

CITY OF CROOKS

AUDIT REPORT

DECEMBER 31, 2013

**CITY OF CROOKS
TABLE OF CONTENTS**

	Page
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1-2
Independent Auditor's Report	3 -5
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
Statement of Net Position as of December 31, 2013	6
Statement of Activities for the Year ended December 31, 2013	7-8
FUND FINANCIAL STATEMENTS	
Balance Sheet-Governmental Funds as of December 31, 2013	9
Reconciliation of the Governmental Funds Balance Sheet To the Statement of Net Position	10
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds-for the Year ended December 31, 2013	11-12
Reconciliation of the Statement of Revenues, Expenditures And Changes in Fund Balance to the Government-wide Statement of Activities	13
Statement of Net Position-Proprietary Funds as of December 31, 2013	14-17
Statement of Revenues, Expenses and Changes in Fund Net Position-Proprietary Fund-for the Year ended December 31, 2013	18-19
Statement of Cash Flows Proprietary Funds-for the Year Ended December 31, 2013	20-21
Notes to Financial Statements	22-45
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	46-49
Notes to Required Supplementary Information	50
Schedule of Current Audit Findings	51
Schedule of Prior Audit Findings	52

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

City Council
City of Crooks
Crooks, South Dakota

I have audited, in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Crooks, South Dakota, as of December 31, 2013, and for the year then ended, and the related notes to financial statements which collectively comprise the City's basic financial statements, and have issued my report thereon dated March 6, 2014.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Crooks's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, 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 instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

City's Response to Findings

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

Purpose of the Report

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



March 6, 2014

Gary L. Larson, CPA

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Crooks
Crooks, South Dakota

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

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 an opinion 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

OPINIONS

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

OTHER MATTERS

Required Supplementary Information:
Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules on pages 46 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical 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 information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

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

OTHER REPORTING REQUIRED BY GOVERNMENTAL AUDITING STANDARDS

In accordance with the *Government Auditing Standards*, I have also issued my report dated March 6, 2014 on my consideration of the City of Crooks's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City's internal control over financial reporting and compliance.



March 6, 2014

CITY OF CROOKS
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	Governmental Activities	Business-type Activities	TOTAL
ASSETS:			
Cash and cash equivalents	\$287,727	\$1,055,183	\$1,342,910
Receivables	14,914	158,185	173,099
Inventory — <i>A</i>	5,234	17,396	22,630
Restricted Assets:			
Restricted Cash and cash equivalents	30,960	83,000	113,960
Deposits	4,509	0	4,509
Capital assets:			
Land	72,000	177,293	249,293
Other capital assets, net of depreciation	636,051	2,772,371	3,408,422
TOTAL ASSETS	\$1,051,395	\$4,263,428	\$5,314,823
LIABILITIES:			
Accounts payable	\$6,131	\$86,505	\$92,636
Other current liabilities	0	43,550	43,550
Noncurrent liabilities:			
Due within one year	5,305	169,188	174,493
Due in more than one year	83,423	1,083,499	1,166,922
TOTAL LIABILITIES	94,859	1,382,742	1,477,601
NET POSITION:			
Net Investment in Capital Assets	619,323	1,696,977	2,316,300
Restricted for:			
Debt service	30,960	83,000	113,960
Economic development	5,638	0	5,638
Insurance	4,509	0	4,509
Unrestricted	296,106	1,100,709	1,396,815
TOTAL NET POSITION	\$956,536	\$2,880,686	\$3,837,222

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

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

Functions/Programs	Expenses	PROGRAM REVENUES	NET
		Charges for Services	Governmental Activities
Governmental Activities:			
General government	\$52,213	\$0	(\$52,213)
Public safety	74,450	300	(74,150)
Public works	141,616	41,247	(100,369)
Health and welfare	1,310	0	(1,310)
Culture and recreation	70,569	0	(70,569)
Conservation and development	11,305	0	(11,305)
*Interest on long-term debt	9,694	0	(9,694)
TOTAL GOVERNMENTAL ACTIVITIES	361,157	41,547	(319,610)
Business-type Activities:			
Water	150,391	162,787	0
Sewer	110,452	120,143	0
Gas	638,379	731,036	0
TOTAL BUSINESS-TYPE ACTIVITIES	899,222	1,013,966	0
TOTAL	\$1,260,379	\$1,055,513	(\$319,610)

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

GENERAL REVENUES:	
Property taxes	194,179
Sales taxes	156,377
State shared revenues	24,851
Unrestricted investment earnings	241
Other general revenues	21,383
Total General Revenues	397,031
Change in Net Position	77,421
Net Position - beginning	879,115
NET POSITION -ending	\$956,536

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

(EXPENSE) REVENUE AND
CHANGES IN NET POSITION

Business-type Activities	Total
\$0	(\$52,213)
0	(74,150)
0	(100,369)
0	(1,310)
0	(70,569)
0	(11,305)
0	(9,694)
0	(319,610)

12,396	12,396
9,691	9,691
92,657	92,657
114,744	114,744

\$114,744	(\$204,866)
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0	194,179
0	156,377
0	24,851
5,356	5,597
0	21,383

5,356	402,387
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120,100	197,521
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2,760,586	3,639,701
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\$2,880,686	\$3,837,222
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CITY OF CROOKS
BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$313,315	\$5,372	\$318,687
Taxes receivable-			
Delinquent	2,278	0	2,278.00
Due from other governments	12,370	266	12,636.00
Inventory of supplies	5,234	0	5,234.00
Deposits	4,509	0	4,509.00
TOTAL ASSETS	\$337,706	\$5,638	\$343,344
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$6,131	\$0	\$6,131
 DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue - property taxes	2,278	0	2,278
 FUND BALANCES:			
Nonspendable	9,743	0	9,743
Restricted	30,960	5,638	36,598
Assigned	76,000	0	76,000
Unassigned	212,594	0	212,594
 Total Fund Balance	329,297	5,638	334,935
 TOTAL LIABILITIES, DEFERRED INFLOWS OF OF RESOURCES, AND FUND BALANCES	\$337,706	\$5,638	\$343,344

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

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

Total Fund Balances-Government Funds	\$334,935
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	708,051
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Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds	(88,728)
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Property taxes receivable are reported in the period to be financed by the property tax levy for both the governmental funds and the statement of net position, but in the funds statement the amounts that are not "available" (within a 30 day period) are offset with deferred revenue	<u>2,278</u>
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Net Position - Governmental Funds	<u><u>\$956,536</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

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

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$194,116	\$0	\$194,116
General sales taxes	140,837	8,818	149,655
Gross receipts tax	6,662	0	6,662
Amusement taxes	60	0	60
Penalties and interest	425	0	425
Licenses and permits	12,337	0	12,337
Intergovernmental Revenue			
State shared revenues	24,851	0	24,851
County shared revenues	1,818	0	1,818
Fines and Forfeits:			
Animal control fines	300	0	300
Miscellaneous Revenue			
Interest earned	241	0	241
Rentals	20,013	0	20,013
Street assessments	19,416	0	19,416
Contributions	250	4,000	4,250
Other	4,796	0	2,038
	<hr/>	<hr/>	<hr/>
Total Revenue	\$426,122	\$12,818	\$438,940
	<hr/>	<hr/>	<hr/>

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

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

	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures:			
General Government			
Legislative	\$13,298	\$0	\$13,298
Executive	2,299	0	2,299
Elections	970	0	970
Financial administration	26,504	0	26,504
Other	88,818	0	88,818
Public Safety			
Police	39,195	0	39,195
Fire	18,000	0	18,000
Other	14,959	0	14,959
Public Works			
Highways and streets	139,580	0	139,580
Health and Welfare			
Humane society	1,310	0	1,310
Culture and Recreation			
Parks	49,021	0	49,021
Auditorium	13,115	0	13,115
Conservation and Development			
Economic Development	0	11,305	11,305
Debt Service	105,063	0	105,063
Total Expenditures	512,132	11,305	523,437
Net Change in Fund Balances	(86,010)	1,513	(84,497)
FUND BALANCE JANUARY 1, 2013	415,307	4,125	419,432
FUND BALANCE, DECEMBER 31, 2013	\$329,297	\$5,638	\$334,935

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

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

Net Changes in Fund Balances-Total Governmental Funds (\$84,497)

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets
is allocated over their estimated useful lives and reported as
depreciation expense. This is the amount by which capital
outlays exceeded depreciation expense in the current period.

53,643

Repayment of bond principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the
statement of net position.

108,637

Property tax revenues are reported in the period to be financed by
the property tax levy for both the governmental funds and the
governmental activities, but in the funds statement, any amounts
that are not "available" are offset with deferred revenue.

(362)

Change in Net Position of Governmental Activities

\$77,421

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

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

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Gas Fund
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$218,380	\$242,577	594,226
Accounts receivable	11,842	9,798	136,545
Inventory of supplies	4,023	3,294	10,079
Total Current Assets	234,245	255,669	740,850
Noncurrent Assets:			
Restricted cash and cash equivalents	0	0	83,000
Capital Assets:			
Land	2,000	175,293	0
Buildings	13,000	0	0
Improvements other than buildings	1,375,093	705,487	1,743,772
Machinery and equipment	62,469	38,082	87,522
Accumulated Depreciation	(422,902)	(231,237)	(598,915)
Total Noncurrent Assets	1,029,660	687,625	1,315,379
TOTAL ASSETS	\$1,263,905	\$943,294	\$2,056,229

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

Total

\$1,055,183

158,185

17,396

1,230,764

83,000

177,293

13,000

3,824,352

188,073

(1,253,054)

3,032,664

\$4,263,428

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

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Gas Fund
LIABILITIES			
Current Liabilities:			
Accounts payable	\$4,481	\$331	\$81,693
Customer deposits	7,925	7,025	28,600
Bonds payable current:			
Revenue	8,914	17,354	140,000
Current portion of loan payable	2,920	0	0
Total Current Liabilities	24,240	24,710	250,293
Non-current Liabilities:			
Bonds payable:			
Revenue	134,392	340,559	575,000
Loan payable	33,548	0	0
Total Non-current Liabilities	167,940	340,559	575,000
NET POSITION			
Net investment in capital assets	849,886	329,712	517,379
Restricted net position restricted for:			
Revenue bond debt service	0	0	83,000
Unrestricted net position	221,839	248,313	630,557
TOTAL NET POSITION	\$1,071,725	\$578,025	\$1,230,936

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

Total

\$86,505
43,550

166,268

2,920

299,243

1,049,951

33,548

1,083,499

1,696,977

83,000

1,100,709

\$2,880,686

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

	ENTERPRISE FUND		
	Water Fund	Sewer Fund	Gas Fund
OPERATING REVENUES:			
Charges for goods and services	\$162,787	\$120,143	\$731,036
OPERATING EXPENSES:			
Personal services	20,594	21,903	52,261
Other current expense	33,603	46,740	134,269
Cost of goods sold	57,702	0	338,818
Depreciation	27,852	29,834	49,386
Total Operating Expenses	139,751	98,477	574,734
Operating Income (Loss)	23,036	21,666	156,302
Non-operating Revenue (Expense)			
Interest earned	179	0	5,177
Interest expense	(10,640)	(11,975)	(63,645)
Total Non-operating Revenue (Expense)	(10,461)	(11,975)	(58,468)
Change in Net Postion	12,575	9,691	97,834
NET POSITION, BEGINNING	1,059,150	568,334	1,133,102
NET POSITION, ENDING	\$1,071,725	\$578,025	\$1,230,936

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

Total

\$1,013,966

94,758

214,612

396,520

107,072

812,962

201,004

5,356

(86,260)

(80,904)

120,100

2,760,586

\$2,880,686

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

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Gas Fund
Cash Flows from Operating Activities:			
Receipts from customers	\$164,044	\$120,103	\$844,801
Payments to suppliers	(90,781)	(46,350)	(440,276)
Payments to employees	(20,594)	(21,903)	(52,261)
Net Cash Provided by Operating Activities	52,669	51,850	352,264
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	0	0	(60,785)
Debt principal paid	(69,029)	(16,801)	(600,000)
Debt interest paid	(10,640)	(11,975)	(63,645)
Cash Flows from Investing Activities:			
Cash received for interest	179	0	5,177
Net Increase (Decrease) in Cash and Cash Equivalents	(26,821)	23,074	(366,989)
Cash and Cash Equivalents Beginning of Year	245,201	219,503	1,044,215
Cash and Cash Equivalents End of Year	\$218,380	\$242,577	\$677,226
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income	\$23,036	\$21,666	\$156,302
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	27,852	29,834	49,386
Changes in Assets and Liabilities:			
Receivables	307	(40)	113,065
Inventories	331	269	5,691
Accounts and other payables	1,143	121	27,820
Net Cash Provided by Operating Activities	\$52,669	\$51,850	\$352,264

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

Total

\$1,128,948
(577,407)
(94,758)
456,783

(60,785)
(685,830)
(86,260)

5,356

(370,736)

1,508,919

\$1,138,183

\$201,004

107,072

113,332
6,291
29,084

\$456,783

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the City of Crooks consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the reporting entity as a whole (the City). They include all funds of the reporting entity. The statements distinguish between the *governmental and business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

Business-type activities are financed in whole or in part by fees charged to external parties.

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

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Financial Statements:

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

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

Governmental Funds:

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

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Entertainment Tax Funds - to account for the 3rd cent sales tax on motel rooms, restaurants and bars which may only be used for the promotion of the City, land acquisition, civic centers and auditoriums and debt service related to these acquisitions (SDCL 10-52-8). This is not a major fund.

Proprietary Funds:

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

Water Fund a fund used to record financial transactions related to water utility operations. This fund is financed by user charges and grants. This is a major fund.

Sewer Fund a fund used to record financial transactions related to sewer operations. This fund is financed by user charges. This is a major fund.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Gas Fund a fund used to record financial transactions related to gas operations. This fund is financed by user charges. This is a major fund.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and,

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

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

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

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

d. Capital Assets:

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

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

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statement

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

The total December 31, 2013 balance of governmental activities capital assets includes approximately 20 percent for which the costs were determined by estimates of the original costs. The total December 31, 2013 balance of business-type capital assets includes 4 percent for which the costs were determined by estimation of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalk, drainage systems and lighting systems acquired prior to January 1, 2003, are not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2003 are recorded at cost, and classified as "Improvements other than Buildings".

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 0	-	-
Buildings	50,000	Straight-line	20-100 years
Improvements	25,000	Straight-line	15-50 years
Machinery and Equipment	5,000	Straight-line	4-20 years

Land, an inexhaustible capital asset, is not depreciated.

e. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

f. Cash Flows and Cash Equivalents:

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

g. Program Revenues:

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

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

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

h. Proprietary Funds Revenue and Expense Classifications:

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

i. Deferred Inflows and Deferred Outflows of Resources:

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

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

j. Equity Classifications:

Government-wide Statements:

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

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements:

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

k. 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 for purposes for which both restricted and unrestricted net positions are available.

l. Fund Balance Classification Policies and Procedures:

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

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

CITY OF CROOKS
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2013

	General Fund	Other Governmental Fund	Total Governmental Funds
Fund Balances:			
Nonspendable:			
Inventory	\$ 5,234	\$ -	\$ 5,234
Deposits	4,509	-	4,509
Restricted for:			
Debt service	30,960	-	30,960
Economic development	-	5,638	5,638
Assigned:			
To 2014 budget	76,000	-	76,000
Unassigned	<u>212,594</u>	<u>-</u>	<u>212,594</u>
Total Fund Balances	<u>\$329,297</u>	<u>\$ 5,638</u>	<u>\$334,935</u>

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits.

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

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

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

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

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.

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

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

As of December 31, 2013 the City has no investments as defined above.

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

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

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

3. DEFERRED INFLOWS OF RESOURCES

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

4. CHANGES IN FIXED ASSETS

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

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

4. CHANGES IN FIXED ASSETS (continued)

	Balance 1/1/13	Additions	Deletions	Balance 12/31/13
Governmental Activities:				
Capital Assets				
Not being				
Depreciated				
Land	\$ 72,000	\$ -	\$ -	\$ 72,000
Capital Assets				
Being Depreciated				
Buildings	473,879	81,053	-	554,932
Improvements	151,679	-	-	151,679
Equipment	295,140	18,502	-	313,642
Totals	<u>920,698</u>	<u>99,555</u>	<u>-</u>	<u>1,020,253</u>
Less accumulated				
Depreciation for:				
Building	93,400	13,379	-	106,779
Improvements	68,442	6,982	-	75,424
Equipment	176,448	25,551	-	201,999
Total	<u>\$ 338,290</u>	<u>\$ 45,912</u>	<u>\$ -</u>	<u>\$ 384,202</u>
Total Capital				
Assets being				
Depreciated-				
Net	<u>\$ 582,408</u>	<u>\$ 53,643</u>	<u>\$ -</u>	<u>\$ 636,051</u>
Governmental Activity				
Capital Assets				
Net	<u>\$ 654,408</u>	<u>\$ 53,643</u>	<u>\$ -</u>	<u>\$ 708,051</u>

Depreciation expense was charged to functions as follows:

General Government	\$ 1,377
Public Safety	2,296
Public Works	15,304
Culture and Recreation	26,935
	<u>\$ 45,912</u>

Business-type Activities:

Capital Assets				
Not being				
Depreciated				
Land	\$ 177,293	\$ -	\$ -	\$ 177,293

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

4. CHANGES IN FIXED ASSETS (continued)

5.

	Balance 1/1/13	Additions	Deletions	Balance 12/31/13
Capital Assets				
Being Depreciated				
Buildings	\$ 13,000	\$ -	\$ -	\$ 13,000
Improvements	3,824,352	-	-	3,824,352
Equipment	127,288	60,785	-	188,073
Totals	<u>3,964,640</u>	<u>60,785</u>	<u>-</u>	<u>4,025,425</u>
Less accumulated				
Depreciation for:				
Building	\$ 13,000	\$ -	\$ -	\$ 13,000
Improvements	1,024,631	89,391	-	1,114,022
Equipment	108,351	17,681	-	126,032
Total	<u>1,145,982</u>	<u>\$ 107,072</u>	<u>\$ -</u>	<u>\$1,253,054</u>
Total Capital				
Assets being				
Depreciated-				
Net	<u>\$ 2,818,658</u>	<u>\$ (46,287)</u>	<u>\$ -</u>	<u>\$2,772,371</u>
Business-type Activity				
Capital Assets				
Net	<u>\$ 2,995,951</u>	<u>\$ (46,287)</u>	<u>\$ -</u>	<u>\$2,949,664</u>

Depreciation expense was charged to functions as follows:

Water	\$ 27,852
Sewer	29,834
Gas	<u>49,386</u>
	<u>\$107,072</u>

5. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>Revenue</u>
Governmental Activities:	
Debt Payable,	
January 1, 2013	\$ 197,365
Retired	<u>(108,637)</u>

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

Debt payable,
December 31, 2013 \$ 88,728

Due within
One Year \$ 5,305

	<u>Revenue</u>	<u>Other</u>	<u>Total</u>
Business-type Activities:			
Debt Payable, January 1, 2013	\$1,889,230	\$39,287	\$1,938,517
Retired	<u>(683,011)</u>	<u>(2,819)</u>	<u>(685,830)</u>
Debt payable, December 31, 2013	<u>\$1,216,219</u>	<u>\$36,468</u>	<u>\$1,252,687</u>
Due within One Year	<u>\$ 166,268</u>	<u>\$ 2,920</u>	<u>\$ 169,188</u>

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

Governmental Activities:

Sales Tax Revenue Bonds - Series 2002
Interest rate of 5.0%, maturing October
2033. Retired by the General Fund \$ 88,728

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

BUSINESS-TYPE ACTIVITIES:

Revenue Bonds:

Series 2013 Gas Utility Revenue Refunding Bonds. Interest rates of .7% to 1.5% (depending on length to maturity of individual bonds), maturing annually to April 1, 2018, repaid by the Gas Utility Fund. The proceeds of this issue were used to to call and pay off the 2004 Gas Utility Revenue Bonds

\$ 715,000

Series 1999RD Water Utility Revenue Bonds. Interest rate of 5.0%, maturing August, 2039, repaid by the Water Fund

51,742

Series 2005 "State Revolving Fund" loan (Drinking Water #1). Due in quarterly installments of \$2,518.33, including 3.25% interest, maturing July 15, 2025, repaid by the Water Fund.

\$ 91,564

Series 2008, "State Revolving Fund" loan (Clean Water #1). 3.25% interest, maturing 2028, repaid by the Sewer Fund

357,913

Total Revenue Bonds

1,216,219

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

Other Debt:

Loan payable to Minnehaha County	
Rural Water, due in quarterly	
payments of \$1,044, including 3.5%	
interest, to April 15, 2024, repaid	
by the Water Fund	36,468

TOTAL BUSINESS-TYPE ACTIVITY DEBT	\$1,252,687
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The annual requirements to amortize all debt outstanding as of December 31, 2013:

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

Governmental Activities:

Year Ending December 31,	Principal	Revenue Interest	Total
2014	\$ 5,305	\$ 7,609	\$ 12,914
2015	5,567	7,345	12,912
2016	5,845	7,067	12,912
2017	6,136	6,776	12,912
2018	6,427	6,485	12,912
2019-2023	40,486	24,074	64,560
2024-2038	18,962	6,862	25,824
Total	\$ 88,728	\$ 66,218	\$ 154,946

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

Business-type Activities:

Year

Ending

December	Revenue		Other		Total	
31,	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 166,268	\$ 28,706	\$ 2,920	\$ 1,255	\$ 169,188	\$ 29,961
2015	167,177	26,607	3,025	1,150	170,202	27,757
2016	173,118	24,266	3,131	1,045	176,249	25,311
2017	174,090	21,698	3,247	929	177,337	22,627
2018	175,162	18,742	3,364	812	178,526	19,554
2019-2023	165,816	67,467	18,721	2,158	184,537	69,625
2024-2028	194,588	36,698	2,060	28	196,648	36,726
TOTAL	<u>\$1,216,219</u>	<u>\$ 224,184</u>	<u>\$36,468</u>	<u>\$ 7,377</u>	<u>\$1,252,687</u>	<u>\$ 231,561</u>

6. PROPERTY TAXES

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

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

7. RISK MANAGEMENT

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

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

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

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

7. RISK MANAGEMENT (continued)

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 includes a \$1,675,000 lifetime maximum payment per person.

The City does not carry additional health insurance coverage to pay claims in excess of this upper limit. 2013 is the first year of this coverage.

Workmen's Compensation:

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

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

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

7. RISK MANAGEMENT (continued)

Liability:

The City joined the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local administer and provide risk management services and risk government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for automobile and general liability.

The agreement with the South Dakota Public Assurance Alliance provided that the above coverage's will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. A City would be eligible to receive a refund of this under certain conditions. As of December 31, 2013, the City had a vested balance of \$4,509 in the reserve fund. The City carries a \$250 deductible for the automobile coverage and \$1,000 deductible for the general liability.

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

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

7. RISK MANAGEMENT (continued)

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota. During 2013 no claims were filed or paid for unemployment, or are any anticipated as of December 31, 2013.

8. RETIREMENT PLAN

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

General employees are required by the State statute to contribute 6% of their salary to the Plan, while public safety and judicial employees contribute at 8% and 9%, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for fiscal year ended December 31, 2013, 2012 and 2011 were \$5,189, \$4,822, and \$4,779, respectively, equal to the required contribution.

**CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS**

9. INVENTORY

Inventory in the General Fund and Enterprise Funds consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Government-wide Financial Statements:

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

Fund Financial Statements:

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

10. RESTRICTED NET POSITION:

The following restrictions are reported in the statements:

<u>Purpose</u>	<u>Restricted by</u>	<u>Amount</u>
Economic Development	Law	\$ 5,638
Debt Service	Loan agreements	113,960
Deposit for insurance	Insurance company	4,509
		<u>\$124,107</u>

11. PLEDGED REVENUES

The City has pledged future water customers' revenues, net of specified operating expenses, to repay \$143,306 in water system revenue bonds issued in 1999 and 2005. Proceeds from the bonds provided financing for the construction of water system infrastructure.

The bonds are payable solely from water customer net revenues and are payable through 2039. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$237,434. Principal and interest paid for the current year and total customer net revenue were \$79,669 and \$50,888 respectively.

CITY OF CROOKS
NOTES TO FINANCIAL STATEMENTS

11. PLEDGED REVENUES (continued)

The City has also pledged future gas customers' revenues, net of specified operating expenses to repay \$715,000 in gas system revenue bonds issued in 2013. Proceeds from the bonds refunded a 2004 Series that provided financing for the construction of gas pipeline improvements.

The bonds are payable solely from gas customer net revenues and are payable through 2024. Annual principal and interest payments on the bonds are expected to require less than 75% of net revenues. The total principal and interest remaining to be paid on the bond is \$742,553. Principal and interest paid for the current year and total customer net revenues were \$663,645 and \$205,688, respectively.

The City has also pledged future sanitary sewer customers' revenues, net of specified operating expenses, to repay \$357,913 in sanitary sewer system revenue bonds issued in 1972 and 2008. Proceeds from the bonds provided financing for the construction of sanitary sewer system improvements including a new lagoon.

The bonds are payable solely from sanitary sewer customer net revenues and are payable through 2028. Annual principal and interest payments on the bonds are expected to require less than 80% of net revenues. The total principal and interest remaining to be paid on the bonds is \$460,416. Principal and interest paid for the current year and total customer net revenues were \$28,776 and \$51,500, respectively.

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

	Budgeted Amounts		Actual Amount
	Original	Final	
REVENUES			
Taxes:			
General property taxes	\$193,212	\$193,212	\$194,116
General sales and use taxes	120,000	120,000	140,837
Gross receipts tax	7,500	7,500	6,662
Amusement tax	150	150	60
Penalties and interest	0	0	425
Licenses and Permits	10,000	10,000	12,337
Intergovernmental Revenue			
State shared revenue	16,400	16,400	24,851
County shared revenues	10,050	10,050	1,818
Fines and Forfeits			
Animal control fines	0	0	300
Miscellaneous Revenue			
Investment earnings	0	0	241
Rentals	21,000	21,000	20,013
Contributions	0	0	250
Street assessments	19,297	19,297	19,416
Other	7,400	7,400	4,796
Total Revenue	<u>\$405,009</u>	<u>\$405,009</u>	<u>\$426,122</u>

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

Variance with
Final Budget-
Positive
(Negative)

\$904
20,837
(838)
(90)
425

2,337

8,451
(8,232)

300

241
(987)
250
119
(2,604)

\$21,113

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

	Budgeted Amounts		Actual Amount
	Original	Final	
EXPENDITURES:			
General Government			
Legislative	\$16,000	\$16,000	\$13,298
Executive	3,000	3,000	2,299
Elections	1,500	1,500	970
Financial administration	33,000	33,000	26,504
Other	8,500	89,553	88,818
Public Safety			
Police	39,195	39,195	39,195
Fire	20,000	20,000	18,000
Other	19,000	19,000	14,959
Public Works			
Highways and streets	138,797	203,797	139,580
Health and Welfare			
Humane society	1,500	1,500	1,310
Culture and Recreation			
Parks	50,000	52,500	49,021
Auditorium	15,000	15,000	13,115
Debt Service	114,268	114,268	105,063
Total Expenditures	\$459,760	\$608,313	\$512,132
Net Change in Fund Balances	(54,751)	(203,304)	(86,010)
FUND BALANCE-Beginning	415,307	415,307	415,307
FUND BALANCE-Ending	\$360,556	\$212,003	\$329,297

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

Variance with
Final Budget-
Positive
(Negative)

\$2,702

701

530

6,496

735

0

2,000

4,041

64,217

190

3,479

1,885

9,205

\$96,181

117,294

0

\$117,294

CITY OF CROOKS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution to the governing board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting practices (GAAP).

CITY OF CROOKS
SCHEDULE OF CURRENT AUDIT FINDINGS

FINDING NUMBER 2013-001:

CONDITION FOUND:

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

CRITERIA:

Duties should be segregated so the same employees who handle cash do not record cash transactions nor have general ledger access. Bank reconciliation should be performed by personnel not involved with the check writing process. Other financial and accounting functions should be done by separate people.

CAUSE AND EFFECT:

The size of the staff hired for the finance department precludes an adequate segregation of duties, resulting in a weakness in internal control.

RECOMMENDATION:

The Mayor and Council Members should always be aware of this weakness as they review and approve transactions of the City and resulting financial reports. Compensating controls should be implemented whenever and wherever possible.

CITY RESPONSE:

The City of Crook's management agrees with the finding, but does not consider it to be cost effective to hire additional staff to segregate duties. The Mayor and Council Members will maintain close supervision of financial transactions in an effort to mitigate this weakness.

CITY OF CROOKS
SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NUMBER 2011-01 and 2012-01:

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

This finding was first reported in 1998.

CURRENT STATUS:

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