

MUNICIPALITY OF DELL RAPIDS

AUDIT REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2013

MUNICIPALITY OF DELL RAPIDS
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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
Municipality of Dell Rapids
Dell Rapids, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 Municipality of Dell Rapids, South Dakota (Municipality), as of December 31, 2013 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated July 16, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be 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, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described

in the accompanying Schedule of Current Audit Findings as item 2013-1 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Current Audit Findings as items 2013-2, and 2013-3.

Municipality's Response to Findings

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

Purpose of this Report

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

KMWF + Associates, PC

Dell Rapids, South Dakota
July 16, 2015

MUNICIPALITY OF DELL RAPIDS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

Prior Federal Audit Findings

Finding No. 2012-1:

A lack of segregation of duties existed for the accounting department. This finding has not been corrected and is restated as current audit finding number 2013-1.

Finding No. 2012-2:

Annual inventory records were not maintained. This finding has not been corrected and is restated as current audit finding number 2013-2.

Finding No. 2012-3:

Noncompliance with SRF loan agreements were noted during the audit. This finding has not been corrected and is restated as current audit finding number 2013-3.

Finding No. 2012-4:

The City of Dell Rapids incurred expenditures in excess of the budgeted amounts. This finding has been corrected.

MUNICIPALITY OF DELL RAPIDS
SCHEDULE OF CURRENT AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

Current Audit Findings:

Internal Control – Related Findings – Material Weaknesses:

Finding No. 2013-1:

Criteria: Internal controls should be in place that provides reasonable assurance that management directives are carried out in regards to the recording and processing of financial data.

Condition Found: A lack of segregation of duties exists for the accounting department. This comment is a result of the size of the entity which precludes staffing at a level sufficient to provide an ideal environment for internal controls.

Effect: Because of the size of the entity and lack of segregation of duties, employees perform related functions.

Recommendation: Implementation of compensating controls.

Management Response: The City agrees with this finding and is aware of the weakness. Due to the small size of the entity management will continue to provide close scrutiny to financial accuracy. The council has implemented a Finance and Utilities Committee to oversee and advise employees directly in matters of finance. They will be provided greater detail on a regular basis regarding the finances of the City to allow a greater oversight.

Compliance and Other Matters:

Finding No. 2013-2:

Criteria: South Dakota Codified Law (SDCL) requires a copy of the annual inventory to be filed with the finance officer.

Condition Found: Annual inventory records were not maintained by the City of Dell Rapids.

Effect: The City is not in compliance with SDCL 5-24-2.

Recommendation: An annual inventory listing should be prepared and submitted to the City Finance Officer.

Management Response: The City agrees that inventory was not being reported to the Finance Officer at year end. The City will insure information is provided to the Finance Officer for reporting and will implement controls.

MUNICIPALITY OF DELL RAPIDS
SCHEDULE OF CURRENT AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

Finding No. 2013-3:

Criteria: As stated in loan agreements and required by South Dakota Codified Law (SDCL) 9-40-16, the City should set aside, in a separate account, income and revenues to make loan payments.

Condition Found: Noncompliance with SRF loan agreements were noted during the audit.

Effect: The City is not in compliance with debt covenants.

Recommendation: We recommend that the City establish necessary reserve accounts.

Management Response: The City agrees that a separate account was not established as required by SRF agreements. The City will take the appropriate council action to establish the required reserve accounts.



INDEPENDENT AUDITOR'S REPORT

City Council
Municipality of Dell Rapids
Dell Rapids, South Dakota

Report on the Financial Statements

We 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 Municipality of Dell Rapids, South Dakota (Municipality), as of December 31, 2013 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality's management is responsible for the preparation and fair presentation of these financial statements in accordance with 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our 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 Municipality of Dell Rapids as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules on pages 33 through 35 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Municipality 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 16, 2015 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Municipality's internal control over financial reporting and compliance.

KMWF & Associates, PC

Dell Rapids, South Dakota
July 16, 2015

MUNICIPALITY OF DELL RAPIDS
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	\$ 2,955,121	\$ 1,706,781	\$ 4,661,902
Certificates of Deposit	457,777		457,777
Receivables	338,408	559,144	897,552
Prepaid Expenses	165		165
Restricted Assets:			
Deposits	40,625		40,625
Capital Assets:			
Land and Construction in Progress	1,696,809	1,806,257	3,503,066
Other Capital Assets, Net of Depreciation	6,675,606	6,445,108	13,120,714
TOTAL ASSETS	\$ 12,164,511	\$ 10,517,290	\$ 22,681,801
LIABILITIES:			
Accounts Payable	\$ 95,544	\$ 358,767	\$ 454,311
Other Current Liabilities	21,962	35,829	57,791
Noncurrent Liabilities:			
Due Within One Year		199,008	199,008
Due in More than One Year	22,890	4,653,107	4,675,997
TOTAL LIABILITIES	140,396	5,246,711	5,387,107
NET POSITION:			
Net Investment in Capital Assets	8,372,415	3,433,072	11,805,487
Restricted for:			
Debt Service Purposes	17,801		17,801
Capital Projects	457,777		457,777
City Promotion	179,900		179,900
Insurance Cumulative Reserve	40,625		40,625
Unrestricted	2,955,597	1,837,507	4,793,104
TOTAL NET POSITION	12,024,115	5,270,579	17,294,694
TOTAL LIABILITIES AND NET POSITION	\$ 12,164,511	\$ 10,517,290	\$ 22,681,801

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

MUNICIPALITY OF DELL RAPIDS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

Functions/Programs Primary Government:	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Operating		Governmental Activities	Primary Government Business-Type Activities		Total
		Charges for Services	Grants and Contributions		Grants and Contributions	Business-Type Activities	
General Government	\$ 429,680	\$ 3,644	\$ -	\$ (426,036)	\$ -	\$ (426,036)	
Public Safety	397,882	40,832	-	(357,050)	-	(357,050)	
Public Works	672,247	32,906	75,759	(529,611)	33,971	(529,611)	
Health and Welfare	43,712			(43,712)		(43,712)	
Culture and Recreation	369,232	36,892		(307,312)		(307,312)	
Conservation and Development	36,024			(36,024)		(36,024)	
Total Governmental Activities	1,948,777	114,274	75,759	(1,699,745)	-	(1,699,745)	
Business-type Activities:							
Water	510,173	628,041	194,253		312,121	312,121	
Wastewater	452,417	543,361	350,685		441,629	441,629	
Liquor	964,406	1,070,225			105,819	105,819	
Total Business-type Activities:	1,926,996	2,241,627	-	-	859,569	859,569	
TOTAL PRIMARY GOVERNMENT	\$ 3,875,773	\$ 2,355,901	\$ 75,759	(1,699,745)	859,569	(840,176)	
General Revenues:							
Taxes:							
				Property Taxes	955,916	955,916	
				Sales Tax	937,187	937,187	
				State Shared Revenues	33,522	33,522	
				Unrestricted Investment Earnings	3,891	2,595	
				Miscellaneous Revenue	(436,237)	15,000	
				Transfers	98,520	(98,520)	
				Total General Revenues and Transfers	1,592,799	1,511,874	
				Change in Net Position	(106,946)	671,698	
				Net Position-Beginning	12,131,061	16,622,996	
				NET POSITION - ENDING	\$ 12,024,115	\$ 17,294,694	

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

MUNICIPALITY OF DELL RAPIDS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General Fund	Nonmajor Funds	Governmental Funds
ASSETS:			
Cash and Cash Equivalents	\$ 2,363,321	\$ 73,703	\$ 2,437,024
Certificates of Deposit		457,777	457,777
Taxes Receivable - Delinquent	9,814		9,814
Accounts Receivable, Net	35,512		35,512
Special Assessments Receivable - Current	5,465	6,483	11,948
Special Assessments Receivable - Delinquent	987		987
Special Assessments Receivable - Deferred	7,886		7,886
Interest Receivable - Special Assessments	987	518	1,505
Note Receivable		238,600	238,600
Deposits	40,625		40,625
Due from State Government	32,156		32,156
Prepaid Expenses	165		165
	<u>2,496,918</u>	<u>777,081</u>	<u>3,273,999</u>
TOTAL ASSETS	\$ 2,496,918	\$ 777,081	\$ 3,273,999
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	\$ 94,128	\$ 1,416	\$ 95,544
Accrued Wages Payable	21,426		21,426
Accrued Taxes Payable	535		535
	<u>116,089</u>	<u>1,416</u>	<u>117,505</u>
TOTAL LIABILITIES	116,089	1,416	117,505
DEFERRED INFLOWS OF RESOURCES:			
Unavailable Revenue - Property Taxes	9,814		9,814
Unavailable Revenue - Special Assessments	15,325	7,001	22,326
	<u>25,139</u>	<u>7,001</u>	<u>32,140</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	25,139	7,001	32,140
FUND BALANCES:			
Nonspendable			
Deposits	40,625		40,625
Prepaid Expenses	165		165
Restricted			
Debt Service		10,800	10,800
Library Fines		2,587	2,587
Library Building		457,777	457,777
City Promotion		178,900	178,900
Assigned for City Promotion		118,600	118,600
Unassigned	2,314,900		2,314,900
	<u>2,355,690</u>	<u>768,664</u>	<u>3,124,354</u>
TOTAL FUND BALANCES	2,355,690	768,664	3,124,354
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,496,918	\$ 777,081	\$ 3,273,999

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

MUNICIPALITY OF DELL RAPIDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2013

Total Fund Balances - Governmental Funds		\$ 3,124,354
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		7,971,680
Assets such as taxes receivable and special assessment receivables are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property Taxes	\$ 9,814	
Special Assessments	<u>22,326</u>	32,140
Long-term liabilities, including bonds payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Leave	<u>\$ 22,891</u>	(22,891)
Total long-term liabilities		
Internal service funds are used by management to charge the cost of activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.		<u>918,832</u>
Net Position - Governmental Activities		<u>\$ 12,024,115</u>

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

MUNICIPALITY OF DELL RAPIDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013

	General Fund	Nonmajor Funds	Governmental Funds
REVENUES:			
Taxes:			
General Property Taxes	\$ 953,148	\$ -	\$ 953,148
General Sales and Use Taxes	890,558	46,630	937,188
Amusement Taxes	396		396
Penalties and Interest on Delinquent Taxes	1,421		1,421
Licenses and Permits	38,142		38,142
Intergovernmental Revenue	156,073		156,073
Charges for Goods and Services	70,248		70,248
Fines and Forfeits	3,110	2,775	5,885
Special Assessments	44,774	7,527	52,301
Investment Earnings	2,753	542	3,295
Contributions from Private Sources	1,100	4,870	5,970
Miscellaneous Revenue	44,155		44,155
TOTAL REVENUE	2,205,878	62,344	2,268,222
EXPENDITURES:			
Current:			
General Government	411,067		411,067
Public Safety	351,442		351,442
Public Works	456,868		456,868
Health and Welfare	43,713		43,713
Culture and Recreation	285,312	1,980	287,292
Conservation and Development	2,000	34,024	36,024
Capital Outlay	687,530	6,805	694,335
TOTAL EXPENDITURES	2,237,932	42,809	2,280,741
Excess of Revenue Over (Under) Expenditures	(32,054)	19,535	(12,519)
Other Financing Sources:			
Sale of Surplus Property	185,546		185,546
Transfer In	300,639		300,639
Transfer Out	-	(202,119)	(202,119)
TOTAL OTHER FINANCING SOURCES (USES)	486,185	(202,119)	284,066
Net Changes in Fund Balance	454,131	(182,584)	271,547
Fund Balance - Beginning	1,901,559	951,248	2,852,807
FUND BALANCE - ENDING	\$ 2,355,690	\$ 768,664	\$ 3,124,354

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

MUNICIPALITY OF DELL RAPIDS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2013

Net Change in Fund Balances - Total Governmental Funds	\$ 271,547
Amounts reported for governmental activities in the statement of activities are different because:	
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government wide statements.	694,335
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	(305,981)
In the statement of activities, losses of \$586,988 on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds \$185,546 from the disposal of capital assets are reflected, regardless of whether a gain or loss is realized.	(771,534)
The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in that the fund financial statements require the amounts to be "available".	949
Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.	(46,065)
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits.	5,816
Internal service funds are used by management to charge the cost of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	43,987
Change in Net Position of Governmental Activities	\$ (106,946)

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

MUNICIPALITY OF DELL RAPIDS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

	Enterprise Funds			Totals	Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund		
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	\$ 897,736	\$ 657,082	\$ 151,963	\$ 1,706,781	\$ 518,097
Accounts Receivable, Net	43,498	47,778	218,657	309,933	
Due from Other Government	117,852	131,359		249,211	
Prepaid Expenses				-	
Total Current Assets	<u>1,059,086</u>	<u>836,219</u>	<u>370,620</u>	<u>2,265,925</u>	<u>518,097</u>
Noncurrent Assets:					
Capital Assets:					
Land	45,128	33,399	3,000	81,527	
Buildings	2,625,463	3,780,845	154,977	6,561,285	
Improvements Other than Buildings	902,891	1,175,557		2,078,448	
Machinery and Equipment	546,197	59,185	58,571	663,953	845,499
Construction Work in Progress	808,999	915,731		1,724,730	
Less: Accumulated Depreciation	<u>(1,494,908)</u>	<u>(1,168,353)</u>	<u>(195,317)</u>	<u>(2,858,578)</u>	<u>(444,764)</u>
Total Noncurrent Assets	<u>3,433,770</u>	<u>4,796,364</u>	<u>21,231</u>	<u>8,251,365</u>	<u>400,735</u>
TOTAL ASSETS	<u>\$ 4,492,856</u>	<u>\$ 5,632,583</u>	<u>\$ 391,851</u>	<u>\$ 10,517,290</u>	<u>\$ 918,832</u>
LIABILITIES:					
Current Liabilities:					
Accounts Payable	\$ 67,859	\$ 91,598	\$ 199,310	\$ 358,767	\$ -
Accrued Wages Payable	4,014	4,025		8,039	
Accrued Taxes Payable		16		16	
Customer Deposits	5,410			5,410	
Accrued Interest Payable	5,931	16,433		22,364	
Bonds Payable Current:					
Revenue	77,601	121,407		199,008	
Total Current Liabilities	<u>160,815</u>	<u>233,479</u>	<u>199,310</u>	<u>593,604</u>	<u>-</u>
Noncurrent Liabilities:					
Revenue Bonds Payable	1,718,938	2,900,347		4,619,285	
Accrued Leave Payable	16,911	16,911		33,822	
Total Noncurrent Liabilities	<u>1,735,849</u>	<u>2,917,258</u>	<u>-</u>	<u>4,653,107</u>	<u>-</u>
NET POSITION:					
Net Investment in Capital Assets	1,637,231	1,774,610	21,231	3,433,072	400,735
Unrestricted Net Position	958,961	707,236	171,310	1,837,507	518,097
Total Net Position	<u>2,596,192</u>	<u>2,481,846</u>	<u>192,541</u>	<u>5,270,579</u>	<u>918,832</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,492,856</u>	<u>\$ 5,632,583</u>	<u>\$ 391,851</u>	<u>\$ 10,517,290</u>	<u>\$ 918,832</u>

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

MUNICIPALITY OF DELL RAPIDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013

	Enterprise Funds			Totals	Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund		
Operating Revenue:					
Charges for Goods and Services	\$ 617,953	\$ 535,359	\$ 1,009,278	\$ 2,162,590	\$ 126,600
Lottery Sales			60,947	60,947	
Miscellaneous	10,088	8,002		18,090	
TOTAL OPERATING REVENUE	628,041	543,361	1,070,225	2,241,627	126,600
Operating Expenses:					
Personal Services	129,976	127,011		256,987	
Other Current Expense	113,292	141,785	1,852	256,929	20,000
Materials	130,141		959,136	1,089,277	
Depreciation	101,610	103,500	3,418	208,528	62,208
TOTAL OPERATING EXPENSES	475,019	372,296	964,406	1,811,721	82,208
Operating Income (Loss)	153,022	171,065	105,819	429,906	44,392
Nonoperating Revenue (Expense):					
Investment Earnings	1,310	1,035	250	2,595	595
Rental Revenue			15,000	15,000	
Sale of Surplus Property				-	(1,000)
Interest Expense and Fiscal Charges	(35,154)	(80,121)		(115,275)	
TOTAL NONOPERATING REVENUE (EXPENSE)	(33,844)	(79,086)	15,250	(97,680)	(405)
Income (Loss) Before Contributions and Transfers	119,178	91,979	121,069	332,226	43,987
Capital Contributions	194,253	350,685		544,938	
Transfers Out			(98,520)	(98,520)	
Change in Net Position	313,431	442,664	22,549	778,644	43,987
Net Position - Beginning	2,282,761	2,039,182	169,992	4,491,935	874,845
NET POSITION - ENDING	\$ 2,596,192	\$ 2,481,846	\$ 192,541	\$ 5,270,579	\$ 918,832

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

MUNICIPALITY OF DELL RAPIDS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
DECEMBER 31, 2013

	Enterprise Funds				Internal Service Fund
	Water Fund	Wastewater Fund	Liquor Fund	Total	
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 506,183	\$ 408,330	\$ 922,470	\$ 1,836,983	\$ -
Payments to Employees for Services	(126,327)	(123,351)		(249,678)	
Payments to Suppliers of Goods and Services	(195,847)	(68,817)	(823,245)	(1,087,909)	(20,000)
Receipts for Interfund Services Provided				-	126,600
Net Cash Provided (Used) by Operating Activities	<u>184,009</u>	<u>216,162</u>	<u>99,225</u>	<u>499,396</u>	<u>106,600</u>
Cash Flows from Noncapital Financing Activities:					
Transfers from Other Funds	-	-	(98,520)	(98,520)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>(98,520)</u>	<u>(98,520)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:					
Proceeds from Capital Debt	814,102	579,724		1,393,826	
Capital Contributions		350,685		350,685	
Purchase of Capital Assets	(810,318)	(922,352)		(1,732,670)	(14,350)
Principal Paid on Capital Debt	(75,813)	(117,571)		(193,384)	
Interest Paid on Capital Debt	(37,175)	(80,914)		(118,089)	
Other Receipts			15,000	15,000	
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(109,204)</u>	<u>(190,428)</u>	<u>15,000</u>	<u>(284,632)</u>	<u>(14,350)</u>
Cash Flows from Investing Activities:					
Interest Earnings	1,310	1,035	250	2,595	595
Net Cash Provided by Investing Activities	<u>1,310</u>	<u>1,035</u>	<u>250</u>	<u>2,595</u>	<u>595</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>76,115</u>	<u>26,769</u>	<u>15,955</u>	<u>118,839</u>	<u>92,845</u>
Cash and Cash Equivalents at Beginning of Year	<u>821,621</u>	<u>630,313</u>	<u>136,008</u>	<u>1,587,942</u>	<u>425,252</u>
Cash and Cash Equivalents at End of Year	<u>\$ 897,736</u>	<u>\$ 657,082</u>	<u>\$ 151,963</u>	<u>\$ 1,706,781</u>	<u>\$ 518,097</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ 153,022	\$ 171,065	\$ 105,819	\$ 429,906	\$ 44,392
Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	101,610	103,500	3,418	208,528	62,208
Change in Assets and Liabilities:					
Receivables	(4,306)	(3,673)	(147,755)	(155,734)	
Due From Other Governments	(117,852)	(131,359)		(249,211)	
Prepaid Expenses	1,181	1,169	-	2,350	
Customer Deposits	300			300	
Accounts and Other Payables	46,405	71,784	137,743	255,932	
Accrued Leave Payable	(365)	(365)		(730)	
Accrued Wages Payable	4,014	4,025		8,039	
Accrued Taxes Payable	-	16		16	
Net Cash Provided (Used) by Operating Activities	<u>\$ 184,009</u>	<u>\$ 216,162</u>	<u>\$ 99,225</u>	<u>\$ 499,396</u>	<u>\$ 106,600</u>
Noncash Investing, Capital and Financing Activities:					
Debt Forgiveness	<u>194,253</u>			<u>194,253</u>	

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

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity

The reporting entity of the Municipality of Dell Rapids, (Municipality) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility); 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.

b. Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

The funds of the Municipality financial reporting entity are described below:

Governmental Funds:

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

The following Special Revenue funds of the Municipality are not considered major funds: Third Penny, Library Building and Library Fines and Membership Fee. These funds are reported on the fund financial statements as "Nonmajor Funds."

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.

Special Assessment Debt Service – to account for the collection of special assessments, which may be used only to repay the special assessment bond. This is not a major fund.

Capital Project Funds – capital project 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).

Capital Project Fund – to account for the financial resources to be used for the 15th Street Improvement project. This is not a major fund.

Proprietary Funds:

Enterprise Funds – enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

Wastewater Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.

Liquor Fund – financed by the markup. (SDCL 35-3-21) The Municipality has entered into an operating lease agreement allowing the operator to operate an on-sale bar and an off-sale liquor store on the real property owned by the Municipality. The Municipality owns lottery machines maintained in the establishment. The lessee purchases all liquor from the Municipality at cost plus ten (10) percent, pays \$15,000 per year for the rent of the building and pays the Municipality 65% of the Municipality's share of video lottery profits. This is a major fund.

Internal Service Funds – internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary governments, or to other governments, on a cost-reimbursement basis. The particular types of goods or services provided to other funds consist of equipment purchases. Internal service funds are never considered to be major funds. The Equipment Replacement Fund is the only internal service fund maintained by the Municipality.

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 funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type 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).

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

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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 Municipality of Dell Rapids, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2013 are sales taxes, property taxes, 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 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. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the Internal Service Fund, so that expenses are reported only by the function to which they relate.

e. Deposits and Investments

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

f. 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. *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 of capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements

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.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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 2.5 percent for which the costs were determined by estimates of the original costs. The total December 31, 2013 balance of business-type capital assets are all valued at 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, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the Municipality. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements Other than Buildings."

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 Position. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Position.

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 and land rights	All	----N/A----	----N/A----
Improvements other than Buildings	\$ 15,000	Straight-line	20 yrs.
Water/Sewer Lines	\$ 25,000	Straight-line	50 yrs.
Roads	\$ 50,000	Straight-line	15-75 yrs.
Other Improvements	\$ 10,000	Straight-line	15-50 yrs.
Buildings	\$ 50,000	Straight-line	50 yrs.
Machinery and Equipment	\$ 5,000	Straight-line	5-20 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as Capital Outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide financial statements.

g. 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.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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

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 financial statements.

h. Program Revenues

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

i. 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.

j. Proprietary Funds Revenue and Expense Classifications

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

k. Cash and Cash Equivalents

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

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

I. Equity Classifications

Government-wide Financial Statements:

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

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 balances 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 placed 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 Nonspendable, Restricted, Committed, Assigned and Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

m. Application of Net Position:

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

n. 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 Municipality classifies governmental fund balances as follows:

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

The Nonspendable Fund Balance is comprised of the following:

- Amount reported in non-spendable form such as prepaid expenses.
- Amount legally or contractually required to be maintained intact such the South Dakota Public Assurance Alliance Cumulative Reserve Fund.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

Deposits - The Municipality's cash 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 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. It is the Municipality's policy to deposit all interest revenue to the fund making the investment.

The actual bank balances at December 31, 2013 were as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 554,843
Uninsured, collateral jointly held by state's/Municipality's agent in the name of the state and the pledging financial institution.	4,557,890
Uninsured, uncollateralized	-
Total Deposits	\$ 5,112,733

The carrying amount of deposits on the December 31, 2013 Government-wide Statement of Net Position was \$5,119,679. The reconciliation of deposits to Government-wide Statement of Net Position is as follows:

Cash and cash equivalents	\$ 4,661,902
Certificates of Deposit	457,777
Carrying amount	5,119,679
Less Petty Cash	(150)
Less Lottery Cash	(10,000)
Add outstanding transactions	3,204
	\$ 5,112,733

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

Investments - In general, SDCL 4-5-6 permits Municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in 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. There were no investments held as of December 31, 2013.

Credit Risk – State law limits eligible investments for the Municipality, as discussed above. The Municipality has an investment policy that would further limit its investment choices.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the Municipality's deposits may not be returned to it. The Municipality will minimize credit risk by limiting the portfolio to the types of investments that are authorized and suitable to diminish the impact of potential losses from any one type of investment or from any one issuer. As of December 31, 2013, the Municipality's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Custodial Credit Risk – Investments – The risk that, in the event of the counterparty to a transaction, the Municipality will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of December 31, 2013, the Municipality does not have any investments.

Concentration of Credit Risk – The Municipality requires Qualified Public Depositories to furnish collateral in the sum equal to one hundred percent (100%) of the public deposit accounts that exceed deposit insurance. The financial institution shall submit a copy of their collateralization report to the Finance Officer.

Interest Rate Risk – The Municipality strives to maintain a market rate of return throughout budgetary and economic and budgetary cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is secondary compared to the safety and liquidity objectives.

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

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The Municipality expects all receivables to be collected within one year, except for the \$238,600 note receivable from the Dell Rapids Economic Development Corporation which is due by June 1, 2032. This note receivable is reported in the Gross Receipts Fund. No allowance has been made for estimated uncollectible amounts.

4. INVENTORY

Inventory in the General Fund and special revenue funds consists of expendable supplies held for consumption. Material supply inventories are recorded at cost.

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.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

Fund Financial Statements:

In the fund financial statements, purchases of supply inventory items are recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. No material supply inventory existed as of December 31, 2013.

5. PROPERTY TAXES

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

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

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2013 is as follows:

	Balance 1/1/2013	Increases	Decreases	Balance 12/31/2013
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 982,906	\$ -	\$ (12,516)	\$ 970,390
Construction Work in Progress	174,901	551,518		726,419
Total Capital Assets, Not Being Depreciated	<u>1,157,807</u>	<u>551,518</u>	<u>(12,516)</u>	<u>1,696,809</u>
Capital Assets, Being Depreciated				
Buildings & Structures	3,149,599		(40,000)	3,109,599
Improvements Other Than Buildings	4,140,633	28,962		4,169,595
Machinery and Equipment	3,103,782	127,206	(1,193,539)	2,037,449
Total Capital Assets, Being Depreciated	<u>10,394,014</u>	<u>156,168</u>	<u>(1,233,539)</u>	<u>9,316,643</u>
Less Accumulated Depreciation for:				
Buildings & Structures	(943,357)	(90,763)	30,400	(1,003,720)
Improvements Other Than Buildings	(366,515)	(154,145)		(520,660)
Machinery and Equipment	(1,437,497)	(123,281)	444,121	(1,116,657)
Total Accumulated Depreciation	<u>(2,747,369)</u>	<u>(368,189)</u>	<u>474,521</u>	<u>(2,641,037)</u>
Total Governmental Activities Capital Assets, Being Depreciated, Net	<u>7,646,645</u>	<u>(212,021)</u>	<u>(759,018)</u>	<u>6,675,606</u>
Governmental Activities Capital Assets, Net	<u>\$ 8,804,452</u>	<u>\$ 339,497</u>	<u>\$ (771,534)</u>	<u>\$ 8,372,415</u>

Changes in capital assets as shown above include activities of the internal service fund. Purchases within the equipment replacement fund for the year ended December 31, 2013 were \$14,350.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

Depreciation expense was charged to functions as follows:

	Balance 12/31/2013
Governmental Activities:	
General Government	\$ 11,508
Public Safety	46,132
Public Works	165,612
Culture & Recreation	82,729
 Total Depreciation Expense - Governmental Activities	 \$ 305,981

	Balance 1/1/2013	Increases	Decreases	Balance 12/31/2013
Business-Type Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 81,527	\$ -	\$ -	\$ 81,527
Construction Work in Progress	-	1,724,730	-	1,724,730
Total Capital Assets, Not Being Depreciated	81,527	1,724,730	-	1,806,257
Capital Assets, Being Depreciated				
Buildings	6,561,285	-	-	6,561,285
Improvements Other Than Buildings	2,078,448	-	-	2,078,448
Machinery and Equipment	656,013	7,942	-	663,955
Total Capital Assets, Being Depreciated	9,295,746	7,942	-	9,303,688
Less Accumulated Depreciation for:				
Buildings	(2,117,445)	(128,760)	-	(2,246,205)
Improvements Other Than Buildings	(292,459)	(55,936)	-	(348,395)
Machinery and Equipment	(240,148)	(23,832)	-	(263,980)
Total Accumulated Depreciation	(2,650,052)	(208,528)	-	(2,858,580)
 Total Business-Type Activity Capital Assets, Being Depreciated, Net	 6,645,694	 (200,586)	 -	 6,445,108
 Business-Type Activity Capital Assets, Net	 \$ 6,727,221	 \$ 1,524,144	 \$ -	 \$ 8,251,365

Depreciation expense was charged to functions as follows:

	Balance 12/31/2013
Business-Type Activities:	
Water	\$ 101,610
Wastewater	103,500
Liquor	3,418
Total Depreciation Expense - Business-Type Activities	\$ 208,528

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

Construction Work in Progress at December 31, 2013 is composed of the following:

Project Name	Project Authorization	Expended thru 12/31/2013	Committed	Required Future Financing
Library Building Project	\$ 181,318	\$ 181,318	\$ -	\$ -
15th Street Construction	2,370,627	2,269,831		
Total	\$ 2,551,945	\$ 2,451,149	\$ -	\$ -

7. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

Primary Government:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities:					
Accrued Compensated Absences-Governmental Funds	28,707	15,100	(20,917)	22,890	-
Total Governmental Activity	28,707	15,100	(20,917)	22,890	-
Business-Type Activities:					
SRF 2003 Drinking Water	428,007		(28,505)	399,502	29,515
SRF 2006 Clean Water	441,520		(24,251)	417,269	25,049
SRF 2006 Drinking Water	125,807		(7,062)	118,745	7,294
SRF 2007 Clean Water	911,472		(43,324)	868,148	44,749
SRF 2009 Clean Water	862,059		(37,218)	824,841	38,442
SRF 2011 Drinking Water	428,698		(15,899)	412,799	16,382
SRF 2011 Clean Water	344,550		(12,778)	331,772	13,167
SRF 2012 Drinking Water	270,000		(24,356)	245,644	24,410
SRF 2013 Drinking Water	-	814,102	(194,253)	619,849	-
SRF 2013 Clean Water	-	579,724	-	579,724	-
Total Debt	3,812,113	1,393,826	(387,646)	4,818,293	199,008
Accrued Compensated Absences-Business-Type Funds	34,552	15,778	(16,508)	33,822	-
Total Business-Type Activities	3,846,665	1,409,604	(404,154)	4,852,115	199,008
TOTAL PRIMARY GOVERNMENT	\$ 3,875,372	\$ 1,424,704	\$ (425,071)	\$ 4,875,005	\$ 199,008

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

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

State Revolving Fund (SRF) Loan 2003 Drinking Water:

Note dated April 30, 2003 including an interest rate of 3.5% per annum and a maturity date of January 15, 2025. Principal payments to be made by Water Fund. \$ 399,502

State Revolving Fund (SRF) Loan 2006 Clean Water:

Note dated March 31, 2006 including an interest rate of 3.25% per annum and a maturity date of April 15, 2027. Principal payments to be made by Wastewater Fund. \$ 417,269

State Revolving Fund (SRF) Loan 2006 Drinking Water:

Note dated March 31, 2006 including an interest rate of 3.25% per annum and a maturity date of January 15, 2027. Principal payments to be made by Water Fund. \$ 118,745

State Revolving Fund (SRF) Loan 2007 Clean Water:

Note dated December 2, 2008 including an interest rate of 3.25% per annum and a maturity date of January 15, 2029. Principal payments to be made by Wastewater Fund. \$ 868,148

State Revolving Fund (SRF) Loan 2009 Clean Water

Note dated January 15, 2010 with a maturity date of January 15, 2030 and an interest rate of 3.25% per annum. Principal payments to be made by the Wastewater Fund. \$ 824,841

State Revolving Fund (SRF) Loan 2011 Drinking Water

Note dated April 15, 2011 with a maturity date of January 15, 2031 and an interest rate of 3.00% per annum. Principal payments to be made by the Water Fund. \$ 412,799

State Revolving Fund (SRF) Loan 2011 Clean Water

Note dated April 15, 2011 with a maturity date of October 15, 2032 and an interest rate of 3.00% per annum. Principal payments to be made by the Wastewater Fund. \$ 331,772

State Revolving Fund (SRF) Loan 2012 Drinking Water

Note dated June 27, 2012 with a maturity date of October 15, 2022 and an interest rate of 2.25% per annum. Principal payments to be made by the Water Fund. \$ 245,644

State Revolving Fund (SRF) Loan 2012 Drinking Water

Note dated October 18, 2013 with a maturity date of January 15, 2035 and an interest rate of 3.00% per annum. Principal payments to be made by the Water Fund. \$ 619,849

State Revolving Fund (SRF) Loan 2012 Clean Water

Note dated October 18, 2013 with a maturity date of January 15, 2035 and an interest rate of 3.00% per annum. Principal payments to be made by the Wastewater Fund. \$ 579,724

Compensated Absences:

Accrued vacation and sick leave payable from the General Fund and Enterprise Funds \$ 56,712

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

The annual requirements to amortize all debt outstanding as of December 31, 2013, except for compensated absences but including interest payments of \$1,367,532 are as follows:

Annual Requirements to Amortize Long-Term Debt
December 31, 2013

Year Ending Dec. 31,	State Revolving Loans	
	Principal	Interest
2014	199,008	111,967
2015	240,097	133,235
2016	259,247	134,705
2017	267,391	126,561
2018	275,793	118,159
2019-2023	1,484,167	455,366
2024-2028	1,355,051	225,075
2029-2033	673,708	60,184
2034-2038	63,831	2,280
TOTAL	\$ 4,818,293	\$ 1,367,532

8. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2013 were as follows:

<u>Transfer From:</u>	<u>General Fund</u>
Liquor Fund	98,520
Capital Project Fund	202,119
	\$ 300,639

The transfers the Municipality budgeted for this year were for the 15th Street construction project, and excess Liquor revenue to the General Fund.

9. RETIREMENT PLAN:

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor 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, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2013, 2012, and 2011 were \$31,913, \$32,446, and \$28,349, respectively, equal to the required contributions each year.

10. SIGNIFICANT CONTINGENCIES – LITIGATION:

At December 31, 2013, the Municipality was not involved in any litigation.

11. RISK MANAGEMENT:

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2013, the Municipality managed its risks as follows:

Employee Health Insurance

The Municipality purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance

The Municipality 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 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 Municipality'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 Municipality. The Municipality 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. The Municipality pays an annual premium to the pool to provide coverage for general liability, auto liability, property damage, and wrongful acts.

The agreement with the SDPAA provides that the above coverages will be provided to a \$3,000,000 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. A portion of the member premiums are also allocated to a cumulative reserve fund. The Municipality 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 Municipality's First Full Year	50%
End of Municipality's Second Full Year	60%
End of Municipality's Third Full Year	70%
End of Municipality's Fourth Full Year	80%
End of Municipality's Fifth Full Year	90%
End of Municipality's Sixth Full Year and Thereafter	100%

MUNICIPALITY OF DELL RAPIDS
NOTES TO THE FINANCIAL STATEMENTS

As of December 31, 2013, the Municipality has vested balance in the cumulative reserve fund of \$40,625.

The Municipality carries a \$500 deductible for wrongful acts coverage. Building, contents, and equipment coverage is based on a per item statement of values and carries a \$500 deductible.

The Municipality 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 Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

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

Unemployment Benefits

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

During the year ended December 31, 2013 no claims for unemployment benefits were paid. At December 31, 2013 no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF DELL RAPIDS
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Revenue from Local Sources:				
Taxes:				
General Property Taxes	\$ 952,780	\$ 952,780	\$ 953,148	\$ 368
General Sales and Use Taxes	775,000	775,000	890,558	115,558
Amusement Taxes	400	400	396	(4)
Penalties and Interest on Delinquent Taxes	1,000	1,000	1,421	421
Licenses and Permits	18,550	18,550	38,142	19,592
Intergovernmental Revenue:				
Federal Grants	37,108	52,108	25,028	(27,080)
State Grants	25,000	38,000	21,764	(16,236)
State Shared Revenue:				
Bank Franchise Tax	25,000	25,000	14,337	(10,663)
Motor Vehicle Commercial Prorate	2,000	2,000	2,693	693
Liquor Tax Reversion	17,000	17,000	19,185	2,185
Motor Vehicle Licenses (5%)	12,000	12,000	21,398	9,398
Local Government Highway and Bridge Fund	30,000	30,000	46,307	16,307
Other	500	500	-	(500)
County Shared Revenue:				
County Wheel Tax	4,000	4,000	5,361	1,361
Charges for Goods and Services:				
General Government	500	500	855	355
Sanitation	9,600	9,600	18,815	9,215
Culture and Recreation	34,100	34,100	36,893	2,793
Other	7,000	7,000	13,685	6,685
Fines and Forfeits:				
Court Fines and Costs	750	750	267	(483)
Parking Fines	1,000	1,000	2,723	1,723
Other	300	300	120	(180)
Miscellaneous Revenue:				
Investment Earnings	5,000	5,000	2,753	(2,247)
Rentals	-	-	2,400	2,400
Special Assessments	9,195	9,195	44,774	35,579
Contributions and Donations from Private Sources	-	-	1,100	1,100
Other	17,050	17,050	41,755	24,705
Total Revenue	\$ 1,984,833	\$ 2,012,833	\$ 2,205,878	\$ 193,045

The notes to the required supplementary schedules are an integral part of this schedule.

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF DELL RAPIDS
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures:				
General Government:				
Legislative	\$ 48,796	\$ 48,796	\$ 46,167	\$ 2,629
Contingency	30,000	30,000		30,000
Executive	151,659	151,659	149,416	2,243
Elections	1,300	1,300	661	639
Financial Administration	115,320	115,320	111,470	3,850
Other	92,850	121,850	107,312	14,538
Total General Government	<u>439,925</u>	<u>468,925</u>	<u>415,026</u>	<u>53,899</u>
Public Safety:				
Police	240,848	240,848	240,848	-
Fire	57,676	69,676	66,584	3,092
Protective Inspection	46,550	46,550	44,010	2,540
Total Public Safety	<u>345,074</u>	<u>357,074</u>	<u>351,442</u>	<u>5,632</u>
Public Works:				
Highways and Streets	1,208,836	1,208,836	894,247	314,589
Sanitation	68,300	69,300	76,439	(7,139)
Transit	41,000	59,000	60,243	(1,243)
Total Public Works	<u>1,318,136</u>	<u>1,337,136</u>	<u>1,030,929</u>	<u>306,207</u>
Health and Welfare:				
Health	4,014	4,014	1,226	2,788
Humane Society	2,000	3,000	2,487	513
Ambulance	40,000	40,000	40,000	-
Total Health and Welfare	<u>46,014</u>	<u>47,014</u>	<u>43,713</u>	<u>3,301</u>
Culture and Recreation:				
Recreation	106,130	114,130	111,084	3,046
Parks	140,540	175,540	153,793	21,747
Libraries	152,635	163,135	129,945	33,190
Total Culture and Recreation	<u>399,305</u>	<u>452,805</u>	<u>394,822</u>	<u>57,983</u>
Conservation and Development:				
Economic Development and Assistance	4,000	4,000	2,000	2,000
Total Expenditures	<u>2,552,454</u>	<u>2,666,954</u>	<u>2,237,932</u>	<u>429,022</u>
Excess of Revenue Over (Under) Expenditures	<u>(567,621)</u>	<u>(654,121)</u>	<u>(32,054)</u>	<u>622,067</u>
Other Financing Sources (Uses):				
Sale of Surplus Property	-	-	185,546	185,546
Transfers In	98,520	98,520	300,639	202,119
Total Other Financing Sources (Uses)	<u>98,520</u>	<u>98,520</u>	<u>486,185</u>	<u>387,665</u>
Net Changes in Fund Balances	<u>(469,101)</u>	<u>(555,601)</u>	<u>454,131</u>	<u>1,009,732</u>
Fund Balance Beginning	<u>1,901,559</u>	<u>1,901,559</u>	<u>1,901,559</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 1,432,458</u>	<u>\$ 1,345,958</u>	<u>\$ 2,355,690</u>	<u>\$ 1,009,732</u>

The notes to the required supplementary schedules are an integral part of this schedule.

MUNICIPALITY OF DELL RAPIDS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. Budgets and Budgetary Accounting

The Municipality follows these procedures in establishing the budgetary data reflected in the schedules:

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 of the Governing Board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund and each major special revenue fund.
7. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with accounting principles generally accepted in the United States (USGAAP).

2. GAAP / Budgetary Accounting Basis Differences

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