

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

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

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

The City of Selby has no fiduciary funds.

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

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

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

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

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

d. Cash and Cash Equivalents:

The City considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents.

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

e. Interfund Transactions:

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

f. Program Receipts and General Receipts:

Program Receipts:

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

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

General Receipts:

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

g. Enterprise Fund Receipt Classifications:

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

h. Equity Classifications:

Government-wide financial Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as "Fund Balance", and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Enterprise fund equity is classified as "Net Position", the same as in the government-wide financial statements. Fiduciary fund equity (if any) (except for agency funds, which have no fund equity) is reported as "Net Position Held in Agency Capacity."

i. Application of Net Position:

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

j. Fund Cash Balance Classification Policies and Procedures:

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

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

The City of Selby fund cash balance classifications are made up of:

<u>Fund Balance Classifications</u>	<u>Account or Fund</u>	<u>Authority or Action</u>	<u>Amount</u>
Nonspendable	None		0
Restricted	None		0
Committed	None		0
Assigned	General:		
	Clinic maintenance	Resolution	37,347
Unassigned	General		572,423

			609,770

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 does not have any special revenue funds.

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund. In 2012 the City went over its general fund/general government/other budget line item by \$146.

In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation. This budget overdraft is not considered a material or significant finding with respect to these financial statements.

3. DEPOSITS, INVESTMENTS AND RELATED RISKS

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

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

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

Actual bank balances at December 31, 2012 were as follows: Insured \$276,685, Collateralized ** \$857,946, for a total of \$1,134,631.

** 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, 2012 was \$1,135,622 held as follows.

Bank West:	
Checking	15,995
Checking, restricted	11,787
Savings - clinic	37,347
Money market	896,267
Certificates of deposit	174,144

	1,135,540
Petty cash	82

	1,135,622
	=====

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 (if any) are stated at cost or amortized cost plus accrued interest.

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

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

Custodial Risk (Deposits) - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. At December 31, 2012, the City's deposits in Bank West were exposed to custodial risk for deposits by 1.84% or \$15,786. This exposure has been corrected by Bank West.

Custodial Risk (Investments) - The risk that, in the event of a default by the counterparty to a transaction, the City will not be able to recover the value of an investment or collateral securities held by the counterparty. The City had no investments during the two years ending December 31, 2012 and was not exposed to custodial risk for investments.

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

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The City's policy is to credit all income from deposits and investments to the fund making the investment.

4. RESTRICTED NET POSITION

Restricted net position at December 31, 2012 is:

Purpose:	Restricted By:	Governmental	Business-Type
Debt service	Covenants		10,649
Repair and replacement	Covenants		3,000
Sewer project construction	Contract		11,787
Customer deposits	Contract		11,000
		-----	-----
Total Restricted Net Position		0	36,436

5. INTERFUND TRANSFERS

There were no interfund transfers in 2011 or 2012.

6. FUTURE REVENUES PLEDGED TO SECURE DEBT

All water fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure the 2008 Water Revenue Bond and the 2009 Water Revenue Bond, which have a combined remaining balance of \$614,625. The bonds were incurred to cover the cost of water improvements as described on page 30. The bonds will mature in 2048 and 2049. In 2012 the bonds had pledged revenue of \$57,254 before construction cost and total bond payments of \$31,848.

7. RETIREMENT PLAN

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

General employees are required by statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the years ending December 31, 2012, 2011, and 2010 were \$7,777, \$6,155 and \$6,467 (employer's share) respectively, equal to the required contributions each year.

There are no deferred contributions.

8. 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 cash basis of accounting, all property taxes received in cash are considered a receipt for the period in which it was collected.

9. 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, 2012 the City managed its risks as follows:

Employee Health Insurance:

The City carries property insurance 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 health coverage during the past three years.

Property Insurance:

The City carries property insurance 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 property coverage during the past three years.

Liability Insurance:

The City carries property insurance 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.

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.

10. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The City of Selby and the Selby School District share the cost of a library. Each government pays for its costs through its own budget. There is no separate accounting. The school is responsible for library fines.

In September 2011 the City secured funding for a \$3,230,000 wastewater improvement project. It will be financed from a \$515,000 Community Development Block Grant, a \$700,000 SRF principal forgiveness loan, a \$1,815,000 Rural Development loan, and \$200,000 of local cash. Proceeds of \$126,000 were received in 2012 and \$574,000 were received in 2013 from the \$700,000 SRF principal forgiveness loan.

CITY OF SELBY

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

GENERAL FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental:		
Receipts:					
Receipts from local sources:					
Taxes:					
Ad valorem taxes	205,900			205,900	15,657
General sales and use taxes	180,000			180,000	210,348
Gross receipts tax	500			500	829
Amusement taxes	180			180	204
Licenses and permits:	4,500			4,500	6,965
Intergovernmental receipts:					
Federal grant - fire	5,900			5,900	5,900
State shared receipts:					
Grants				0	
Commercial prorate	500			500	1,363
Bank franchise tax	5,000			5,000	7,326
Liquor tax reversion	3,500			3,500	4,900
Motor vehicle licenses (5%)	4,100			4,100	5,613
Highway and bridge	12,000			12,000	14,999
County shared receipts:					
Road taxes	1,200			1,200	2,576
Charges for goods and services:					
Public safety				0	30
Refuse collection	35,000			35,000	32,097
Swimming pool	6,000			6,000	8,713
Cemetery	100			100	555
Fines and forfeits:	50			50	17
Miscellaneous receipts:					
Interest and dividends receive	3,500			3,500	3,004
Rents and franchise fees	29,500			29,500	30,406
Other	500			500	3,490
Total receipts	497,930	0	0	497,930	560,892
Disbursements:					
General government:					
Mayor and Council	26,860			26,860	17,483
Contingency	30,000			30,000	30,000
Amount transferred	0	(5,490)		(5,490)	(5,490)
Elections	750			750	556
Financial administration	51,320			51,320	43,141
Other	8,454	554		9,008	9,154
Public safety:					
Police	58,500			58,500	52,093
Fire	30,336	936		31,272	30,835
Public works:					
Streets	267,450			267,450	233,519
Sanitation	40,000			40,000	32,093
Cemetery	4,775	1,000		5,775	4,774
Health and welfare:					
Clinic	6,000			6,000	2,761
Ambulance	3,000			3,000	1,964
Culture and recreation:					
Swimming pool	81,630			81,630	60,876
Parks	20,650			20,650	14,364
Library	16,275			16,275	11,037
Economic development:	3,500	3,000		6,500	3,475
Total disbursements	649,500	0	0	649,500	518,125
Excess of receipts over (under) disbursements	(151,570)	0	0	(151,570)	42,767
Other financing sources (uses):					
None				0	0
Net change in fund balance	(151,570)	0	0	(151,570)	42,767
Fund balance:					
January 1, 2012	567,003			567,003	567,003
December 31, 2012	415,433	0	0	415,433	609,770

CITY OF SELBY

SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2011

GENERAL FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental		
Receipts:					
Receipts from local sources:					
Taxes:					
Ad valorem taxes	217,400			217,400	(3,472)
General sales and use taxes	180,000			180,000	27,841
Gross receipts tax	500			500	748
Amusement taxes	180			180	228
Licenses and permits:	4,500			4,500	5,945
Intergovernmental receipts:					
Federal shared receipts:				0	0
State shared receipts:					
Grants	1,950			1,950	4,186
Commercial prorate	500			500	1,310
Bank franchise tax	5,000			5,000	4,329
Liquor tax reversion	3,500			3,500	4,604
Motor vehicle licenses (5%)	4,100			4,100	4,552
Highway and bridge	12,000			12,000	11,800
County shared receipts:					
Road taxes	1,900			1,900	2,035
Charges for goods and services:					
Highway and streets				0	0
Refuse collection	32,000			32,000	33,295
Weed cutting	100			100	(100)
Animal control				0	0
Swimming pool	6,000			6,000	8,098
Cemetery	100			100	(100)
Fines and forfeits:	50			50	38
Miscellaneous receipts:					
Interest and dividends receive	3,500			3,500	3,601
Rents and franchise fees	29,500			29,500	25,801
Other	500			500	11,450
Total receipts	503,280	0	0	503,280	543,789
Disbursements:					
General government:					
Mayor and Council	26,850			26,850	15,800
Contingency	30,000			30,000	30,000
Amount transferred	0			0	0
Elections	750			750	13
Financial administration	48,470			48,470	42,206
Other	8,600			8,600	6,761
Public safety:					
Police	58,430			58,430	29,572
Fire	24,000			24,000	23,461
Public works:					
Streets	214,450			214,450	179,705
Sanitation	36,000			36,000	34,467
Cemetery	3,775			3,775	3,670
Health and welfare:					
Clinic	10,500			10,500	4,807
West Nile	600			600	86
Ambulance	3,000			3,000	2,255
Culture and recreation:					
Swimming pool	61,825			61,825	37,099
Parks	20,000			20,000	13,026
Library	17,100			17,100	12,665
Economic development:	500			500	385
Total disbursements	564,850	0	0	564,850	405,978
Excess of receipts over (under) disbursements	(61,570)	0	0	(61,570)	137,811
Other financing sources (uses):					
None				0	0
Net change in fund balance	(61,570)	0	0	(61,570)	137,811
Fund balance:					
January 1, 2011	429,192			429,192	429,192
December 31, 2011	367,622	0	0	367,622	567,003

CITY OF SELBY

NOTES TO SUPPLEMENTARY INFORMATION
SCHEDULE OF BUDGETARY COMPARISON FOR THE
GENERAL FUND FOR THE TWO YEARS ENDING DECEMBER 31, 2012

1. BUDGETS AND BUDGETARY ACCOUNTING

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

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2011 and 2012 there were no supplemental budgets to the general fund. See page 27 and 28.
- e. Formal budgetary integration is employed as a management control device for the general fund.
- g. The budget for the general fund is not adopted on a basis consistent with generally accepted accounting principles (GAAP) because all accounting, and the adoption of the all budgets, is on a cash basis.

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE:

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

CITY OF SELBY

SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN DEBT
 FOR THE TWO YEARS ENDING DECEMBER 31, 2012

	Beginning 12-31-10	Additions (Deletions) 2011	Additions (Deletions) 2012	Governmental	Business-Type	Principal Due in 2013
				Activities Ending 12-31-12	Activities Ending 12-31-12	
BUSINESS-TYPE						
2008 Rural Development Water Revenue Bond:						
Original issue of \$364,000 (if fully funded)						
Maturing in 2048						
Interest at 4.375%						
Purpose: water development						
Paid by the water fund	353,374	(3,848)	(4,180)		345,346	4,285
2009 Rural Development Water Project Revenue Bond:						
Original issue of \$280,000						
Maturing in 2049						
Interest at 3.250%						
Purpose: water development		82,700				
Paid by the water fund	194,126	(3,543)	(4,004)		269,279	3,846
2010 Drinking Water State Revolving Fund Loan:						
Authorized loan amount of \$100,000						
2012 loan disbursement of \$8,104						
100% forgiven						
For water development			8,104			
Paid by the water fund	0		(8,104) forgiven		0	0
2011 Clean Water State Revolving Fund Loan:						
Authorized loan amount of \$700,000						
2012 loan disbursement of \$126,000						
100% forgiven						
For sewer improvements			126,000			
Paid by the sewer fund	0		(126,000) forgiven		0	0
Totals	547,500	75,309	(8,184)		614,625	8,131

Payment Schedules:	Total Payment	Principal	Interest	Balance
2008 Rural Development Water Revenue Bond:				
2013	19,308	4,285	15,023	341,061
2014	19,308	4,387	14,921	336,674
2015	19,308	4,578	14,730	332,096
2016	19,308	4,779	14,529	327,317
2017	19,308	4,988	14,320	322,329
2018-2022	96,540	28,410	68,130	293,919
2023-2027	96,540	35,193	61,347	258,726
2028-2032	96,540	43,595	52,945	215,131
2033-2037	96,540	54,003	42,537	161,128
2038-2042	96,540	66,896	29,644	94,232
2043-2047	96,540	82,868	13,672	11,364
2048	11,861	11,364	497	0
Totals	687,641	345,346	342,295	
2009 Rural Development Water Project Revenue Bond:				
2013	12,540	3,846	8,694	265,433
2014	12,540	3,913	8,627	261,520
2015	12,540	4,041	8,499	257,479
2016	12,540	4,172	8,368	253,307
2017	12,540	4,307	8,233	249,000
2018-2022	62,700	23,731	38,969	225,269
2023-2027	62,700	27,846	34,854	197,423
2028-2032	62,700	32,675	30,025	164,748
2033-2037	62,700	38,341	24,359	126,407
2038-2042	62,700	44,990	17,710	81,417
2043-2047	62,700	52,791	9,909	28,626
2048	30,273	28,626	1,647	0
Totals	469,173	269,279	199,894	

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 Selby
Selby, 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 Selby (City), Walworth County, South Dakota, as of December 31, 2012 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 July 31, 2014 which was unmodified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Selby'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 Selby in a separate Letter of Comments dated July 31, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Selby'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 Selby's internal control.

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

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

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

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

I did identify certain deficiencies in internal control, described in the accompanying schedule of current audit findings and questioned costs that I consider to be significant deficiencies. I consider the deficiencies described in the accompanying schedule of current audit findings and responses as items 2012-01 and 2012-02 to be significant deficiencies.

I did note other matters involving internal control that I reported to the governing body and management of the City of Selby in a separate Letter of Comments dated July 31, 2014.

Management's Response to Findings

Management's responses to the findings identified in my audit are described in the accompanying schedule of current audit findings and responses. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

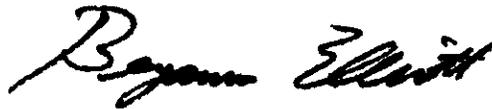
Purpose of this Report

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

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

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

July 31, 2014



SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit finding:
Not applicable with respect to this audit.

Prior Other Audit Findings:
2008-02 [Segregation of Duties] - Repeated below as 2012-01
2008-03 [Preparation of Financial Statements] - Repeated below as 2012-02

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Finding 2012-01: Segregation of Duties
(internal control)

Criteria:

The management of the City is responsible for establishing and maintaining an internal control structure to provide management and 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 or other comprehensive basis of accounting.

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 received money, issued receipts, recorded receipts, posted receipts in the accounting records, prepared bank deposits, and reconciled bank statements. As a result, an inadequate segregation of duties existed for revenue transactions for the City of Selby.

Questioned Cost:

None could be identified regarding this finding.

Effect:

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

Recommendation:

I recommend the City of Selby's management be cognizant of this lack of segregation of duties for revenue transactions and attempt to provide compensating internal controls whenever and wherever possible and practical.

Response:

The City of Selby's finance officer, is the contact person responsible for the corrective action plan for this comment. 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 be able to adequately segregate duties. The City of Selby 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 for revenue transactions is expected to continue to exist.

CITY OF SELBY
DECEMBER 31, 2012
SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES (continued)

Finding 2012-02: Preparation of Financial Statements
(internal control)

Criteria:

A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition:

The City has elected not to have an internal control system designed to provide for the preparation of the financial statement being audited. As the auditor, I was requested to draft these financial statements and accompanying notes to the financial statements.

Effect:

This control deficiency could result in a misstatement of the financial statements that would not be prevented or detected.

Recommendation:

This situation is not unusual for a City of this size. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response:

Due to cost constraints, the City will continue to have the auditor draft the financial statements and accompanying notes to the financial statements.