

CITY OF LENNOX
LENNOX, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE ONE YEAR ENDING DECEMBER 31, 2013
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

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

CITY OF LENNOX
LENNOX, SOUTH DAKOTA

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FOR THE ONE YEAR ENDING DECEMBER 31, 2013

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

INDEPENDENT AUDIT SERVICES, PC

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

Governing Board
City of Lennox
Lennox, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Lennox (City), Lincoln County, South Dakota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

I did not audit financial statements of the Lennox Housing and Redevelopment Commission (a component unit in the aggregate discretely presented component units) as of and for the year ended March 31, 2013. These financial statements were audited by other auditors whose report has been furnished to me, and my opinion insofar as it relates to the amounts included for the Lennox Housing and Redevelopment Commission, is based solely on the report of other auditors.

Management's Responsibility for the Financial Statements

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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinions on governmental activities, business-type activities, aggregate discretely presented component units, each major fund and the aggregate remaining fund information.

Summary of Opinions

Opinion Unit:	Type of Opinion	Reason
Governmental Activities	Qualified	(1)
Business-Type Activities	Qualified	(1)
Aggregate Discretely Presented Component Units	Qualified	(2)
Each Major Fund	Qualified	(1)
Aggregate Remaining Fund Information	Qualified	(1)

(1) Prior year disclaimer of opinion

(2) Lennox Area Ambulance Squad, Inc. financial information not available

Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units

The Lennox Area Ambulance Squad, Inc. is considered a component unit of the City of Lennox because the City must approve ambulance rates, approve hiring new personnel, and authorize any borrowing. Financial information of the Lennox Area Ambulance Squad, Inc. was not available and reasonable estimates cannot be made. The aggregate discretely presented component units opinion is qualified because it only includes financial information of the Lennox Housing and Redevelopment Commission and not does not include financial information of the Lennox Area Ambulance Squad, Inc.

Qualified Opinion on the Aggregate Discretely Presented Component Units

In my opinion, based on the report of other auditors, and except for the effects of the matter described in the "Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the City of Lennox, South Dakota as of March 31, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on all Opinion Units except for the Aggregate Discretely Presented Component Units

A disclaimer of opinion was issued on all opinion units of the City of Lennox as of and for the year ended December 31, 2012. This disclaimer of opinion affects the beginning balances of opinion units in these financial statements. Net corrections of an additional \$63,070 credits to business-type activities has been recorded as a prior period adjustment, but other corrections may also need to be made.

Qualified Opinion on all Opinion Units Except for the Aggregate Discretely Presented Component Units

In my opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion on all Opinion Units except for the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Lennox, South Dakota, 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.

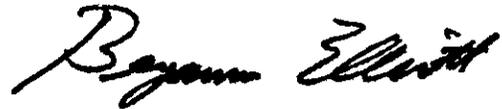
Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (page 4 to 10) and the budgetary comparison schedule (page 38 to 40) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. 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 formation and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 41) dated June 19, 2014 on my tests of City of Lennox's compliance with certain provisions of laws, regulations, and contracts, and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting.

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



June 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the City of Lennox's (City) annual financial report presents our discussion and analysis of the City's financial performance for the year ending December 31, 2013. Please read it in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Revenue:	
Charges for goods and services	1,175,422
Operating grants	0
Capital grants	499,338
General receipts	1,513,662

Total	3,188,422

Expenses:	
Governmental	1,504,097
Business-type	1,031,389

Total	2,535,486

Increase in Net Position	652,936
Net Position:	
December 31, 2012, adjusted	15,414,419

December 31, 2013	16,067,355
	=====
Governmental Fund	
General	2,204,624
2nd Cent	501,187
Storm Drainage	282,691
Library Fines	408
2002 Special Assessment	316
Capital Assets	4,263,699
Long-term Debt	(253,994)
Business-Type Funds:	
Water	4,664,724
Sewer	4,403,700

Total	16,067,355
	=====

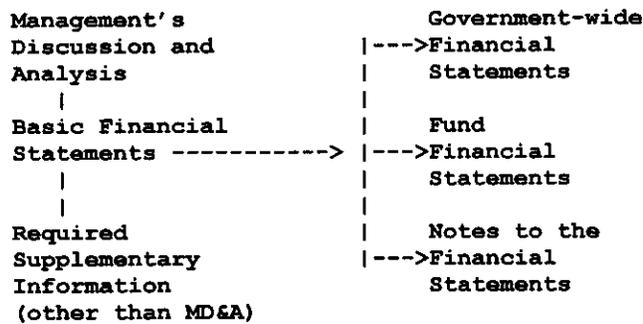
During the year ending December 31, 2013, the City:

- * Purchased an ambulance for \$147,691.
- * Purchased a police vehicle for \$34,142.
- * Made storm drainage improvements for \$28,929.
- * Purchased library books for \$6,684.
- * Purchased an emergency generator for \$171,610 using grant money from FEMA of \$128,708.
- * Continued construction on a water/sewer project for \$629,909.
- * Received a safe routs to school grant of \$2,497.
- * Received a small community planning grant of \$10,000 for sewer operations.
- * Paid down five existing loans by \$210,949. See also page 36.
- * Received proceeds from a 2012 drinking water loan of \$577,355 of which \$324,472 was forgiven.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

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

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



The financial report consists of three parts: (1) management's discussion and analysis (page 4 to 10), (2) the basic financial statements (page 11 to 37) and (3) required supplementary information (page 38 to 40). The basic financial statements include two types of statements that present the City from two different financial points of view.

Government-wide financial statements (View #1):

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

Fund financial statements (View #2):

The remaining financial statements are fund financial statements that focus on significant operations of the governmental, enterprise, and fiduciary (if any) activities of the City.

The governmental fund financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. Governmental funds operated by the City are the general fund, 2nd cent fund, storm drainage assessment fund, library fines fund, and the 2002 special assessment fund.

The enterprise fund financial statements offer short-term and long-term financial information about the activities of the City that operate like a business. Enterprise funds operated by the City are the water and sewer funds.

The fiduciary fund financial statements provide information about the financial status of activities (like a Sec. 125 Cafeteria Plan) in which the City acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. In 2013 the City had one fiduciary fund for its Sec. 125 Cafeteria Plan.

The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of required supplementary information that presents a budgetary analysis for the general fund, 2nd cent fund, and storm drainage assessment fund.

The Lennox Housing and Redevelopment Commission (LHRC) is a component unit of the City of Lennox. LHRC represents 100% of the balances and activity of the aggregate discretely presented component units column of these financial statements. LHRC is organized to provide housing through the operation of a rental housing complex. LHRC is a Housing and Redevelopment Commission, established under SDCL 11-7-7. Financial information about LHRC is available at Lennox City Hall.

The Lennox Area Ambulance Squad, Inc. (LAAS) is a component unit of the City of Lennox. LAAS represents 0% of the balances and activity of the aggregate discretely presented component units column of these financial statements. LAAS is organized to provide ambulance services in the Lennox Area. LAAS is a non-profit corporation, established in July 1998. LAAS financial information was not available for these financial statements.

Required Supplementary Information:

This Management's Discussion and Analysis (page 4 to 10) and the Budgetary Comparison Schedules (page 38 to 40) are financial information required to be presented by GASB. Such information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

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

	Government-wide	-----Fund Statements-----		
	Statements	Governmental	Enterprise	Fiduciary
	-----	Funds	Funds	Funds
Scope	Entire City (except fiduciary funds)	City activities except Enterprise (ie: water) and Fiduciary	Activities operated like a private business (ie: water)	City's custody of money that belongs to others
Required Financial Statements	Statement of Net Position	Balance Sheet	Statement of Net Position	Statement of Fiduciary Net position
	Statement of Activities	Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Revenues, Expenses and Changes in Net Position Statement of Cash Flows	
Basis of Accounting	Accrual	Modified accrual	Accrual	Accrual
Measurement Focus	Economic resources	Current financial resources	Economic resources	Economic resources
Types of Assets & Liabilities	All - financial and capital, short- and long-term	Only current financial assets and liabilities No capital assets	All - financial and capital, short- and long-term	All - financial and capital (if any), short- and long-term
Types of Revenue and Expenditures or Expense	All - regardless of when cash is received	Revenues when cash is received during year or within 30 days of year-end	All - regardless of when cash is received	All - regardless of when cash is received
		Expenditures when goods or services are received and payment is due during year or soon after year-end		

GOVERNMENT-WIDE STATEMENTS

(Reporting the City as a whole)

The government-wide statements (page 11 and 12) report information about the City as a whole using accounting methods similar to those used for private companies. There are two government-wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position includes all of the government's assets and liabilities. Net position is the difference between assets and liabilities. Changes in these accounts is one way to measure the City's financial health. Increases or decreases in net position measures improvements or declines in the

City's financial health. To assess the City's overall financial health you also need to consider other factors such as changes in the, property tax base and sales tax revenue, sales tax revenue and/or grant activity.

The Statement of Activities includes all of the year's revenues and expenses. You will notice that expenses are listed in the first column by program. Revenues related each program are reported to the right of the expense. The result is a net revenue/expense for each program. After listing program activity, general receipts of the City are listed, which include all taxes and interest earned.

The government-wide financial statements have two broad categories of information: governmental activity and business-type activity.

The governmental activities include operation of the government such and City Council, public safety, streets and highway, snow removal, debt service, and recreational programs. Property taxes, sales taxes, revenue from the state, user fees and interest earnings finance most of these activities.

Business-type activities account for the City's water and sewer operations. These operations are financed by user fees and grants for certain capital projects.

FUND FINANCIAL STATEMENTS

(Reporting the City's most significant funds)

The fund financial statements (page 13 to 19) provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting tools used to keep track of the receipt and disbursement of City's resources. State law requires the use of some funds and the City Council establishes other funds to manage money for a specific purpose, like a capital project fund for infrastructure improvements.

The fund financial statements show information in three broad categories: governmental, enterprise (business-type), and fiduciary (if any).

Governmental funds: Most of the City's basic services are included in the governmental funds, which focus on (1) how cash, and other financial assets which can readily be converted into cash, flow in and out of that fund, and (2) the balances left at year-end that are available for spending in the next year. Consequently, governmental funds statements provide you a detailed short-term view to help you determine whether there are more or fewer financial resources available for spending in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements to reconcile the differences between the governmental fund statements and the government-wide statements.

Enterprise fund: Services for which the City charges the customer a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both short-term and a long-term financial information. Water and sewer funds are the enterprise fund maintained by the City.

Fiduciary funds: The City can be the agent (or fiduciary) for various internal and external parties. As such, the City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position. Fiduciary funds are excluded from the City's government-wide financial statements because the City can not use these assets to finance City operations. In 2013 the City had one fiduciary fund for its Sec. 125 Cafeteria Plan.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

Year Ending December 31, 2013

(Material changes for governmental activities = changes greater than \$100,000)

(Material changes for business-type activities = changes greater than \$ 75,000)

	Increase (Decrease)	Reason
Governmental Activities:		
Current assets	250,000	Excess revenue of \$313,000 less net transfers out of \$33,000 and prior period adjustments of \$10,000.
Capital assets	(156,000)	Capital assets purchases of \$217,000 less depreciation of \$373,000.
Current liabilities	(105,000)	Pay-down of long-term debt.
Long-term liabilities	(74,000)	Pay-down of long-term debt.
Transfers out	(272,000)	Fewer transfers to enterprise funds.
Business-type Activities:		
Current assets	163,000	Net increase in cash of \$105,000 from operations (see page 18) and net amounts due from others of \$58,000.
Capital assets	426,000	Capital assets purchases of \$803,000 less depreciation of \$377,000.
Long-term liabilities	118,000	Proceeds from 2012 SRF drinking water bond less forgiveness and debt reduction.
Capital contributions	447,000	Federal and state grants for water/sewer project and FEMA grant emergency generator.
Transfers in	(272,000)	Fewer transfers from governmental funds.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

The City's 2013 general fund budget of \$1,340,748 is a decrease of \$104,363 or 7.23% from 2012. The decrease was spread across several budget line items. There were no supplemental appropriations. See page 38 for information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

At December 31, 2013, the City had invested \$15,819,346 in a broad range of capital assets, including land, buildings, improvements, and equipment. This amount represents a net increase (including additions and deductions) of \$270,452 or 1.74% from December 31, 2012.

Significant capital asset activity is reported above. See page 35 for more information.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

Significant long-term debt activity is reported above. The City is current on all long-term debt. See page 36 for more information.

CURRENTLY KNOWN FACTS

In November 2013 the City passed a resolution to submit an application for an SRF loan not to exceed \$2,290,000 to finance a storm/sanitary sewer construction project.

In December 2013 the City passed a motion to contract for ambulance billing services from Ambill Associates.

In March 2014 the City passes a motion to approve a SD DOT Transportation Enhancement Grant Agreement for a shared use path along Highway 44 in the amount of \$490,000.

In March 2014 the City established a special revenue fund for the park and recreation department and an enterprise fund for a swimming pool project. The City will also be establishing an ambulance fund in 2015.

In March 2014 the City approved the design cost of \$12,500 for a Main Street storm/sewer upgrade of \$109,48; the design cost of \$70,000 for Rummel Avenue Street improvements of \$975,887; and the design cost of \$18,500 for various sidewalk and alley repairs of \$184,606.

In March 2014 the City purchased a 2004 International 7400 truck and Falls PR-1243 snow plow for \$64,096.

In March 2014 the City approved the purchase of a ball park scoreboard from Daktronics for \$43,945 for which the City received \$40,000 in donations.

In April 2014 the City approved a 38.7% Consolidated Water Facilities Construction Grant not to exceed \$1 million for the wastewater improvement project.

TIF #4 is estimated to pay off in 2016, which will then increase the City's property tax receipts by approximately \$100,000 per year.

The City will begin collecting a 3rd cent sales tax in July 2014.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Lennox's business office at P.O. Box 228, Lennox, SD 57039 or call 605.647.2286.

CITY OF LENNOX

TABLE 1 - NET POSITION (condensed)
 FULL ACCRUAL - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 AS OF DECEMBER 31, 2013 AND DECEMBER 31, 2012

	Governmental Activities		Business-Type Activities		Total Government	
	2013	2012	2013	2012	2013	2012
Assets:						
Current assets	2,982,436	2,732,403	1,279,916	1,116,627	4,262,352	3,849,030
Capital assets	4,263,699	4,419,428	11,555,647	11,129,466	15,819,346	15,548,894
Other assets	35,564	35,563	596,053	596,053	631,617	631,616
Total	7,281,699	7,187,394	13,431,616	12,842,146	20,713,315	20,029,540
Liabilities:						
Current liabilities	124,220	228,500	228,617	200,357	352,837	428,857
Long-term debt outstanding	158,548	232,354	4,134,575	4,016,980	4,293,123	4,249,334
Total	282,768	460,854	4,363,192	4,217,337	4,645,960	4,678,191
Net position:						
Net invested in capital asset	4,031,345	4,102,589	7,257,426	6,999,585	11,288,771	11,102,174
Restricted	819,758	260,897	216,929	201,014	1,036,687	461,911
Unrestricted	2,147,828	2,363,054	1,594,069	1,424,210	3,741,897	3,787,264
Total	6,998,931	6,726,540	9,068,424	8,624,809	16,067,355	15,351,349
Percent increase (decrease) in net position	4.05		4.41		4.25	

TABLE 2 - CHANGES IN NET POSITION (condensed)
 FULL ACCRUAL - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 FOR THE YEARS ENDING DECEMBER 31, 2013 AND DECEMBER 31, 2012

	Governmental Activities		Business-Type Activities		Total Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	280,397	191,194	895,025	872,567	1,175,422	1,063,761
Operating grants					0	0
Capital contributions	17,091		482,247	35,373	499,338	35,373
General revenues:						
Property taxes	916,471	928,813			916,471	928,813
Sales taxes	472,802	413,416			472,802	413,416
Gross receipts	2,666				2,666	0
Other taxes	240	13,958			240	13,958
State shared revenue	58,963	56,792			58,963	56,792
County shared revenue	5,267	6,359			5,267	6,359
Interest earnings	23,051	28,075			23,051	28,075
Rents and franchise fees	25,013	12,503	1,500		26,513	12,503
Donations	4,178	255			4,178	255
Total revenues	1,806,139	1,651,365	1,378,772	907,940	3,184,911	2,559,305
Expenses:						
General government	176,067	186,262			176,067	186,262
Public safety	376,839	349,547			376,839	349,547
Public works	531,609	547,313			531,609	547,313
Health and welfare	141,094	146,844			141,094	146,844
Culture and recreation	225,140	251,599			225,140	251,599
Economic development	38,211	56,255			38,211	56,255
Interest and fiscal charges	15,137	22,431			15,137	22,431
Water			555,345	563,386	555,345	563,386
Sewer			476,044	424,105	476,044	424,105
Total expenses	1,504,097	1,560,251	1,031,389	987,491	2,535,486	2,547,742
Revenues over (under) expenses	302,042	91,114	347,383	(79,551)	649,425	11,563
Transfers in (out)	(33,162)	(305,577)	33,162	305,577	0	0
Compensation for property damage	3,511				3,511	0
Net position increase (decrease)	272,391	(214,463)	380,545	226,026	652,936	11,563
Net position:						
December 31, 2011		6,941,003		8,398,783		15,339,786
December 31, 2012	6,726,540	6,726,540	8,624,809	8,624,809	15,351,349	15,351,349
Prior period adjustments			63,070		63,070	
December 31, 2013	6,998,931		9,068,424		16,067,355	

CITY OF LENNOX

GOVERNMENT-WIDE
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2013

	Primary Government			Component Units at 3-31-2013
	Governmental Activities	Business- Type Activities	Total	
Assets:				
Current assets:				
Cash and cash equivalents	2,664,921	1,030,246	3,695,167	55,851
Certificates of deposit				397,357
Receivables:				
Property taxes, delinquent	39,261		39,261	
Other governments	9,993	162,634	172,627	11,779
Accounts	22,400	75,758	98,158	2,293
Special assessments	245,861		245,861	
Inventory of supplies		10,778	10,778	
Deposits		500	500	
Prepaid expenses				6,234
Total current assets	2,982,436	1,279,916	4,262,352	473,514
Capital assets:				
Land	140,371	133,541	273,912	204,552
Buildings	1,782,661	4,212,567	5,995,228	1,913,072
Improvements	2,943,574	8,288,452	11,232,026	584,232
Equipment	2,605,368	1,430,017	4,035,385	
Library books	165,138		165,138	
Accumulated depreciation	(3,373,413)	(3,138,839)	(6,512,252)	(1,027,408)
Construction-in-progress	0	629,909	629,909	12,975
Total capital assets	4,263,699	11,555,647	15,819,346	1,687,423
Other asset:				
Cash and cash equivalents, restri	340		340	43,216
Insurance deposit	35,224		35,224	
Contractual water rights (Lewis & Clark)		596,053	596,053	
Total assets	7,281,699	13,431,616	20,713,315	2,204,153
Liabilities:				
Current liabilities:				
Accounts payable	9,840	62,119	71,959	803
Accrued payroll	18,934	6,173	25,107	7,937
Accrued interest payable		30,919	30,919	7,238
Security deposits				14,205
Leave liability	21,640	11,538	33,178	
Current portion of long-term obligations	73,806	117,868	191,674	41,538
Total current liabilities	124,220	228,617	352,837	71,721
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	158,548	4,134,575	4,293,123	1,519,498
Total liabilities	282,768	4,363,192	4,645,960	1,591,219
Net position:				
Net invested in capital assets	4,031,345	7,257,426	11,288,771	126,387
Restricted for:				
Capital projects	784,218		784,218	
Debt service	316	216,929	217,245	
Insurance deposit	35,224		35,224	
Excess HAP			0	28,567
Unrestricted	2,147,828	1,594,069	3,741,897	457,980
Total net position	6,998,931	9,068,424	16,067,355	612,934

See accompanying notes.

CITY OF LENNOX
 GOVERNMENT-WIDE - STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDING DECEMBER 31, 2013

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units at 3-31-2013
	Expenses	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Primary government:								
Governmental activities:								
General government	176,067	26,523			(149,544)		(149,544)	
Public safety	376,839	490			(376,349)		(376,349)	
Public works	531,609	68,210		17,091	(446,308)		(446,308)	
Health and welfare	141,094	146,138			5,044		5,044	
Culture and recreation	225,140	39,036			(186,104)		(186,104)	
Economic development	38,211				(38,211)		(38,211)	
Interest and fiscal charges (all)	15,137				(15,137)		(15,137)	
Total governmental activities	1,504,097	280,397	0	17,091	(1,206,609)	0	(1,206,609)	
Business-type activities:								
Water	555,345	492,418		450,796		387,869	387,869	
Sewer	476,044	402,607		31,451		(41,986)	(41,986)	
Total business-type activities	1,031,389	895,025	0	482,247	0	345,883	345,883	
Total primary government	2,535,486	1,175,422	0	499,338	(1,206,609)	345,883	(860,726)	
Component Unit:								
Lennox Housing and Redevelopment	450,267	272,518	139,942	39,978				2,171
General revenues:								
Taxes:								
Property taxes					916,471		916,471	
Sales taxes					472,802		472,802	
Gross receipts					2,666		2,666	
Amusement taxes					240		240	
State shared revenue					58,963		58,963	
County shared revenue					5,267		5,267	
Interest earnings					23,051		23,051	3,603
Rent and franchise fee					25,013	1,500	26,513	
Donations					4,178		4,178	
Compensation for property damage					3,511		3,511	
Transfers					(33,162)	33,162	0	
Total general revenues and transfers					1,479,000	34,662	1,513,662	3,603
Change in net position					272,391	380,545	652,936	5,774
Net position:								
January 1, 2013					6,726,540	8,624,809	15,351,349	607,160
Correction of prior period errors:								
Capitalize drinking water project cost						153,001	153,001	
Remove deferred special assessments						(89,931)	(89,931)	
January 1, 2013, adjusted					6,726,540	8,687,879	15,414,419	607,160
December 31, 2013					6,998,931	9,068,424	16,067,355	612,934

See accompanying notes.

CITY OF LENNOX

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2013

	General Fund	2nd Cent Fund	Storm Drainage Fund	Library Fines Fund	2002 Special Assessment Fund	Total Governmental Funds
Assets:						
Current assets:						
Cash and equivalents	1,977,484	412,117	274,912	408		2,664,921
Receivables:						
Property taxes, delinquent	39,261					39,261
Other governments	9,993					9,993
Accounts	22,400					22,400
Special assessments	148,696	89,070	7,779		316	245,861
Other assets:						
Cash - restricted	340					340
Insurance deposit	35,224					35,224
Total assets	2,233,398	501,187	282,691	408	316	3,018,000
Deferred outflow of resources:						
None	0	0	0	0	0	0
Total assets and deferred outflow of resources	2,233,398	501,187	282,691	408	316	3,018,000
Liabilities:						
Accounts payable	9,840					9,840
Accrued payroll	18,934					18,934
Total liabilities	28,774	0	0	0	0	28,774
Deferred inflow of resources:						
Unavailable revenue:						
Property taxes	39,261					39,261
Special assessments	148,696	89,070	7,779		316	245,861
Total deferred inflow of resources	187,957	89,070	7,779	0	316	285,122
Fund balances:						
Nonspendable	35,224					35,224
Restricted	340				0	340
Committed						0
Assigned	9,836	412,117	274,912	408		697,273
Unassigned	1,971,267					1,971,267
Total fund balance	2,016,667	412,117	274,912	408	0	2,704,104
Total liabilities, deferred inflow of resources and fund balance	2,233,398	501,187	282,691	408	316	3,018,000
Total fund balance for governmental funds						2,704,104
Total net position reported for governmental activities in the statement of net position is different because:						
Capital assets and other assets used in governmental activities are not financial resources and therefore are not reported as assets in the balance sheet above.						
Therefore: Add the cost of capital assets						7,637,112
Subtract accumulated depreciation						(3,373,413)
Assets such as taxes receivable and special assessment receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds balance sheet.						285,122
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet. Long-term liabilities at year end consist of:						
2006 financing capital acquisition lease						(232,354)
Accrued leave payable						(21,640)
Total net position on government-wide statement of net position						6,998,931

See accompanying notes.

CITY OF LENNOX

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2013

Revenue:	General Fund	2nd Cent Fund	Storm Drainage Fund	Library Fines Fund	2002 Special Assessment Fund	Total Governmental Funds
Revenue from local sources:						
Taxes:						
Ad valorem taxes	957,937					957,937
Sales and use taxes	236,401	236,401				472,802
Gross receipts	2,666					2,666
Amusement taxes	240					240
Licenses and permits:	16,932					16,932
Intergovernmental revenue:						
Federal shared revenue:						
Grants	17,091					17,091
State shared revenue:						
Bank franchise tax	6,139					6,139
Motor vehicle comm prorated	1,045					1,045
Liquor tax reversion	14,250					14,250
Motor vehicle licenses (5%)	10,102					10,102
Local highway & bridge	27,427					27,427
County shared revenue:						
Road and property taxes	5,267					5,267
Charges for goods and services:						
General government	7,171					7,171
Public safety	490					490
Highways and streets	11,414					11,414
Refuse collection	3,987					3,987
Ambulance	146,138					146,138
Parks and recreation	39,011					39,011
Fines and forfeits:	2,420			25		2,445
Other sources:						
Interest earned	15,691	6,832	197		331	23,051
Rental and franchise fees	25,013					25,013
Donations	3,100			1,078		4,178
Special assessments	23,738	22,270	91,757		3,275	141,040
Total revenues	1,573,670	265,503	91,954	1,103	3,606	1,935,836
Expenditures:						
General government:						
Mayor and Council	27,700					27,700
Elections	0					0
Financial administration	73,410					73,410
Other	70,357					70,357
Public safety:						
Police	238,867					238,867
Fire	30,844					30,844
Public works:						
Highways and streets	317,995					317,995
Solid waste collection/disposal	10,862					10,862
Weed control	4,856					4,856
Health and welfare:						
West Nile protection	4,395					4,395
Ambulance	114,866					114,866
Culture and recreation:						
Recreation	26,917					26,917
Concert	7,356					7,356
Pool	54,939					54,939
Senior citizens	5,040					5,040
Parks	25,828					25,828
Library	39,135			1,435		40,570
Museum	5,362					5,362
Conservation and development:						
Economic development	38,211					38,211
Debt service: principal		70,385			14,100	84,485
interest		14,714			423	15,137
Capital outlay	40,826	147,691	28,930			217,447
Total expenditures	1,137,766	232,790	28,930	1,435	14,523	1,415,444
Excess of revenues over (under) expenditures	435,904	32,713	63,024	(332)	(10,917)	520,392

(continued)

CITY OF LENNOX

STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS (continued)
 FOR THE YEAR ENDING DECEMBER 31, 2013

	General Fund	2nd Cent Fund	Storm Drainage Fund	Library Fines Fund	2002 Special Assessment Fund	Total Governmental Funds
Other financing sources (uses):						
Transfer in	56,939		12,740		10,917	80,596
Transfer (out)		(113,758)				(113,758)
Compensation for property damage	3,511					3,511
Net change in fund balance	496,354	(81,045)	75,764	(332)	0	490,741
Fund balance:						
January 1, 2013	1,520,313	493,162	199,148	740	0	2,213,363
December 31, 2013	2,016,667	412,117	274,912	408	0	2,704,104

Reconciliation of the above statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities.

Net change in fund balances - total governmental funds (above)						490,741
Governmental funds report capitalized cost as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation. Therefore:						
Add 2013 capitalized costs						217,446
Subtract 2013 depreciation						(373,175)
Some property taxes will not be collected for several months after the City's year-end. Therefore, they are not considered "available" revenues and are deferred in the governmental funds statement. - general fund						(41,466)
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.						
- general fund						(31,964)
- 2nd cent fund						(38,175)
- storm drainage fund						(12,978)
- 2002 special assessment fund						(5,113)
Bond and other long-term debt proceeds are reported as other financing sources in governmental funds statement. However, in the statement of net position, issuing debt increases long-term liabilities and does not effect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position. Therefore:						
Subtract:						
None						
Add:						
2006 financing capital acquisition lease payments						70,385
2003 special assessment street improvement bond payments						14,100
Governmental funds do not reflect the change in compensated absences, but the statement of activities reflects the change in compensated absences through expenditures.						(17,410)
Change in net position on government-wide statement of activities						272,391

See accompanying notes.

CITY OF LENNOX

STATEMENT OF NET POSITION - ENTERPRISE FUNDS
AS OF DECEMBER 31, 2013

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
Assets:			
Current assets:			
Cash and cash equivalent	578,184	452,062	1,030,246
Receivables:			
Other governments	141,183	21,451	162,634
Accounts	39,667	36,091	75,758
Inventory of supplies	9,603	1,175	10,778
Deposits	-----	500	500
Total current assets	768,637	511,279	1,279,916
	-----	-----	-----
Capital assets:			
Land	99,110	34,431	133,541
Buildings	204,604	4,007,963	4,212,567
Improvements	5,769,653	2,518,799	8,288,452
Equipment	871,239	558,778	1,430,017
Less: accum depreciation	(1,651,954)	(1,486,885)	(3,138,839)
Construction-in-progress	586,592	43,317	629,909
	-----	-----	-----
Total capital assets	5,879,244	5,676,403	11,555,647
	-----	-----	-----
Contractual water rights	596,053	-----	596,053
	-----	-----	-----
Total assets	7,243,934	6,187,682	13,431,616
	=====	=====	=====
Liabilities:			
Current liabilities:			
Accounts payable	58,705	3,414	62,119
Accrued payroll	3,293	2,880	6,173
Accrued interest payable	19,002	11,917	30,919
Leave liability	5,769	5,769	11,538
Noncurrent liabilities due in one year:			
SRF loans	54,146	38,722	92,868
Water revenue bonds	25,000	-----	25,000
	-----	-----	-----
Total current liabilities	165,915	62,702	228,617
	-----	-----	-----
Noncurrent liabilities:			
SRF loans	1,913,295	1,721,280	3,634,575
Water revenue bonds	500,000	-----	500,000
	-----	-----	-----
Total liabilities	2,579,210	1,783,982	4,363,192
	=====	=====	=====
Net position:			
Net invested in capital assets	3,352,942	3,904,484	7,257,426
Restricted, debt service	121,476	95,453	216,929
Unrestricted	1,190,306	403,763	1,594,069
	-----	-----	-----
Total net position	4,664,724	4,403,700	9,068,424
	=====	=====	=====

See accompanying notes.

CITY OF LENNOX

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN NET POSITION - ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2013

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
Operating revenue:			
Charges for goods and services	492,418	402,607	895,025
	-----	-----	-----
Total operating revenue	492,418	402,607	895,025
	-----	-----	-----
Operating expenses:			
Personal services	97,809	116,252	214,061
Other current costs	212,020	84,385	296,405
Depreciation	153,696	223,092	376,788
	-----	-----	-----
Total operating expenses	463,525	423,729	887,254
	-----	-----	-----
Total operating income (loss)	28,893	(21,122)	7,771
Nonoperating revenue (expense):			
Rents	1,500		1,500
Interest expense and fees	(91,820)	(52,315)	(144,135)
	-----	-----	-----
Total nonoperating revenue (expense)	(90,320)	(52,315)	(142,635)
Income (loss) before transfers and capital contributions	(61,427)	(73,437)	(134,864)
Transfer in		33,162	33,162
Capital contributions:			
Federal grant - FEMA	107,257	21,451	128,708
Federal grant - debt forgiveness	139,226		139,226
Federal grant - Small Community Planning		10,000	10,000
State grant - debt forgiveness	204,313		204,313
	-----	-----	-----
Change in net position	389,369	(8,824)	380,545
Net position:			
January 1, 2013	4,122,354	4,502,455	8,624,809
Correction of prior period errors:			
Capitalize drinking water project cost	153,001		153,001
Remove deferred special assessments		(89,931)	(89,931)
	-----	-----	-----
January 1, 2013, adjusted	4,275,355	4,412,524	8,687,879
	-----	-----	-----
December 31, 2013	4,664,724	4,403,700	9,068,424
	=====	=====	=====

See accompanying notes.

CITY OF LENNOX

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2013

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
Cash flows from:			
Operating activities:			
Receipts from:			
customers	492,999	390,694	883,693
Payments to:			
employees	(89,648)	(110,230)	(199,878)
suppliers	(163,767)	(143,155)	(306,922)
Net cash provided (used)			
by operating activities	239,584	137,309	376,893
Noncapital financing activities:			
Transfer in		33,162	33,162
Capital financing activities:			
Federal grants	120,159	10,000	130,159
State grant	204,313		204,313
SRF loan proceeds	252,882		252,882
Cash paid for equipment	(150,159)	(22,901)	(173,060)
Cash paid for construction	(429,938)	(43,317)	(473,255)
Principal paid on debt	(72,916)	(53,548)	(126,464)
Interest paid on debt	(80,325)	(40,398)	(120,723)
Investing activities:			
Rents	1,500		1,500
Net increase (decrease)			
in cash	85,100	20,307	105,407
Cash and equivalents:			
January 1, 2013	493,084	431,755	924,839
December 31, 2013	<u>578,184</u>	<u>452,062</u>	<u>1,030,246</u>
Reconciliation of operating			
income (loss) to net cash provided			
(used) by operating activities:			
Operating income (loss)	28,893	(21,122)	7,771
Depreciation	153,696	223,092	376,788
(Increase) decrease in:			
Receivables	581	(11,913)	(11,332)
Prepaid expenses	26,154		26,154
Increase (decrease) in:			
Accounts payable	22,099	(58,770)	(36,671)
Accrued payroll payable	3,293	760	4,053
Accrued leave payable	4,868	5,262	10,130
Net cash provided (used)			
by operating activities	<u>239,584</u>	<u>137,309</u>	<u>376,893</u>
Noncash investing, capital			
and financing activities: None			

See accompanying notes.

CITY OF LENNOX

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
- AGENCY FUND
AS OF DECEMBER 31, 2013

	Sec 125 Plan Fund -----
Assets:	
Cash	59 -----
Total assets	59 =====
Liabilities:	
Due to others	59 -----
Total liabilities	59 =====

See accompanying notes.

CITY OF LENNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Lennox conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Reporting Entity:

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

The City's officials at December 31, 2013 are:

Governing Board:	Finance Officer:
Orville Wiebers, Mayor	Jerry Jones
Michael Gregg, President	
Glenn Nelson	Attorney:
Russ Nelson	Brett Lovrein
Darin Olson	
Greg Poppenga	
Tracy West	

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

Financial Reporting Entity:

Primary Government: - The City of Lennox
Component Unit: - Lennox Housing and Redevelopment Commission

To determine the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The reporting entity of the City of Lennox consists of (1) the primary government, which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; (2) those organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the City (the primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City unless that organization can, without the approval of the City: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

Aggregate discretely presented component units are reported in a separate column to emphasize that it is legally separate from the City.

Based upon the application of these criteria the City of Lennox has two component units: the Lennox Housing and Redevelopment Commission and Lennox Area Ambulance Squad, Inc.

The Lennox Housing and Redevelopment Commission (LHRC) represent 100% of the balances and activity of the aggregate discretely presented component units column of these financial statements. LHRC is organized to provide housing through the operation of a rental housing complex. LHRC is a Housing and Redevelopment Commission, established under SDCL 11-7-7. Financial information about LHRC is available at Lennox City Hall.

The Lennox Area Ambulance Squad, Inc. (LAAS) represents 0% of the balances and activity of the aggregate discretely presented component units column of these financial statements. LAAS is organized to provide ambulance services in the Lennox Area. LAAS is a non-profit corporation, established in July 1998. LAAS financial information was not available for these financial statements.

b. Basis of Presentation:

Government-wide Financial Statements:

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements 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 good and services.

The Statement of Net Position reports all financial and capital resources, in a net position form (assets minus liabilities equal net position). Net position is displayed in three components, as applicable: net invested in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

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

Fund Financial Statements:

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

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

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

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

Governmental Funds

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

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 City has the following special revenue funds:

2nd Cent Sales Tax Fund - A fund to account for the receipts of the 2nd cent sales tax. It can be used for any purpose. The 2nd cent sales tax fund is a major fund.

Storm Drainage Assessment Fund - A fund to account for the collection and disbursement of funds from storm drainage projects. The storm drainage assessment fund is a major fund.

Library Fines Fund - A fund to account for the collection and disbursement of funds from library fines. The library fines fund is 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. The City has the following debt service funds:

Special Assessment Funds - During 2012 the City had one special assessment funds to account for payments from property owners for the principal and interest payments on the 2003 Special Assessment Street Improvement Bonds. This bond was paid-off in 2013. This special assessment fund is a major fund.

Enterprise Funds

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

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

Sewer fund - A fund allowed by SDCL 9-48-2 to provide sewer services to customers within the City of Lennox. The sewer fund is a major fund.

Fiduciary Funds - Fiduciary are never considered to be major funds.

Agency funds: Agency funds are used to account for resources held by the City in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The City maintains an agency fund to account for employee withholdings for medical and daycare spending accounts under IRS Code Sec. 125.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "what" 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:

Both governmental and business-type activities are presented using the "economic resources" measurement focus, applied on the accrual basis of accounting.

The "economic resources" measurement focus includes all assets and liabilities (whether current or noncurrent, financial, or nonfinancial) on the balance sheet. Operating statements use the flow of all economic resources to present operating income, changes in net position, and cash flows during the accounting period. This measurement focus uses the term "net position" to describe its equity at the end of the accounting period.

Fund Financial Statements:

All governmental funds are presented using the "current financial resources" measurement focus and the modified accrual basis of accounting.

The "current financial resources" measurement focus includes only current financial assets and liabilities on the balance sheet. Operating statements present sources and uses of available spendable financial resources during the accounting period. This measurement focus uses the term "fund balance" to describe its equity at the end of the accounting period. It is a measure of available spendable financial resources.

Enterprise and fiduciary funds are presented using the "economic resources" measurement focus (described above) and the accrual basis of accounting.

Basis of Accounting

Government-wide Financial Statements:

In the government-wide financial statements, the accrual basis of accounting is used for both governmental and business-type activities in the Statement of Net Position and Statement of Activities. Under the accrual basis of accounting, revenues and related assets generally 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:

In the fund financial statements, all governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally 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, which for the City is 30 days. The revenues which are accrued at December 31, 2013 are state shared revenue and other accounts receivable.

Under the modified accrual basis of accounting, receivables may be measurable but "not available". Not available means not collectible within the current period or soon enough thereafter (30 days) to be used to pay liabilities of the current period. Reported "deferred inflow of resources" are those where the asset recognition criteria has been met but for which the revenue recognition criteria has not been met because the receivable is not available.

Expenditures generally are 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. However, the City of Lennox budgets for, and makes payment of, debt obligations due on January 1st as of December 31st, the end of the City's fiscal year.

All enterprise funds and fiduciary funds are accounted for using the accrual basis of accounting, the same as in the government-wide financial statements. 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 grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net residual amounts due between governmental and business-type activities, which are presented as "Internal Balances" (if any).

Fund Financial Statements:

In the fund financial statements, noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

e. Interfund Transactions:

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

f. Cash and Cash Equivalents:

The City essentially pools its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. Accordingly, all reported enterprise fund deposits and investments balances are considered to be cash equivalents for purposes of the Statement of Cash Flows.

g. Capital Assets and Infrastructure Assets:

Capital assets include land, buildings, improvements, and equipment, and all other tangible or intangible assets that are used in operations, which 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. *Infrastructure assets*, if any, are classified as "Improvements Other than Buildings."

Government-wide Financial Statements:

In the government-wide financial statements, capital assets are accounted for on the accrual basis of accounting. Capital asset purchases are capitalized and not expensed. Instead, capital purchases are expensed over the life of the asset as depreciation or amortization.

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost is not available. 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. After an item has been capitalized, subsequent improvements or betterments that are significant, and which extend the useful life of the item, are also capitalized.

The total December 31, 2013 balance of capital assets for governmental activities include approximately 5% for which the costs were determined by estimates of the original costs. The total December 31, 2013 balance of capital assets for business-type activities includes approximately 5% for which the costs were determined by estimates of the original costs. Estimated original costs were established by basing the estimates on a comparison to historical costs of similar items.

Interest cost incurred during construction of general capital assets are not capitalized with other capital asset cost. Interest cost incurred during construction of enterprise capital assets are capitalized with other capital asset cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities and the enterprise fund statement of revenue, expenses and changes in fund net position. Accumulated depreciation is reported on the government-wide statement of net position and on the enterprise fund's statement of net position. See also page 35.

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

	Capitalization Threshold	Depreciation Method	Estimated Life in Years
	-----	-----	-----
Land	All		NA
Buildings	500	Straight-line	25-75
Improvements	25,000	Straight-line	25-75
Equipment	5,000	Straight-line	7-10

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

Capital assets and related depreciation expenses are not recorded in governmental funds of the fund financial statements because these funds have a "current financial resources" measurement focus. Instead, these funds report capital asset acquisitions as capital outlay expenditures.

Capital assets and related depreciation expenses are recorded on the accrual basis of accounting in the proprietary funds of the fund financial statements, the same as in the government-wide statements.

h. Long-term Liabilities:

Government-wide Financial Statements:

In the government-wide financial statement, all long-term liabilities to be repaid from governmental or business-type resources are reported as liabilities. Long-term liabilities primarily consist of bonds and loans payable, capital lease/purchases and accrued leave payable.

Fund Financial Statements:

In the fund financial statements, governmental debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. Enterprise fund long-term debt is reported as a liability, the same as in the government-wide statements.

i. Program Revenues and General Revenues and Deferred Inflows and Deferred Outflows of Resources:

Program Revenue

In the government-wide Statement of Activities, reported 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 contribution - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contribution - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

General Revenue

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

Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources (if any). 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 (if any). 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. Enterprise Fund Revenue and Expense Classifications:

In the government-wide and fund financial statements, enterprise 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. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as "Net Position" and is displayed in three components:

1. Net Invested 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 payable, capitalized leases payable, 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 its use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position - Other net position that does not meet the criteria of 1 or 2 above.

Fund Financial Statements:

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

1. Fund Balance Classification Policies and Procedures:

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

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

The City of Lennox fund balance classifications are made up of:

<u>Fund Balance</u> <u>Classifications</u>	<u>Account</u> <u>or Fund</u>	<u>Authority</u> <u>or Action</u>	<u>Amount</u>
Nonspendable	Vested insurance deposit	Contract	35,224
Restricted	Pool improvements	Donor stipulation	340
	2002 special assessment	Covenant	0
Committed	None		0
Assigned	General: Unemployment	Resolution	9,836
	2nd cent uses	Resolution	412,117
	Storm drainage fund	Resolution	274,912
	Library uses	Resolution	408
Unassigned	General		1,971,267

			2,704,104

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

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

The purpose of each special revenue fund and revenue source is:

Special Revenue Fund:	Revenue Source: (see page 14)
* 2nd Cent	Sales tax
* Storm Drainage	Special assessments and grants
* Library Fines	Fines and donations
* 2002 Special Assessment	Special assessments

m. Application of Net Position:

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

n. Allowance for Doubtful Accounts:

Because write-off of uncollected taxes and utility billings is minimal. However, a small estimated allowance for doubtful accounts of \$3,300 was established for utility billings.

o. Accounting Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimates. Following are the estimates made by management during the year:

- * Allowance for doubtful accounts - estimated uncollectables
- * Inventory - estimated fair market value
- * Depreciation - estimated service lives

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund. In 2013 the City went over its general fund police budget by \$3,678; its solid waste collection/weeds budget by \$1,248; and over its library budget by \$1,012. In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation. These budget overdrafts are not considered a material or significant finding with respect to these financial statements.

3. DEPOSITS AND RELATED RISKS

The City follows the practice of aggregating deposits of its various funds for cash management efficiency and returns, except for restricted cash held by 3rd parties and certificates of deposits purchased for an individual fund.

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

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

Actual bank balances at December 31, 2013 were as follows: Insured \$750,408, Collateralized ** \$2,984,795, for a total of \$3,735,203.

** Uninsured, collateral jointly held by state's/municipality's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits plus \$100 of petty cash at December 31, 2013 was \$3,695,507.

Certificates of deposit, with a term to maturity of greater than 90 days when purchased, are insured or collateralized and are considered deposits.

Custodial 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. At December 31, 2013 the City was not exposed to custodial risk for deposits.

Concentration of Credit Risk - the City places no limit on the amount that may be invested in any one institution. All of the City's deposits are at Valley Exchange Bank and Home Federal Bank.

4. INVESTMENTS AND RELATED RISKS

In general, SDCL 4-5-6 permits City money to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

During 2013 the City had no investment.

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

Custodial Investment Risk - The risk that, in the event of failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The City had no investments during the year ending December 31, 2013 and was not exposed to custodial investment risk.

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

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

5. RECEIVABLES AND PAYABLES

The financial statements do not aggregated receivables or payables. The City expects all receivables to be collected within one year.

6. INVENTORY OF SUPPLIES AND SMALL TOOLS

Government-wide Statements: (consumption method)

In the government-wide financial statements inventory of supplies and small tools are recorded as assets when purchased and charged to expense when they are consumed. Inventory of supplies and small tools are recorded at cost. Donated items are valued at estimated market value at the date of receipt. Items are accounted for by specific identification.

Fund Financial Statements: (consumption method)

In the fund financial statements inventory of supplies and small tools are recorded as assets when purchased and charged to expenditure/expense when they are consumed. Reported governmental inventories are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Inventory of supplies and small tools are recorded at cost. Donated items are valued at estimated market value at the date of receipt. Items are accounted for by specific identification.

7. CHANGES IN CAPITAL ASSETS (see schedule one on page 35)

A summary of the changes in capital assets is presented in schedule one at the end of these notes. At December 31, 2013 there was construction-in-progress of \$629,909 for water and sewer improvements, including \$3,653 in capitalized interest.

8. CHANGES IN LONG-TERM DEBT (see schedule two on page 36 and 37)

A summary of changes in long-term liabilities is presented in schedule two at the end of these notes.

The City did not have any short-term or conduit debt during 2013.

9. RESTRICTED CASH

At December 31, 2013 the general fund has cash of \$340 that is restricted for pool improvements.

10. RESTRICTED NET POSITION

Restricted net position at December 31, 2013 are as follows:

Purpose:	Restricted By:	Governmental	Business-Type
Capital projects	Contract	784,218	
Debt service	Covenant	316	216,929
Insurance deposit	SDPAA Contract	35,224	
		-----	-----
Total Restricted Net Position		819,758	216,929

11. FUTURE REVENUES PLEDGED TO SECURE DEBT

At December 31, 2013, water fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure a 2005 SRF loan which has a remaining balance of \$1,714,559. The loan was made to cover the cost of water improvements and is described on page 36. The loan will mature in 2037.

At December 31, 2013, water fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure a 2009 Water revenue bond which has a remaining balance of \$525,000. The loan was made to purchase contractual water rights to the Lewis and Clark Rural Water System and is described on page 36. The loan will mature in 2029.

At December 31, 2013, water fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure a 2012 Water SRF drinking water loan which has a remaining balance of \$252,883. The loan was made to make water improvements and is described on page 36. The loan will mature in 2034.

In 2013 the water fund had net operating revenue of \$182,589 before depreciation of \$153,696 to cover principal and interest payments of \$153,241 on these water loans.

At December 31, 2013, sewer fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure a 2010 SRF loan which has a remaining balance of \$1,760,002. The bond was issued to cover the cost of sewer improvements and is described on page 36. The bond will mature in 2042. In 2013 the sewer fund had net operating revenue of \$201,970 before depreciation of \$223,092 to cover principal and interest payments of \$93,946 on this bond.

12. INTERFUND TRANSFERS AND BALANCES

At December 31, 2013, there are no interfund "due from" "due to" amounts.

Net transfers "in" and "(out)" between funds are:

	Governmental	Enterprise
For operations:		
General	56,939	
2nd cent	(113,758)	
Storm drainage	12,740	
2002 special assessment	10,917	
Sewer		33,162
	-----	-----
	(33,162)	33,162

13. RETIREMENT PLAN

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

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent 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 years ending December 31, 2013, 2012, and 2011 were \$33,508, \$31,959, and \$28,106 (employer's share) respectively, equal to the required contribution each year.

There are no deferred contributions.

14. PROPERTY TAX

Taxes are levied on or before October 1, attach as an enforceable lien on property, become due and payable on the following January 1, and are payable in two installment on or before the following April 30 and October 31. The county bills and collects the City's taxes and remits them to the City.

Property taxes are recognized to the extent they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is intended to be used to finance the current year's appropriations, but which will not be collected during the current fiscal year or within the "availability period" of 30 days has been deferred in the fund financial statements as a "deferred inflow of resources". Property tax revenues intended to finance the current year's appropriations, and therefore susceptible to accrual, has been reported as revenue in the government-wide financial statements, even though collection will occur in a future year.

Delinquent property taxes, from prior year tax levies, are included in "net position" in the government-wide statement of activities but are deferred in the fund financial statements. Property taxes collected within the 30 day availability period are immaterial to these financial statements. See reconciliations on page 13 and 15.

15. RISK MANAGEMENT

The City is exposed to various risks of loss related to injuries to employees; torts; theft of or damage to property; errors and omissions of public officials; and natural disasters. During the one year ending December 31, 2013, the City managed its risks as follows:

Employee Health Insurance:

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides a deductible of \$500 per person and up to \$1,000 per family. The coverage includes a \$2,000,000 lifetime maximum payment per person.

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

Liability Insurance:

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

The agreement with the South Dakota Public Assurance Alliance provides that the above coverages will be provided to varying limits. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit.

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

At December 31, 2013 the City has vested benefits on deposit in the SDPAA Cumulative Reserve Fund of \$35,224.

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

Worker's Compensation:

The City joined the South Dakota Municipal League Workers' Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$300,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,750,000 per individual per incident.

The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospective rated policy and the premiums are accrued based on the ultimate cost of the experience to date of Fund members. The City may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs.

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

Unemployment Benefits

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

At December 31, 2013, less than \$10,000 of claims were filed or are outstanding. It is expected that additional claims of from \$5,000 to \$10,000 for unemployment benefits will be filed in 2014.

16. LITIGATION

At December 31, 2013, the City was a party to litigation. No determination can be made at this time regarding the potential outcome of these matters. However, as discussed in the risk management note above, the City has liability coverage for itself and its employees through South Dakota Public Assurance Alliance. Therefore, this litigation is not expected to have a potential material effect on the City's financial statements.

17. EXPENDITURE OF FEDERAL AWARDS

Federal awards received in 2013 were for the following expenditures:

	2013 Expenditures	2012 Expenditures
Safe Routs to School	2,497	
FEMA (winter storm)	14,593	
FEMA (emergency generator)	128,708	
Small Community Planning (clean water engineering study)	10,000	
SRF loan proceeds	266,517	86,159
	-----	-----
	422,315	86,159

18. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

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

The City has no significant related party activity.

The City does not offer any Other Post Employment Benefits.

In November 2013 the City passed a resolution to submit an application for an SRF loan not to exceed \$2,290,000 to finance a storm/sanitary sewer construction project.

In December 2013 the City passed a motion to contract for ambulance billing services from Ambill Associates.

In March 2014 the City passes a motion to approve a SD DOT Transportation Enhancement Grant Agreement for a shared use path along Highway 44 in the amount of \$490,000.

In March 2014 the City established a special revenue fund for the park and recreation department and an enterprise fund for a swimming pool project. The City will also be establishing an ambulance fund in 2015.

In March 2014 the City approved the design cost of \$12,500 for a Main Street storm/sewer upgrade of \$109,48; the design cost of \$70,000 for Rummel Avenue Street improvements of \$975,887; and the design cost of \$18,500 for various sidewalk and alley repairs of \$184,606.

In March 2014 the City purchased a 2004 International 7400 truck and Falls PR-1243 snow plow for \$64,096.

In March 2014 the City approved the purchase of a ball park scoreboard from Daktronics for \$43,945 for which the City received \$40,000 in donations.

In April 2014 the City approved a 38.7% Consolidated Water Facilities Construction Grant not to exceed \$1 million for the wastewater improvement project.

TIF #4 is estimated to pay off in 2016, which will then increase the City's property tax receipts by approximately \$100,000 per year.

The City will begin collecting a 3rd cent sales tax in July 2014.

CITY OF LENNOX

SCHEDULE OF CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDING DECEMBER 31, 2013

	Beginning 12-31-12	Adjustments	Additions	(Deletions)	Ending 12-31-13	Accumulated Depreciation 12-31-12	Adjustments	Depreciation (Additions)	Depreciation Deletions	Accumulated Depreciation 12-31-13	Remaining Cost 12-31-13
General capital assets:											
Land	140,371				140,371						140,371
Buildings	1,782,661				1,782,661	(531,111)		(40,158)		(571,269)	1,211,392
Improvements	2,914,645		28,929		2,943,574	(677,305)		(139,074)		(816,379)	2,127,195
Equipment	2,423,535		181,833		2,605,368	(1,682,792)		(185,687)		(1,868,479)	736,889
Library books	158,454		6,684		165,138	(109,030)		(8,256)		(117,286)	47,852
Totals	7,419,666	0	217,446	0	7,637,112	(3,000,238)	0	(373,175)	0	(3,373,413)	4,263,699

Current Year of Depreciation:

General government	4,600
Public safety	107,128
Public works	180,486
Health	21,833
Culture and recreation	59,128
Totals	373,175

	Beginning 12-31-12	Adjustments	Additions	(Deletions)	Ending 12-31-13	Accumulated Depreciation 12-31-12	Adjustments	Depreciation (Additions)	Depreciation Deletions	Accumulated Depreciation 12-31-13	Remaining Cost 12-31-13
Business-type activity:											
Enterprise funds:											
Land	133,541				133,541						133,541
Buildings	4,212,567				4,212,567	(271,484)		(139,285)		(410,769)	3,801,798
Improvements	8,288,452				8,288,452	(1,748,952)		(169,115)		(1,918,067)	6,370,385
Equipment	1,256,957		173,060		1,430,017	(741,615)		(68,388)		(810,003)	629,014
(1) Construction-in-progress	0		629,909	0	629,909	0				0	629,909
Totals	13,891,517	0	802,969	0	14,694,486	(2,762,051)	0	(376,788)	0	(3,138,839)	11,555,647

(1) Water improvements

CITY OF LENNOX

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO
 CHANGES IN LONG-TERM DEBT
 FOR THE YEAR ENDING DECEMBER 31, 2013

	Beginning 12-31-12	2013 Additions	2013 (Deletions)	Governmental Funds Ending 12-31-13	Enterprise Funds Ending 12-31-13	Principal Payments Due in 2014
GOVERNMENTAL						
2006 Financing (Capital Acquisition) Lease:						
Original price of \$801,598						
Down payment of \$140,000						
Maturing in November 2016						
Fixed interest at 4.86%						
For 2006 Pierce 100' ladder fire truck						
Annual payments of \$85,098						
Paid by 2nd cent sales tax fund	302,739		(70,385)	232,354		73,806
2003 Special Assessment Street Improvement Bonds:						
Original issue of \$110,000						
Maturing in July 2013						
Fixed interest at 6.00%						
For street improvements						
Annual payments of \$14,945						
Paid by special assessment fund	14,100		(14,100)	0		0
Leave liability:						
Paid by Governmental Funds	4,230	21,640	(4,230)	21,640		21,640
Total Governmental	<u>321,069</u>	<u>21,640</u>	<u>(88,715)</u>	<u>253,994</u>		<u>95,446</u>
BUSINESS-TYPE						
2005 SRF Drinking Water Loan:						
Original loan amount of \$2,000,000						
Maturing in April 2037						
Fixed interest at 3.25%						
For water improvements						
Quarterly payments of \$26,154						
Paid by the water fund	1,762,475		(47,916)		1,714,559	49,492
2009 Water Revenue Bonds:						
Original loan amount of \$615,000						
Maturing on November 1, 2029						
Interest from 2.75% to 4.50%						
To prepay Lewis & Clark Rural Water Project						
Annual payments of \$20,000 to \$45,000						
Paid by the water fund	550,000		(25,000)		525,000	25,000
2010 SRF Loan #04 - Wastewater Treatment Plant:						
Original loan amount of \$1,942,273						
Principal forgiven of \$122,945						
Maturing on January 15, 2042						
First payment October 15, 2012						
Interest at 3.25%						
For wastewater treatment plant improvements						
Quarterly payments of \$23,863.23						
Paid by the sewer fund	1,813,550		(53,548)		1,760,002	38,722
2012 SRF Loan - Drinking Water Revenue Bond:						
Original loan amount of \$712,431						
2013 loan disbursement of \$577,354						
Maturing on April 15, 2034						
First payment July 15, 2014						
Interest at 3.00%						
For waterworks improvements						
Quarterly payments of \$4,215						
Paid by the water fund	0	577,355	(324,472)		252,883	4,654
Leave liability:						
Paid by the enterprise funds	1,408	11,538	(1,408)		11,538	11,538
Total Business-Type	<u>4,127,433</u>	<u>588,893</u>	<u>(452,344)</u>		<u>4,263,982</u>	<u>129,406</u>

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO
 CHANGES IN LONG-TERM DEBT (continued)
 FOR THE YEAR ENDING DECEMBER 31, 2013

Payment Schedules for Long-Term Debt

	Total Payment	Principal	Interest	Balance
2006 Financing (Capital Acquisition) Lease:				
2014	85,098	73,806	11,292	158,547
2015	85,098	77,393	7,705	81,154
2016	85,098	81,154	3,944	0
	-----	-----	-----	
Totals	<u>255,294</u>	<u>232,353</u>	<u>22,941</u>	
2005 SRF Drinking Water Loan:				
2014	104,616	49,492	55,124	1,665,067
2015	104,616	51,120	53,496	1,613,947
2016	104,616	52,802	51,814	1,561,145
2017	104,616	54,539	50,077	1,506,606
2018	104,616	56,333	48,283	1,450,273
2019-2023	523,081	310,716	212,365	1,139,557
2024-2028	523,081	365,302	157,779	774,255
2029-2033	523,081	429,476	93,605	344,779
2034-2037	418,465	344,779	73,686	0
	-----	-----	-----	
Totals	<u>2,510,788</u>	<u>1,714,559</u>	<u>796,229</u>	
2009 Water Revenue Bonds:				
2014	47,437	25,000	22,437	500,000
2015	46,750	25,000	21,750	475,000
2016	45,688	25,000	20,688	450,000
2017	44,625	25,000	19,625	425,000
2018	48,562	30,000	18,562	395,000
2019-2023	233,475	160,000	73,475	235,000
2024-2028	226,363	190,000	36,363	45,000
2029	47,025	45,000	2,025	0
	-----	-----	-----	
Totals	<u>739,925</u>	<u>525,000</u>	<u>214,925</u>	
2010 SRF Loan #04 - Wastewater Treatment Plant:				
2014	95,453	38,722	56,731	1,721,280
2015	95,453	39,995	55,458	1,681,285
2016	95,453	41,311	54,142	1,639,974
2017	95,453	42,670	52,783	1,597,304
2018	95,453	44,074	51,379	1,553,230
2019-2023	477,264	243,098	234,166	1,310,132
2024-2028	477,265	285,804	191,461	1,024,328
2029-2033	477,264	336,013	141,251	688,315
2034-2038	477,265	395,043	82,222	293,272
2039-2042	310,221	293,272	16,949	0
	-----	-----	-----	
Totals	<u>2,696,544</u>	<u>1,760,002</u>	<u>936,542</u>	
2012 SRF Loan - Drinking Water Revenue Bond:				
2014	8,430	4,654	3,776	248,228
2015	16,860	9,520	7,340	238,708
2016	16,860	9,809	7,051	228,899
2017	16,860	10,106	6,754	218,793
2018	16,861	10,413	6,448	208,380
2019-2023	84,302	57,000	27,302	151,380
2024-2028	84,302	66,188	18,114	85,192
2029-2033	84,302	76,856	7,446	8,336
2034	8,430	8,336	94	0
	-----	-----	-----	
Totals	<u>337,207</u>	<u>252,882</u>	<u>84,325</u>	

CITY OF LENNOX

 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2013

GENERAL FUND	Budget Amounts				Actual	Variance Positive (Negative)
	Original	Contingency Transfers	Supplementals	Final		
Revenue:						
Revenue from local sources:						
Taxes:						
Ad valorem taxes	852,600			852,600	957,937	105,337
Sales and use tax	190,000			190,000	236,401	46,401
Gross receipts				0	2,666	2,666
Amusement taxes	264			264	240	(24)
Licenses and permits:	17,925			17,925	16,932	(993)
Intergovernmental revenue:	48,000			48,000		(48,000)
Federal shared revenue:						
Grants					17,091	17,091
State shared revenue:						
Bank franchise tax					6,139	6,139
Motor vehicle comm prorata					1,045	1,045
Liquor tax reversion					14,250	14,250
Motor vehicle licenses (5%)					10,102	10,102
Highway and bridge					27,427	27,427
County shared revenue					5,267	5,267
Charges for goods and services	105,560			105,560		(105,560)
General government					7,171	7,171
Public safety					490	490
Highways and streets					11,414	11,414
Refuse collection					3,987	3,987
Ambulance					146,138	146,138
Parks and recreation					39,011	39,011
Fines and forfeits:	800			800	2,420	1,620
Miscellaneous revenue:	66,200			66,200		(66,200)
Interest earned					15,691	15,691
Rentals and franchise					25,013	25,013
Donations					3,100	3,100
Special assessments					23,738	23,738
Total revenues	1,281,349	0	0	1,281,349	1,573,670	292,321
Expenditures:						
General government:						
Mayor and Council	32,731	3,100		35,831	27,700	8,131
Contingency	25,000			25,000		25,000
Amount transferred		(16,400)		(16,400)		(16,400)
Elections	750			750		750
Financial administration	80,048			80,048	73,410	6,638
Other	61,632	9,000		70,632	70,357	275
Public safety:						
Police	269,331			269,331	273,009	(3,678)
Fire	35,650			35,650	30,844	4,806
Public works:						
Highways and streets	358,594	2,750		361,344	317,995	43,349
Solid waste collection/weeds	13,420	1,050		14,470	15,718	(1,248)
Health and welfare:						
Insect control	6,930			6,930	4,395	2,535
Ambulance	123,828			123,828	114,866	8,962
Culture and recreation:						
Recreation	160,293			160,293	94,252	66,041
Parks	32,384			32,384	25,828	6,556
Library	44,307	500		44,807	45,819	(1,012)
Museum	6,600			6,600	5,362	1,238
Economic development:	89,250			89,250	38,211	51,039
Total expenditures	1,340,748	0	0	1,340,748	1,137,766	202,982
Excess of revenues over (under) expenditures	(59,399)	0	0	(59,399)	435,904	495,303
Other financing sources (uses):						
Transfer in					56,939	56,939
Compensation for damaged property					3,511	3,511
Net change in fund balance	(59,399)	0	0	(59,399)	496,354	555,753
Fund balance:						
January 1, 2013	1,520,313			1,520,313	1,520,313	0
December 31, 2013	1,460,914	0	0	1,460,914	2,016,667	555,753

CITY OF LENNOX

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2013

2ND CENT FUND SPECIAL REVENUE FUND	Budget Amounts			Actual	Variance Positive (Negative)
	Original	Supplemental:	Final		
Revenue:					
Revenue from local sources:					
General sales and use taxes	190,960		190,960	236,401	45,441
Miscellaneous revenue:	29,105		29,105		(29,105)
Interest earned			0	6,832	6,832
Special assessments			0	22,270	22,270
Total revenues	220,065	0	220,065	265,503	45,438
Expenditures:					
Highways and streets	92,500		92,500		92,500
Health and welfare: Ambulance	150,000		150,000	147,691	2,309
Debt service	85,099		85,099	85,099	0
Total expenditures	327,599	0	327,599	232,790	94,809
Excess of revenues over (under) expenditures	(107,534)	0	(107,534)	32,713	140,247
Other financing sources (uses):					
Transfer (out)	0		0	(113,758)	(113,758)
Net change in fund balance	(107,534)	0	(107,534)	(81,045)	26,489
Fund balance:					
January 1, 2013	493,162		493,162	493,162	0
December 31, 2013	385,628	0	385,628	412,117	26,489

STORM DRAINAGE FUND SPECIAL REVENUE FUND	Budget Amounts			Actual	Variance Positive (Negative)
	Original	Supplemental:	Final		
Revenue:					
Miscellaneous revenue:					
Interest earned			0	197	197
Special assessments	95,300		95,300	91,757	(3,543)
Total revenues	95,300	0	95,300	91,954	(3,346)
Expenditures:					
Highways and streets	84,500		84,500	28,930	55,570
Total expenditures	84,500	0	84,500	28,930	55,570
Excess of revenues over (under) expenditures	10,800	0	10,800	63,024	52,224
Other financing sources (uses):					
Transfer in	0		0	12,740	12,740
Net change in fund balance	10,800	0	10,800	75,764	64,964
Fund balance:					
January 1, 2013	199,148		199,148	199,148	0
December 31, 2013	209,948	0	209,948	274,912	64,964

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND, 2ND CENT FUND
AND THE STORM DRAINAGE FUND FOR THE YEAR ENDING DECEMBER 31, 2013

1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the required supplementary information:

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental appropriations. During 2013 there were no supplemental appropriations to increase the general fund's budget. See page 38.
- e. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board. There were no encumbered appropriations at December 31, 2013.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general fund.

- f. Formal budgetary integration is employed as a management control device for the general fund, 2nd cent fund, and storm drainage fund.
- g. Budgets for the general fund, 2nd cent fund, and storm drainage fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

2. GAAP and Budgetary Accounting Basis Difference:

The financial statements prepared in conformity with U.S. GAAP 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 road grader would be reported as a capital expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances. However, in the budgetary RSI schedule, the purchase of a road grader would be reported as an expenditure in the public works function of general fund, along with all other current public works expenditures.

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

Governing Board
City of Lennox
Lennox, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lennox (City), Lincoln County, South Dakota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated June 19, 2014 which was modified for beginning balances and the absence of a component unit. My report includes a reference to other auditors who audited the financial statements the Lennox Housing and Redevelopment Commission, as described in my report on the City of Lennox's financial statements. This report does not include the results of the other auditors' testing of compliance and other matters or of internal control over financial reporting that are reported on separately by those auditors.

Compliance and Other Matters:

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

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

However, I did note minor matters involving compliance that I reported to the governing body and management of the City of Lennox in a separate Letter of Comments dated June 19, 2014.

Internal Control Over Financial Reporting

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

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

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

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

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

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

Management's response to the finding identified in my audit is described in the accompanying schedule of current audit findings and responses. I did not audit the management response and, accordingly, I express no opinion on it.

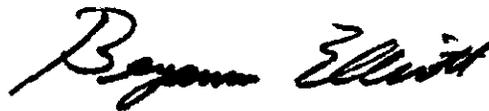
I did note other matters involving internal control that I reported to the governing body and management of the City of Lennox in a separate Letter of Comments dated June 19, 2014.

Purpose of this Report

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

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

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



June 19, 2014

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit finding: None

Prior Other Audit Findings:

2012-01: Bank Reconciliations -- Corrected

2012-02: Preparation of Financial Statements -- Repeated below

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Finding 2013-01: Preparation of Financial Statements
(internal control)

Criteria:

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

Condition:

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

Effect:

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

Recommendation:

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

Management Response:

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