

CITY OF TEA

AUDIT REPORT

DECEMBER 31, 2013

**CITY OF TEA
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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

City Council
City of Tea
Tea, South Dakota

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 financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tea, South Dakota, as December 31, 2013, and for each of the years in the biennial period then ended, and the related notes to financial statements which collectively comprise the City's basic financial statements and have issued my report thereon dated May 16, 2014. A disclaimer of opinion for the aggregate discretely presented component unit was issued due to the financial statements including unaudited financial information for the Tea Housing and Redevelopment Commission.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, 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's internal control.

My 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that

were not identified. However, as described in the accompanying Schedule of Current Audit Findings, I identified certain deficiencies in internal control that I 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 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 the City's financial statements will not be prevented or detected and corrected on a timely basis.

I consider the deficiency described in the Schedule of Current Audit Findings as item number 2013-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's of Tea'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 is required to be reported under *Government Auditing Standards*.

City's Response

The City of Tea's response to the findings identified in my audit is described in the accompanying Schedule of Current Audit Findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, I express no opinion on it.

Purpose of the Report

The purpose of this report is intended solely to describe the scope of my testing of internal control and compliance and the results of testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City'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, this report is a matter of public record and its distribution is not limited.



May 16, 2014

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Tea
Tea, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tea, South Dakota, as of December 31, 2013, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair representation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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. Except as indicated below, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the 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.

The financial statements of the Tea Housing and Redevelopment Commission have not been audited, and I was not engaged to audit the Tea Housing and Redevelopment Commission's financial statements as part of my audit of the City's basic financial statements. The Tea Housing and Redevelopment Commission's unaudited financial activities are included in the City's basic financial statements as a discretely presented component unit and represent 100 percent of the assets, net position, revenues and expenses of the City's aggregate discretely presented component unit opinion unit.

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 assessments 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 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 have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tea, South Dakota, at December 31, 2013, the respective changes in financial position and, where applicable, cash flows for each of the years in the biennial period then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion

Because I was not engaged to audit, and did not audit the Tea Housing and Redevelopment Commission's financial statements, nor were the financial statements audited by other auditors, the scope of my work was not sufficient to enable me to express an opinion on the financial statements of the aggregate discretely presented component unit opinion unit of the City of Tea, South Dakota, as of December 31, 2013 and for each of the years in the biennial period then ended.

Disclaimer of Opinion

Because of the reasons described above, I do not express an opinion on the aggregately discretely presented component unit of the City of Tea, South Dakota, as of December 31, 2013 and for each of the years in the biennial period then ended.

Other Matters

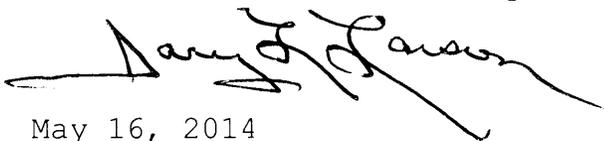
Required Supplementary Information:

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule on pages 58 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical content. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

The City has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting required by Governmental Auditing Standards

In accordance with the *Governmental Auditing Standards*, I have also issued my report dated May 16, 2014 on my consideration of the City of Tea's internal control over financial reporting and my 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 my testing of the 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 *Governmental Auditing Standards* in considering the City's internal control over financial reporting and compliance.



May 16, 2014

**CITY OF TEA
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	PRIMARY GOVERNMENT		TOTAL
	Governmental Activities	Business-type Activities	
ASSETS:			
Cash and cash equivalents	\$2,891,646	\$610,793	\$3,502,439
Receivables	140,004	114,205	254,209
Prepaid expenses	48,009	3,057	51,066
Restricted assets:			
Cash and cash Equivalents	169,063	485,251	654,314
Deposits	15,053	0	15,053
Capital assets:			
Land and construction in progress	1,541,697	45,827	1,587,524
Other capital assets, net of depreciation	9,994,647	8,998,780	18,993,427
TOTAL ASSETS	14,800,119	10,257,913	25,058,032
LIABILITIES:			
Accounts payable	\$50,519	\$49,328	\$99,847
Other current liabilities	20,644	42,960	63,604
Noncurrent liabilities:			
Due within one year	183,806	226,762	410,568
Due in more than one year	2,321,013	4,473,738	6,794,751
TOTAL LIABILITIES	2,575,982	4,792,788	7,368,770
NET POSITION:			
Net investment in capital assets	9,031,525	4,344,107	13,375,632
Restricted for:			
Risk pool contribution	15,053	0	15,053
Equipment replacement	0	349,384	349,384
Debt service	376,812	135,867	512,679
Unrestricted	2,800,747	635,767	3,436,514
TOTAL NET POSITION	\$12,224,137	\$5,465,125	\$17,689,262

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

Component Unit
\$75,100
22,968
0
0
0
204,116
<u>2,231,702</u>
<u>2,533,886</u>

\$5,868
8,000
72,310
<u>2,822,625</u>
<u>2,908,803</u>

(459,117)
0
0
0
<u>84,200</u>
<u><u>(\$374,917)</u></u>

**CITY OF TEA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental Activities:			
General government	\$315,625	\$44,067	\$0
Public safety	431,902	3,940	22,278
Public works	627,240	28,317	0
Health and welfare	4,370	0	0
Culture and recreation	391,504	117,709	0
Conservation and development	123,560	0	0
*Interest on long-term debt	146,437	0	0
TOTAL GOVERNMENTAL ACTIVITIES	2,040,638	194,033	22,278
Business-type Activities:			
Water	628,963	659,684	0
Sewer	386,446	408,129	0
TOTAL BUSINESS-TYPE ACTIVITIES	1,015,409	1,067,813	0
TOTAL PRIMARY GOVERNMENT	\$3,056,047	\$1,261,846	\$22,278
COMPONENT UNIT	\$828,954	\$354,571	\$452,678

* The City does not have interest expense related to the governmental functions. This amount includes indirect interest on long-term debt.

GENERAL REVENUES:

Property taxes
Sales taxes
State shared revenues
Unrestricted investment earnings
Other general revenues

Total General Revenues

Change in net position

Net Position-beginning

NET POSITION-ending (deficit)

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

NET (EXPENSE) REVENUE AND
CHANGES IN NET POSITION

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
\$0	(\$271,558)	\$0	(\$271,558)	\$0
20,656	(385,028)	0	(385,028)	0
137,365	(461,558)	0	(461,558)	0
0	(4,370)	0	(4,370)	0
28,000	(245,795)	0	(245,795)	0
0	(123,560)	0	(123,560)	0
0	(146,437)	0	(146,437)	0
<u>186,021</u>	<u>(1,638,306)</u>	<u>0</u>	<u>(1,638,306)</u>	<u>0</u>
0	0	30,721	30,721	0
0	0	21,683	21,683	0
<u>0</u>	<u>0</u>	<u>52,404</u>	<u>52,404</u>	<u>0</u>
<u>\$186,021</u>	<u>(\$1,638,306)</u>	<u>\$52,404</u>	<u>(\$1,585,902)</u>	<u>\$0</u>
<u>\$0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(21,705)</u>
	1,394,767	0	1,394,767	0
	1,069,300	0	1,069,300	0
	16,114	0	16,114	0
	5,211	2,020	7,231	35
	<u>89,528</u>	<u>0</u>	<u>89,528</u>	<u>7,487</u>
	<u>2,574,920</u>	<u>2,020</u>	<u>2,576,940</u>	<u>7,522</u>
	936,614	54,424	991,038	(14,183)
	<u>11,287,523</u>	<u>5,410,701</u>	<u>16,698,224</u>	<u>(360,734)</u>
	<u>\$12,224,137</u>	<u>\$5,465,125</u>	<u>\$17,689,262</u>	<u>(\$374,917)</u>

**CITY OF TEA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental Activities:			
General government	\$292,304	\$32,027	\$0
Public safety	413,744	2,837	73,975
Public works	419,185	26,842	0
Culture and recreation	380,806	135,770	0
Conservation and development	111,251	0	0
*Interest on long-term debt	125,039	0	0
TOTAL GOVERNMENTAL ACTIVITIES	1,742,329	197,476	73,975
Business-type Activities:			
Water	661,773	660,237	0
Sewer	351,047	361,161	0
TOTAL BUSINESS-TYPE ACTIVITIES	1,012,820	1,021,398	0
TOTAL PRIMARY GOVERNMENT	\$2,755,149	\$1,218,874	\$73,975
COMPONENT UNIT	\$808,852	\$321,206	\$479,422

* The City does not have interest expense related to the governmental functions. This amount includes indirect interest on long-term debt.

GENERAL REVENUES:

Property taxes
Sales taxes
State shared revenues
Unrestricted investment earnings
Other general revenues

Total General Revenues

Change in net position

Net Position, beginning

NET POSITION-ending (deficit)

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

NET (EXPENSE) REVENUE AND
CHANGE IN NET POSITION

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
\$0	(\$260,277)	\$0	(\$260,277)	\$0
0	(336,932)	0	(336,932)	0
489,611	97,268	0	97,268	0
0	(245,036)	0	(245,036)	0
0	(111,251)	0	(111,251)	0
0	(125,039)	0	(125,039)	0
489,611	(981,267)	0	(981,267)	0
15,811	0	14,275	14,275	0
31,491	0	41,605	41,605	0
47,302	0	55,880	55,880	0
\$536,913	(\$981,267)	\$55,880	(\$925,387)	\$0
\$0	0	0	0	(8,224)
	1,311,617	0	1,311,617	0
	950,965	0	950,965	0
	17,581	0	17,581	0
	6,681	2,979	9,660	42
	20,693	0	20,693	0
	2,307,537	2,979	2,310,516	42
	1,326,270	58,859	1,385,129	(8,182)
	9,961,253	5,351,842	15,313,095	(352,552)
	\$11,287,523	\$5,410,701	\$16,698,224	(\$360,734)

CITY OF TEA
BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$2,370,284	\$521,362	\$2,891,646
Taxes receivable-delinquent	44,899	3,399	48,298
Special assessment receivable-current	3,680	0	3,680
Special assessment receivable-delinquent	1,312	7,409	8,721
Due from other governments	75,473	3,832	79,305
Deposits	15,053	0	15,053
Restricted cash	169,063	0	169,063
TOTAL ASSETS	\$2,679,764	\$536,002	\$3,215,766
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	48,406	2,113	50,519
Accrued wages	20,644	0	20,644
TOTAL LIABILITIES	69,050	2,113	71,163
DEFERRED INFLOWS OF RESOURCES:			
Unavailable Revenues From:			
Property taxes	35,587	2,598	38,185
Sales taxes	56,659	3,654	60,313
Special Assessments	4,992	7,083	12,075
TOTAL DEFERRED INFLOWS OF RESOURCES	97,238	13,335	110,573
FUND BALANCES:			
Non-spendable:			
Deposits	15,053	0	15,053
Restricted:			
Debt service	169,063	207,749	376,812
Highway and streets	0	302,776	302,776
Promotion of City	0	10,029	10,029
Unassigned	2,329,360	0	2,329,360
Total Fund Balance	2,513,476	520,554	3,034,030
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$2,679,764	\$536,002	\$3,215,766

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

**CITY OF TEA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
POSITION
DECEMBER 31, 2013**

Total Fund Balances-Government Funds	\$3,034,030
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	11,536,344
Prepaid expenses are accrued for the statement of net position, but are expensed as purchased for the funds statement	48,009
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds	(2,504,819)
Property and sales taxes and special assessments receivable are reported in the period to be financed by the levy for both the governmental funds and the statement of net position, but in the funds statement the amounts that are not "available" (within a 30 day period) are offset with deferred inflows of resources	110,573
Net Position-Governmental Funds	\$12,224,137

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

CITY OF TEA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$1,292,630	\$90,107	\$1,382,737
General sales taxes	1,025,591	51,553	1,077,144
Amusement taxes	252	0	252
Penalties and interest on taxes	1,247	94	1,341
Licenses and permits	36,316	0	36,316
Intergovernmental Revenue			
Federal grants	58,178	0	58,178
State shared revenues	46,179	0	46,179
County shared revenues	6,587	0	6,587
Charges for Goods and Services:			
General government	7,750	0	7,750
Public safety	1,190	0	1,190
Culture and recreation	329	117,380	117,709
Fines and Forfeits			
Court fines and costs	2,750	0	2,750
Miscellaneous Revenue			
Interest earned	4,037	1,174	5,211
Rentals	24,825	0	24,825
Special assessments	193,827	0	193,827
Street assessments	0	124,493	124,493
Contributions from private sources	6,000	0	6,000
Other	61,600	1,526	63,126
Total Revenue	\$2,769,288	\$386,327	\$3,155,615

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

CITY OF TEA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures:			
General Government			
Legislative	\$24,814	\$0	\$24,814
Executive	12,918	0	12,918
Elections	527	0	527
Financial administration	129,562	0	129,562
Other	92,835	0	92,835
Public Safety			
Police	377,578	0	377,578
Fire	38,558	0	38,558
Public Works			
Highways and streets	390,515	2,706	393,221
Sanitation	2,053	0	2,053
Health and Welfare			
Health	4,370	0	4,370
Culture and Recreation			
Recreation	59,436	165,101	224,537
Libraries	20,342	0	20,342
Conservation and Development:			
Economic development	123,560	0	123,560
Debt Service	1,098,790	90,750	1,189,540
Capital Outlay	544,476	153,691	698,167
Total Expenditures	2,920,334	412,248	3,332,582
Excess of Revenues over (under) Expenditures	(151,046)	(25,921)	(176,967)
Other Financing Sources (Uses):			
Proceeds of long-term debt	905,000	0	905,000
Net Change in Fund Balances	753,954	(25,921)	728,033
FUND BALANCE JANUARY 1, 2013	1,759,522	546,475	2,305,997
FUND BALANCE, DECEMBER 31, 2013	\$2,513,476	\$520,554	\$3,034,030

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

**CITY OF TEA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Net Changes in Fund Balances-Total Governmental Funds	\$728,033
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense, resulting in the following differences:	
Capital expenditures	698,167
Depreciation expense	(453,572)
Prepaid insurance is recorded in the statement of activities but not in the governmental funds	4,245
Proceeds of long-term debt is reported as a "financing source" in the funds statement but is reported as a liability in the statement of net position.	(905,000)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,043,104
Property tax, sales tax and special assessment revenues are reported in the period to be financed for both the governmental funds and the governmental activities, but in the funds statement, any amounts that are not "available" are offset with deferred inflows of resources.	(178,363)
 Change in Nets Position of Governmental Activities	 \$936,614

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

CITY OF TEA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$1,228,158	\$88,193	\$1,316,351
General sales taxes	896,565	46,032	942,597
Amusement taxes	408	0	408
Penalties and interest on taxes	3,960	469	4,429
Licenses and permits	26,207	0	26,207
Intergovernmental Revenue			
Federal grants	73,975		73,975
State shared revenues	39,092	0	39,092
County shared revenues	6,790	0	6,790
Charges for Goods and Services:			
General government	2,620	3,200	5,820
Public safety	900	0	900
Culture and recreation	411	135,359	135,770
Fines and Forfeits			
Court fines and costs	1,937	0	1,937
Miscellaneous Revenue			
Interest earned	5,212	1,469	6,681
Rentals	200	0	200
Special assessments	316,820	0	316,820
Street assessments	0	129,559	129,559
Contributions	7,000	0	7,000
Other	41,093	2,369	43,462
Total Revenue	\$2,651,348	\$406,650	\$3,057,998

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

CITY OF TEA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures:			
General Government			
Legislative	\$22,670	\$0	\$22,670
Executive	10,334	0	10,334
Elections	804	0	804
Financial administration	126,919	0	126,919
Other	74,433	0	74,433
Public Safety			
Police	349,817	0	349,817
Fire	36,604	0	36,604
Public Works			
Highways and streets	166,375	25,311	191,686
Sanitation	631	0	631
Culture and Recreation			
Recreation	54,152	191,926	246,078
Libraries	5,085	0	5,085
Conservation and Development:			
Economic development	111,252	0	111,252
Debt Service	189,857	87,620	277,477
Capital Outlay	1,168,040	65,317	1,233,357
Total Expenditures	2,316,973	370,174	2,687,147
Excess of Revenues over Expenditures	334,375	36,476	370,851
Other Financing Sources (Uses):			
Transfers-in	0	72,758	72,758
Transfers-out	(72,758)	0	(72,758)
Net Change in Fund Balances	261,617	109,234	370,851
FUND BALANCE JANUARY 1, 2012	1,497,905	437,241	1,935,146
FUND BALANCE, DECEMBER 31, 2012	\$1,759,522	\$546,475	\$2,305,997

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

**CITY OF TEA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net Changes in Fund Balances-Total Governmental Funds \$370,851

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense, resulting in the following differences:

Capital expenditures	1,241,410
Depreciation expense	(441,184)

Prepaid insurance is recorded in the statement of activities but not in the governmental funds	207
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	152,438
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Property tax, sales tax and special assessment revenues are reported in the period to be financed by the property tax levy for both the governmental funds and the governmental activities, but in the funds statement, any amounts that are not "available" are offset with deferred inflows of resources.	<u>2,548</u>
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Change in Net Position of Governmental Activities	<u><u>\$1,326,270</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF TEA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2013

	Water Fund	Sewer Fund	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$479,514	\$131,279	\$610,793
Accounts receivable	69,466	44,739	114,205
Prepays	0	3,057	3,057
Total Current Assets	548,980	179,075	728,055
Noncurrent Assets:			
Restricted cash and cash equivalents	407,184	78,067	485,251
Capital Assets:			
Land	26,199	19,628	45,827
Buildings	50,000	0	50,000
Improvements	3,299,283	4,870,769	8,170,052
Machinery and equipment	62,799	66,449	129,248
Accumulated depreciation	(861,246)	(1,109,569)	(1,970,815)
Intangible asset	2,927,110	0	2,927,110
Accumulated amortization	(306,815)	0	(306,815)
Total Noncurrent Assets	5,604,514	3,925,344	9,529,858
TOTAL ASSETS	6,153,494	4,104,419	10,257,913

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

CITY OF TEA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2013

	Water Fund	Sewer Fund	Total
LIABILITIES			
Current Liabilities:			
Accounts payable	\$38,653	\$10,675	\$49,328
Customer deposits	38,340	0	38,340
Accrued wages	1,667	1,667	3,334
Accrued interest	1,286	0	1,286
Bonds payable current:			
Revenue	135,076	91,686	226,762
Total Current Liabilities	215,022	104,028	319,050
Non-current Liabilities:			
Bonds payable:			
Revenue	2,868,900	1,604,838	4,473,738
TOTAL LIABILITIES	3,083,922	1,708,866	4,792,788
NET POSITION			
Net investment in capital assets	2,193,354	2,150,753	4,344,107
Restricted net position restricted for:			
Revenue bond debt service	135,867	0	135,867
Equipment replacement	271,317	78,067	349,384
Unrestricted net position	469,034	166,733	635,767
TOTAL NET POSITION	\$3,069,572	\$2,395,553	\$5,465,125

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

CITY OF TEA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Charges for goods and services	\$659,684	\$408,129	\$1,067,813
OPERATING EXPENSES:			
Personal services	80,328	80,034	160,362
Other current expense	65,088	108,417	173,505
Cost of goods sold	223,563	0	223,563
Depreciation	143,424	141,913	285,337
Total Operating Expenses	512,403	330,364	842,767
Operating Income (loss)	147,281	77,765	225,046
Non-operating Revenue (Expense)			
Interest earned	1,638	382	2,020
Interest expense	(116,560)	(56,082)	(172,642)
Total Non-operating Revenue (Expense)	(114,922)	(55,700)	(170,622)
Change in Net Position	32,359	22,065	54,424
NET POSITION, BEGINNING	3,037,213	2,373,488	5,410,701
NET POSITION, ENDING	\$3,069,572	\$2,395,553	\$5,465,125

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

CITY OF TEA
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities:			
Receipts from customers	\$649,591	\$404,390	\$1,053,981
Receipts for interfund services	6,814	2,400	9,214
Payments to suppliers	(277,746)	(108,316)	(386,062)
Payments to employees	(80,284)	(79,990)	(160,274)
Net Cash Provided by Operating Activities	298,375	218,484	516,859
Cash Flows from Capital and Related Financing Activities:			
Debt principal paid	(130,765)	(123,309)	(254,074)
Debt interest paid	(118,037)	(56,082)	(174,119)
Cash Flows from Investing Activities:			
Cash received from interest	1,638	382	2,020
Net Increase in Cash and Cash Equivalents	51,211	39,475	90,686
Cash and Cash Equivalents Beginning of Year	835,487	169,871	1,005,358
Cash and Cash Equivalents End of Year	\$886,698	\$209,346	\$1,096,044

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating Income	\$147,281	\$77,765	\$225,046
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	143,424	141,913	285,337
Changes in Assets and Liabilities:			
Receivables	(3,874)	(1,157)	(5,031)
Accounts and other payables	10,949	(37)	10,912
Customer deposits	595	0	595
Net Cash Provided by Operating Activities	\$298,375	\$218,484	\$516,859

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

CITY OF TEA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Charges for goods and services	\$660,237	\$361,161	\$1,021,398
OPERATING EXPENSES:			
Personal services	82,071	78,288	160,359
Other current expense	97,142	69,160	166,302
Cost of goods sold	215,507	0	215,507
Depreciation	142,923	142,252	285,175
Total Operating Expenses	537,643	289,700	827,343
Operating Income (loss)	122,594	71,461	194,055
Non-operating Revenue (Expense)			
Interest earned	2,679	300	2,979
Interest expense	(124,130)	(61,347)	(185,477)
Total Non-operating Revenue (Expense)	(121,451)	(61,047)	(182,498)
Income before contributions	1,143	10,414	11,557
Capital contributions	15,811	31,491	47,302
Change in Net Position	16,954	41,905	58,859
NET POSITION, BEGINNING	3,020,259	2,331,583	5,351,842
NET ASSETS, ENDING	\$3,037,213	\$2,373,488	\$5,410,701

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

CITY OF TEA
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities:			
Receipts from customers	\$654,208	\$354,142	\$1,008,350
Receipts for interfund services	6,053	2,444	8,497
Payments to suppliers	(304,011)	(61,152)	(365,163)
Payments to employees	(81,654)	(77,871)	(159,525)
Net Cash Provided by Operating Activities	274,596	217,563	492,159
Cash Flows from Capital and Related Financing Activities:			
Purchase of capital assets	(24,765)	0	(24,765)
Debt principal paid	(126,437)	(118,830)	(245,267)
Debt interest paid	(122,712)	(61,347)	(184,059)
Cash Flows from Investing Activities:			
Cash received from interest	2,679	300	2,979
Net Increase in Cash and Cash Equivalents	3,361	37,686	41,047
Cash and Cash Equivalents Beginning of Year	832,126	132,185	964,311
Cash and Cash Equivalents End of Year	\$835,487	\$169,871	\$1,005,358

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating Income	\$122,594	\$71,461	\$194,055
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	142,923	142,252	285,175
Changes in Assets and Liabilities:			
Receivables	(1,026)	(4,392)	(5,418)
Accounts payable	9,055	8,242	17,297
Deposits	1,050	0	1,050
Net Cash Provided by Operating Activities	\$274,596	\$217,563	\$492,159

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

CITY OF TEA
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2013

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	<u>\$980,992</u>
Total Assets	<u><u>\$980,992</u></u>
LIABILITIES:	
Amount held for others	<u>\$980,992</u>
Total Liabilities	<u>980,992</u>
NET POSITION	<u><u>\$0</u></u>

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

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the City of Tea, consists of the primary government (which includes all of the funds, organizations, 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 primary government is financially accountable; and 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 (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

The Housing and Redevelopment Commission of the City of Tea, 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,

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from: City of Tea Housing and Redevelopment Commission, PO Box 128, Tea SD 57064.

The City participates in a joint venture with 19 other entities. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

b. Basis of Presentation:

Government-wide Statements: The Statement of Net Position and the 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 the *governmental and business-type activities* and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria, as described in note 1.a, above, and may be classified as either governmental or business-type activities. See the discussion of the individual component units in Note 1a, above.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. 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 financial reporting entity are described below:

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be 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 major capital projects) that are legally restricted to expenditures for specified purposes.

Library Fund - to account for library contributions, fines and other revenues and related expenditures. This is not a major fund.

Second Penny Sales Tax A fund established by South Dakota Codified Law (SDCL) 10-52-2, to pay debt service on bonds and other costs of capital improvements and land acquisition. The fund was financed by a retail sales tax until January 1, 2004. This is not a major fund.

Entertainment Tax A fund established by SDCL 10-52A-2 to pay for promotion of the City. The fund is financed by a 1% retail sales tax on motels, bars and restaurants. It is not a major fund.

Storm Drainage A fund established by SDCL 9-48-21 to maintain the City's drainage system. This fund is financed by Special Assessments and is not a major fund.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Street Maintenance A fund established by SDCL 9-45-38 to help maintain the City streets. This fund is financed by Street Assessments and is not a major fund.

Debt Service Funds debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Aquatic Complex Debt Service Fund - to account for property taxes which may be used only for the payment of debt principal, interest and related costs. This is not a major fund.

Storm Drainage Fund - to account for the property taxes which may be used only for the payment of debt service of a 1993 "SRF" loan. This is not a major fund.

Capital Projects Funds - capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Highway 111 Capital Project Fund - to account for financial resources to be used for the construction of street improvements. This is not a major fund.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental, business-type and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Tea, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2013 are sales tax, real estate taxes, federal reimbursement grants, state shared revenues and miscellaneous other revenues.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

The accounting treatment over 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 Statement

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2013 balance of governmental activities capital assets includes approximately 1 percent for which the costs were determined by estimates of the original costs. The total December 31, 2013 balance of business-type capital assets includes 8 percent for which the costs were determined by estimation of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalk, drainage systems and lighting systems acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements other than Buildings".

**CITY OF TEA
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	ALL	-	-
Buildings	50,000	Straight-line	20-100 years
Improvements	25,000	Straight-line	15-50 years
Machinery and Equipment	5,000	Straight-line	4-20 years

Land, an inexhaustible capital asset, is not depreciated.

e. Long-term Liabilities:

The accounting treatment of long-term liabilities 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.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of general obligation and revenue bonds payable.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

f. Cash Flows and Cash Equivalents:

The City 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.

g. Program Revenues:

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

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

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. 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.

h. Deferred Inflows and Deferred Outflows of Resources:

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, 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 or investing activities are not reported as components of operating revenues or expenses.

j. Equity Classifications:

Government-wide Statements:

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

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Net investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position - Consists of net position with constraints places on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

Fund Financial Statements:

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

Application of Net Position or Fund Balances:

The City uses restricted or committed amounts first when both restricted and unrestricted amounts are available unless there are legal documents/contracts that prohibit 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.

Fund Balance Classification Policies and Procedures:

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

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
2. 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.
3. 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.
4. 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 Finance Officer.
5. 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 City does not have a formal minimum fund balance policy.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

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, 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 letter of credit issued by Federal Home Loan Banks accompanied by written evidence of that banks 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.

It is the City's policy to deposit all interest revenue to the fund making the investment.

Investments - In general, SDCL 4-5-6 permits municipal funds to be invested 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 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.

No investments were held at December 31, 2013.

Credit 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.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

Custodial Credit Risk - Investments - The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

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

3. DEFERRED OUTFLOWS OR INFLOWS OF RESOURCES

Receivables, such as taxes and special assessment receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows are those where asset recognition criteria have been met but which revenue recognition criteria have not been met.

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the two years ended December 31, 2013 follows:

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

4. CHANGES IN CAPITAL ASSETS (continued)

	Balance <u>1/1/12</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/13</u>
Governmental Activities:				
Capital Assets				
Not being Depreciated:				
Land	\$ 818,459	\$ 723,238	\$ -	\$ 1,541,697
Construction in progress	<u>3,322,206</u>	<u>407,763</u>	<u>3,729,969</u>	<u>-</u>
TOTAL	<u>4,140,665</u>	<u>1,131,001</u>	<u>3,729,969</u>	<u>1,541,697</u>
Capital Assets Being Depreciated				
Buildings	3,627,163	397,154	-	4,024,317
Improvements	3,285,245	3,860,998	-	7,146,243
Equipment	<u>1,182,325</u>	<u>280,393</u>	<u>-</u>	<u>1,462,718</u>
Totals	<u>8,094,733</u>	<u>4,538,545</u>	<u>-</u>	<u>12,633,278</u>
Less accumulated Depreciation for:				
Building	542,231	154,780	-	697,011
Improvements	448,017	516,565	-	964,582
Equipment	<u>753,627</u>	<u>223,411</u>	<u>-</u>	<u>977,038</u>
Total	<u>1,743,875</u>	<u>894,756</u>	<u>-</u>	<u>2,638,631</u>
Total Capital Assets being Depreciated- Net	<u>6,350,858</u>	<u>3,643,789</u>	<u>-</u>	<u>9,994,647</u>
Governmental Activity Capital Assets Net	<u>\$10,491,523</u>	<u>\$4,774,790</u>	<u>\$3,729,969</u>	<u>\$11,536,344</u>

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

4. CHANGES IN CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

	<u>2013</u>		<u>2012</u>	
General government	\$ 57,351		\$ 59,214	
Public Safety	27,323		15,766	
Public Works	226,868		231,966	
Culture and Recreation	<u>129,642</u>		<u>146,626</u>	
	<u>\$441,184</u>		<u>\$453,572</u>	
	Balance		Balance	
	<u>1/1/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/13</u>
Business-type Activities:				
Capital Assets				
Not being				
Depreciated				
Land	\$ 45,827	\$ -	\$ -	\$ 45,827
Construction				
in progress	<u>1,922,399</u>	<u>47,303</u>	<u>1,969,702</u>	<u>-</u>
Total	<u>1,969,226</u>	<u>47,303</u>	<u>1,969,702</u>	<u>45,827</u>
Capital Assets				
Being Depreciated				
Buildings	50,000	-	-	50,000
Improvements	6,200,350	1,969,702	-	8,170,052
Equipment	<u>104,483</u>	<u>24,765</u>	-	<u>129,248</u>
Totals	<u>6,354,833</u>	<u>1,994,467</u>	<u>-</u>	<u>8,349,300</u>
Less accumulated				
Depreciation for:				
Building	15,530	3,031	-	18,561
Improvements	1,417,348	428,511	-	1,845,859
Equipment	<u>84,509</u>	<u>21,886</u>	-	<u>106,395</u>
Total	<u>1,517,387</u>	<u>453,428</u>	<u>-</u>	<u>1,970,815</u>

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

4. CHANGES IN CAPITAL ASSETS (continued)

	<u>Balance</u> 1/1/12	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 12/31/13
Total Capital Assets being Depreciated-Net	\$4,837,446	\$1,541,039	\$ -	\$6,378,485
Business-type Activity Capital Assets Net	<u>\$6,805,672</u>	<u>\$1,588,342</u>	<u>\$1,969,702</u>	<u>\$6,424,312</u>

Depreciation expense was charged to functions as follows:

	<u>2013</u>	<u>2012</u>
Water	\$143,424	\$142,923
Sewer	<u>141,913</u>	<u>142,252</u>
	<u>\$285,337</u>	<u>\$285,175</u>

The above amounts include amortization of deferred outflows of resources in the amount of \$58,542 per year.

Component Unit:	<u>1/1/12</u>	<u>Add</u>	<u>Delete</u>	<u>12/31/13</u>
Land	\$ 204,116	\$ -	\$ -	\$ 204,116
Building	2,772,789	-	-	2,772,789
Equipment	131,381	17,206	-	148,587
Accumulated Depreciation	<u>(495,330)</u>	<u>(194,344)</u>	<u>-</u>	<u>(689,674)</u>
Net	<u>2,408,840</u>	<u>(177,138)</u>	<u>-</u>	<u>2,231,702</u>
Total	<u>\$2,612,956</u>	<u>\$ (177,138)</u>	<u>\$ -</u>	<u>\$2,435,818</u>

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>General Obligation</u>	<u>Revenue</u>	<u>Totals</u>
Governmental Activities:			
Debt Payable, January 1, 2012	\$ 770,000	\$2,025,361	\$2,795,361
Additions	-	905,000	905,000
Retired	<u>(115,000)</u>	<u>(1,080,542)</u>	<u>(1,195,542)</u>
Debt payable, December 31, 2013	<u>\$ 655,000</u>	<u>\$1,849,819</u>	<u>\$2,504,819</u>
Due within One Year	<u>\$ 65,000</u>	<u>\$ 118,806</u>	<u>\$ 183,806</u>
Business-type Activities:			
Debt Payable, January 1, 2012	\$ -	\$5,199,841	\$5,199,841
Retired	<u>-</u>	<u>(499,341)</u>	<u>(499,341)</u>
Debt payable, December 31, 2013	<u>\$ -</u>	<u>\$4,700,500</u>	<u>\$4,700,500</u>
Due within One Year	<u>\$ -</u>	<u>\$ 226,762</u>	<u>\$ 226,762</u>
Total Primary Government	<u>\$ 655,000</u>	<u>\$6,550,319</u>	<u>\$7,205,319</u>
Due within One Year	<u>\$ 65,000</u>	<u>\$ 345,568</u>	<u>\$ 410,568</u>

Debt payable at December 31, 2013 is comprised of the following:

**CITY OF TEA
NOTES TO FINANCIAL STATEMENTS**

5. LONG-TERM DEBT (continued)

GOVERNMENTAL ACTIVITIES:

General Obligation Bonds:

Series 2008 General Obligation Bonds,
2.5%-4% interest depending in length to
maturity of individual bonds), final
maturity date of 2022. Retired by a
tax levy of the Debt Service Fund \$ 655,000

Total General Obligation Debt 655,000

Revenue Bonds:

\$1,005,000 2010 Sales Tax Revenue
Bonds, 3.5% interest, final maturity
date of 2030. Retired by
General Fund 900,000

\$208,813 1997 Wastewater Collection
Expansion Bond, 5.25% interest,
final maturity date of 2018. Retired
by the General Fund 59,819

Series 2013 Sales Tax Revenue Bonds,
1.0% to 4.2% interest, depending on length
to maturity of individual bonds. Maturity
date of December 1, 2025. Retired
by General Fund 890,000

Total Revenue Debt 1,849,819

TOTAL GOVERNMENTAL ACTIVITIES DEBT \$2,504,819

BUSINESS-TYPE ACTIVITIES:

Revenue Bonds:

\$140,000 1976 Water Revenue Bonds, 5%
interest, final maturity date of 2015.
Retired by revenues of the Water
Enterprise Fund \$ 14,999

\$173,000 1993 Water System Revenue Bonds,
5.625% interest, final maturity date of
2033. Retired by revenues of the Water
Enterprise Fund 128,879

**CITY OF TEA
NOTES TO FINANCIAL STATEMENTS**

5. LONG-TERM DEBT (continued)

\$200,000 1997 Water Revenue Bond, 5.375% interest, final maturity date of 2037. Retired by elevated tank fees of the Water Enterprise Fund	\$ 163,806
Drinking Water Revenue Borrower Bonds, Series 2007, 3.250 % interest, final maturity date of January 2028. Retired by the Water Enterprise Fund	1,755,130
Water project Revenue Bond, Series 2008 A USDA Rural Development loan agreement. Maturity date October 2049. The debt is payable at an interest rate of 4.375%. It is being paid by the Water Fund	941,162
Clean Water Revenue Borrower Bonds, Series 2003. 3.5% interest, final maturity date of April 2024. Retired by the Sewer Enterprise Fund.	296,524
Clean Water Revenue Borrower Bonds, Series 2007. 3.25% interested, final maturity date of January 2029. Retired by the Sewer Enterprise Fund	643,488
Clean Water Revenue Bond, Series 2011, 3% interest, final maturity date of January, 2031, retired by the Sewer Enterprise Fund	<u>756,512</u>
TOTAL BUSINESS-TYPE ACTIVITY DEBT	<u>\$4,700,500</u>

The annual requirements to amortize all debt outstanding as of December 31, 2013 as follows:

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

Governmental Activities:

Year Ending December 31,	General Obligation		Revenue		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
	2014	\$ 65,000	\$ 28,000	\$ 118,806	\$ 69,634	\$ 183,806
2015	65,000	25,563	119,545	67,145	184,545	92,708
2016	70,000	22,962	120,324	64,128	190,324	87,090
2017	80,000	20,163	126,144	60,570	206,144	80,733
2018	85,000	16,762	115,000	56,618	200,000	73,380
2019-						
2023	290,000	26,850	625,000	220,983	915,000	247,833
2024-						
2028	-	-	480,000	89,517	480,000	89,517
2029-						
2033	-	-	145,000	10,450	145,000	10,450
Totals	<u>\$ 655,000</u>	<u>\$140,300</u>	<u>\$1,849,819</u>	<u>\$639,045</u>	<u>\$2,504,819</u>	<u>\$ 779,345</u>

Business-type Activities:

Year Ending December 31,	Revenue	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 226,762	\$ 166,261
2015	235,401	158,271
2016	235,313	149,960
2017	243,507	141,765
2018	251,994	133,279
2019-2023	1,398,301	528,061
2024-2028	1,366,691	279,766
2029-2033	460,136	108,898
2034-2038	<u>282,395</u>	<u>27,705</u>
TOTAL	<u>\$4,700,500</u>	<u>\$1,693,966</u>

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

As of December 31, 2013, there were \$1,409,000 of Special Assessments Bonds outstanding. These will be paid solely from Special Assessment proceeds collected from citizens. The City is not liable for repayment of this debt, but is only acting as an agent for the property owners in collecting the assessments and forwarding the collections to the bondholders.

6. LONG-TERM DEBT - COMPONENT UNIT

Changes in long-term debt of the component unit were as follows:

	<u>Mortgages</u>
Balance, January 1, 2012	\$3,034,011
Repaid	<u>(139,076)</u>
Balance, December 31, 2013	<u>\$2,894,935</u>
Due with-in one year	<u>\$ 72,310</u>

The above consists of three mortgages, payable to the bank and secured by land and buildings as follows:

5.45% loan due in monthly installments of \$3,163, including interest to 9/30/30	\$ 414,852
5.65% loan due in monthly installments of \$3,349, to 4/20/31	416,359
5% loan due in monthly installments of \$11,987, to 4/30/2039	<u>2,063,724</u>
	<u>\$2,894,935</u>

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM DEBT - COMPONENT UNIT (continued)

Debt Service is as follows:

<u>Year ended</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 72,310	\$ 149,679
2015	76,225	145,765
2016	80,225	141,765
2017	84,696	137,293
2018	89,285	132,705
2019-2023	524,373	585,575
2024-2028	682,911	427,037
2029-2033	639,545	239,905
2034-2038	627,321	89,328
2039-2043	<u>18,044</u>	<u>2,569</u>
Total	<u>\$2,894,935</u>	<u>\$2,051,618</u>

7. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

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

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During the year ended December 31, 2013 the City managed its risk as follows:

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

8. RISK MANAGEMENT (continued)

Workmen's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local 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 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 retrospectively rated policy and the premiums are accrued based on the ultimate cost of experience to date of the Fund members. 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 \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$2,000,000 per individual per incident.

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

Liability:

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

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

8. RISK MANAGEMENT (continued)

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

End of City's First Full Year	50%
End of City's Second Full Year	60%
End of City Third Full Year	70%
End of City's Fourth Full Year	80%
End of City's Fifth Full Year	90%
End of City's Sixth Full Year	100%

As of December 31, 2013, the City had a vested balance in the cumulative reserve fund of \$15,053.

The agreement with the South Dakota Public Assurance Alliance provided that the above coverage's will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The City carries a \$250 deductible for the automobile coverage and \$1,000 deductible for the general liability.

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 for the past three years.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

8. RISK MANAGEMENT (continued)

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.

9. RETIREMENT PLAN

All employees, except for part-time, 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 survivor's 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 the State statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2013, 2012 and 2011 were \$38,598, \$37,163 and \$33,378 respectively, equal to the required contributions each year.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

10. INVENTORY

Inventory in the General Fund and Special Revenue Funds consists of expendable supplies held for consumption.

Inventory acquired for resale in the proprietary funds is recorded as an asset when acquired. The consumptions of inventories held for resale is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow consumption. No material quantities of supplies were on hand as of December 31, 2013.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements:

In the Fund Financial Statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories are off-set by a fund balance "non-spendable" classification which indicated that they do not constitute "available spendable resources" even though they are a component part of net current assets.

11. JOINTLY GOVERNED ORGANIZATION

The City is a member of the Lewis and Clark Regional Water System, Inc. (The "System") in conjunction with the following municipalities and water systems that provide drinking water to consumers.

<u>South Dakota</u>	<u>Minnesota</u>	<u>Iowa</u>
Tea	Luverne	Hull
Sioux Falls	Worthington	Sheldon
Madison	Lincoln-Pipestone RWS	Sibley
Harrisburg	Rock County RWS	Sioux Center
Lennox		Rock Rapids

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

11. JOINTLY GOVERNED ORGANIZATION (continued)

South Dakota

Minnesota

Iowa

Parker
Beresford
Centerville
Lincoln County RWS
South Lincoln RWS
Minnehaha CWC

The System will collect, treat, and distribute drinking water to the entities involved upon completion. The System's board of directors is comprised of 20 members, one from each participating entity. Under the articles of incorporation, no member has a residual equity interest.

The City entered into an amended agreement with the System to provide 1.1 million gallons of drinking water per day to ensure that future water supply needs of the City can be met. In all, it is estimated that the City of Tea's share of the \$529.3 million (July 2007 dollars) System project is currently \$2.8 million, in July 2007 dollars. The City's investment to date of \$2.8 million is recorded in the Water Enterprise Fund as an intangible asset. The City's prepayment was financed by the issuance of Drinking Water Revenue Bonds, Series 2007. Any remaining cost share above the prepayment amount will be made as part of a true-up upon completion of the project. The actual commitment costs may be higher due to cost indexing, construction over-runs and decreases in federal funding. The City is capitalizing an intangible asset to recognize the upfront payment to the System for the future option to purchase water. Such asset will be amortized over the estimated life-span upon the receipt of benefits from the System.

12. PLEDGED REVENUES

The City has pledged future water customers' revenues, net of specified operating expenses, to repay \$3,003,976 in water system revenue bonds issued from 1976 to 2008. Proceeds from the bonds provided financing for the construction of water system infrastructure.

**CITY OF TEA
NOTES TO FINANCIAL STATEMENTS**

12. PLEDGED REVENUES (continued)

The bonds are payable solely from water customer net revenues and are payable through 2049. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$4,644,216. Principal and interest paid for the current year and total customer net revenue were \$248,802 and \$290,705, respectively.

The City has also pledged future sewer customers' revenues, net of specified operating expenses, to repay \$1,696,524 in sewer system revenue bonds issued in 1998, 2003, 2007 and 2010. Proceeds from the bonds provided financing for the construction of sewer system improvements.

The bonds are payable solely from sewer customer net revenues and are payable through 2030. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,750,250. Principal and interest paid for the current year and total customer net revenues were \$179,391 and \$219,678, respectively.

13. INTERFUND TRANSFERS

During 2012 the following transfers were made:

	<u>Transfers-in</u>	<u>Transfers-out</u>
General Fund	\$ -	\$ 72,758
Capital Project Funds:		
Highway 111	72,758	-
	\$ 72,758	\$ 72,758

Reason for transfers:

To close the Capital Project Fund \$ 72,758

CITY OF TEA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amount
	Original	Final	
REVENUES			
Taxes:			
General property taxes	\$1,312,700	\$1,312,700	\$1,292,630
General sales and use taxes	946,000	946,000	1,025,591
Amusement tax	400	400	252
Penalties	3,000	3,000	1,247
Licenses and Permits	28,450	28,450	36,316
Intergovernmental Revenue			
Federal grants	37,200	37,200	58,178
State shared revenue	28,500	28,500	46,179
County shared revenue	9,700	9,700	6,587
Charges for Goods or Services:			
General government	2,800	2,800	7,750
Public safety	500	500	1,190
Culture and recreation	0	0	329
Fines and Forfeits			
Court fines and costs	3,000	3,000	2,750
Miscellaneous Revenue			
Investment earnings	4,500	4,500	4,037
Rentals	13,600	13,600	24,825
Special assessments	34,800	34,800	193,827
Contributions from private sources	5,000	5,000	6,000
Other	43,000	43,000	61,600
Total Revenue	\$2,473,150	\$2,473,150	\$2,769,288

The accompanying notes to required supplemental information
are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

(\$20,070)
79,591
(148)
(1,753)

7,866

20,978
17,679
(3,113)

4,950
690
329

(250)

(463)
11,225
159,027
1,000
18,600

\$296,138

CITY OF TEA
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

EXPENDITURES	Budgeted Amounts		Actual Amount
	Original	Final	
General Government			
Legislative	\$34,800	\$34,800	\$24,814
Contingencies	100,000	100,000	0
Amount transferred	0	(17,400)	0
Executive	13,500	13,500	12,918
Elections	850	850	527
Financial administration	150,400	150,400	129,562
Other	353,250	353,250	92,835
Public Safety			
Police	404,600	404,600	377,578
Fire	38,700	38,700	38,558
Public Works			
Highways and streets	615,000	615,000	414,472
Sanitation	1,000	2,100	2,053
Health and Welfare			
Health	0	4,400	4,370
Culture and Recreation			
Recreation	151,200	581,200	567,346
Libraries	33,700	33,700	32,951
Conservation and development			
Economic development	166,650	166,650	123,560
Debt Service	192,696	1,109,596	1,098,790
Total Expenditures	2,256,346	3,591,346	2,920,334
Excess of Revenue over (under) Expenditures	216,804	(1,118,196)	(151,046)
Other Financing Sources (Uses):			
Transfers-out	(215,000)	(215,000)	0
Proceeds of long-term debt	0	905,000	905,000
Net Change in Fund Balance	1,804	(428,196)	753,954
FUND BALANCE-Beginning	1,759,522	1,759,522	1,759,522
FUND BALANCE-Ending	\$1,761,326	\$1,331,326	\$2,513,476

The accompanying notes to required supplemental information
are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

\$9,986
100,000
(17,400)
582
323
20,838
260,415

27,022
142

200,528
47

30

13,854
749

43,090

10,806

671,012

967,150

215,000
0

1,182,150

0

\$1,182,150

CITY OF TEA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amount
	Original	Final	
REVENUES			
Taxes:			
General property taxes	\$1,222,401	\$1,222,401	\$1,228,158
General sales and use taxes	880,000	880,000	896,565
Amusement tax	400	400	408
Penalties	3,000	3,000	3,960
Licenses and Permits	43,450	43,450	26,207
Intergovernmental Revenue			
Federal grants	40,730	40,730	73,975
State shared revenue	27,600	27,600	39,092
County shared revenue	9,000	9,000	6,790
Charges for Goods or Services:			
General government	1,800	1,800	2,620
Public safety	500	500	900
Culture and recreation	0	0	411
Fines and Forfeits			
Court fines and costs	3,000	3,000	1,937
Miscellaneous Revenue			
Investment earnings	2,000	2,000	5,212
Rentals	0	0	200
Special assessments	26,279	26,279	316,820
Contributions	5,000	5,000	7,000
Other	50,500	50,500	41,093
Total Revenue	<u>\$2,315,660</u>	<u>\$2,315,660</u>	<u>\$2,651,348</u>

The accompanying notes to required supplemental information
are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

\$5,757
16,565
8
960

(17,243)

33,245
11,492
(2,210)

820
400
411

(1,063)

3,212
200
290,541
2,000
(9,407)

\$335,688

CITY OF TEA
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

EXPENDITURES	Budgeted Amounts		Actual Amount
	Original	Final	
General Government			
Legislative	\$26,300	\$26,300	\$22,670
Contingencies	12,600	12,600	0
Amount transferred	0	(1,225)	0
Executive	13,418	13,418	10,334
Elections	600	825	804
Financial administration	140,854	140,854	134,569
Other	165,440	165,440	74,433
Public Safety			
Police	378,190	378,190	349,817
Fire	36,611	36,611	36,604
Public Works			
Highways and streets	637,102	637,102	591,005
Sanitation	1,000	1,000	631
Health and Welfare			
Health	7,000	7,000	0
Culture and Recreation			
Recreation	468,554	778,554	777,390
Libraries	33,000	33,000	17,607
Conservation and development			
Economic development	149,191	149,191	111,252
Debt Service	188,858	189,858	189,857
Total Expenditures	2,258,718	2,568,718	2,316,973
Excess of Revenue over (under) Expenditures	56,942	(253,058)	334,375
Other Financing Sources (Uses):			
Transfers-out	(24,300)	(74,300)	(72,758)
Net Change in Fund Balance	32,642	(327,358)	261,617
FUND BALANCE-Beginning	1,497,905	1,497,905	1,497,905
FUND BALANCE-Ending	\$1,530,547	\$1,170,547	\$1,759,522

The accompanying notes to required supplemental information
are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

\$3,630
12,600
(1,225)
3,084
21
6,285
91,007

28,373
7

46,097
369

7,000

1,164
15,393

37,939

1

251,745

587,433

1,542

588,975

0

\$588,975

CITY OF TEA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting:

The City follows 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 introduces the annual appropriation ordinance for the ensuing fiscal year.
2. 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 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 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 to the governing board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting practices (GAAP), except that capital outlays are reported separately in the GAAP statements, but are reported in the respective budgetary functions in the budgetary statements.

CITY OF TEA
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2013

FINDING NUMBER 2013-001:

A material weakness is present due to a lack of segregation of duties in the revenue, expenditure and payroll function.

CRITERIA: To obtain adequate internal control, 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. Various other accounting functions should be performed by different people to insure a proper segregation of duties.

POSSIBLE ASSERTED EFFECT: Inaccurate financial statements and/or misappropriations of funds could result from a lack of segregation of duties.

RECOMMENDATION: Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

CITY RESPONSE: The City Officials agree with this comment. The City Council and Mayor are responsible for the corrective action plan for this comment. This comment is a result of the size of the City of Tea 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 is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll functions continues to exist.

CITY OF TEA
SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NUMBER 2011-01 and 2009-01:

A lack of proper segregation of duties is the present situation in the City's accounting department.

This finding was first reported in 1995.

CURRENT STATUS:

The condition remains the same as of December 31, 2013.