

CITY OF BOX ELDER, SOUTH DAKOTA

INDEPENDENT AUDITOR'S REPORT,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2012



RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

City of Box Elder, South Dakota
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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

To the Honorable Mayor and City Council
City of Box Elder, South Dakota
Box Elder, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, and each major fund of the City of Box Elder, as of and for the years ended December 31, 2011 and 2012, and the related notes to the financial statements, which collectively comprise City of Box Elder's basic financial statements and have issued our report thereon dated May 06, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-001, 2012-002, and 2012-003 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and management's responses as items 2012-002, 2012-003, 2012-004 and 2012-005.

City of Box Elder, South Dakota's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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. However, as required by South Dakota Codified Law 4-11-11 this report is a matter of public record and its distribution is not limited.

A handwritten signature in blue ink that reads "Casey Peterson & Associates, LTD". The signature is written in a cursive style.

Casey Peterson & Associates, LTD

Rapid City, South Dakota

May 06, 2014



Independent Auditor's Report on Compliance for
Each Major Program and on Internal Control Over
Compliance Required by OMB Circular A-133

To the Honorable Mayor and City Council
City of Box Elder, South Dakota
Box Elder, South Dakota

Report on Compliance for Each major Federal Program

We have audited the City of Box Elder, South Dakota's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on the City of Box Elder, South Dakota's (the City) major federal programs for the years ended December 31, 2011 and 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

As described in item 2012-004 in the accompanying schedule of findings and questioned costs, the City, did not comply with requirements regarding reporting that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the City, to comply with the requirements applicable to each program.

In our opinion, except for the noncompliance described in the subsequent paragraph, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended December 31, 2011 and 2012.

Other Matters

The results of our auditing procedures disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-005. Our opinion on each major federal program is not modified with respect to these matters.

The City of Box Elder, South Dakota's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.* We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-004 and 2012-005 to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11 this report is a matter of public record and its distribution is not limited.



Casey Peterson & Associates, LTD

Rapid City, South Dakota

May 06, 2014

City of Box Elder, South Dakota
Schedule of Findings and Questioned Costs
December 31, 2011 and 2012

SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

- a. The Independent Auditor's Report expressed modified opinions on the governmental activities, business type activities, Tax Increment District #1 Debt Service Fund, Water Fund, and Sewer Fund financial statements of the City of Box Elder, South Dakota for both of the years ended December 31, 2011 and 2012. The Independent Auditor's Report expressed unmodified opinions on the General Fund and Liquor, Lodging and Dining Gross Receipts Tax Fund for both of the years ended December 31, 2011 and 2012.
- b. The 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* disclosed deficiencies in internal controls considered to be material weaknesses.
- c. Instances of noncompliance material to the financial statements of the City, which would be required to be reported in accordance with *Government Auditing Standards*, were noted during the audit and are disclosed below.
- d. The Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB A-133 expressed a modified opinion on the major federal programs.
- e. Material weaknesses in internal control related to major federal programs were reported in the Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
- f. Audit findings that are required to be reported in accordance with section 510(a) of OMB Circular A-133 are reported in this schedule.
- g. The federal awards tested as major programs were:
 - Community Development Block Grant CFDA# 14.228
 - Congressionally Mandated Projects CFDA #66.202
 - Water and Waste Disposal Systems for Rural Communities CFDA #10.760
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
- i. City of Box Elder, South Dakota did not qualify as a low-risk entity.

FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENTS AUDIT

2012-001 *Condition and Criteria:* There were numerous errors identified during the audit. The errors are related to a lack of reconciliation of accounting records, lack of segregation of duties, lack of adequate documentation, and a lack of oversight of the accounting function of the City. Specific errors identified were as follows:

- General journal entries are not approved or reviewed.
- The City does not have an internal control system to prepare the financial statements and schedule of expenditures of federal awards, and therefore, requested their auditors to draft the financial statements and the schedule of expenditures of federal awards.
- Several instances of miscoding of disbursements to improper expenditure accounts and funds were noted. Several instances of disbursements lacking Council approval were also noted.

City of Box Elder, South Dakota
Schedule of Findings and Questioned Costs
December 31, 2011 and 2012

- The City received a private donation that was to be allocated between the general fund, water fund, and sewer fund. However, the entire donation was receipted into the general fund. The funds were to be spent for infrastructure to a housing development. It appears that the funds were spent completely and the purposes of the funding were accomplished. However, the City does not have adequate documentation to support the spending of the donation in accordance with the intended purpose.
- Construction project costs are not tracked separately in the accounting records, but rather, are comingled with operating costs in the various funds. It appears the General Fund and Water Fund may have inappropriately absorbed excess construction costs for various projects.

Cause: The City has a limited staff size and staff does not have training in governmental accounting. In addition, there is a lack of oversight of the finance staff by the mayor and Council.

Effect: Numerous errors were noted as a result of audit procedures. Accordingly, significant audit adjustments were proposed during the audit to correct an error related to the items outlined above.

Auditor's Recommendation: We recommend the following to address the deficiencies noted during the audit:

- General journal entries should be reviewed and approved, prior to posting, by someone with accounting knowledge, other than the employee preparing and posting the general journal entry. Additionally, the general journal entries should be compared to the approvals at the end of each month by the employee that regularly approved journal entries to ensure all journal entries have been approved. Documentation of journal entries made and support for adjustments should be retained.
- As auditors, we were requested to draft the financial statements, the accompanying notes to the financial statements, and the schedule of expenditures of federal awards, which is not uncommon for a City of this size. However, 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.
- Financial reports should be completed and reviewed at least monthly by management and the City Council. Reports reviewed should detail the cash position of each fund and also a budget to actual schedule for each fund. Any significant discrepancies should be investigated and corrected immediately.
- The City should establish specific account coding to track projects or use capital project funds to separately track proceeds and expenditures for each project.

2012-002 *Condition and Criteria:* During our review of statutory compliance, we noted that the City was not in compliance with the following state statutes:

- SDCL 9-14-17 and 9-22-3 require the finance officer to maintain regular books of account for all financial transactions and receive all moneys belonging to the City and keep accurate and detailed accounts of the receipts.
- SDCL 9-21-2 requires the governing body to approve and adopt the annual appropriation ordinance no later than its first regular meeting in September of each year for the ensuing fiscal year.

City of Box Elder, South Dakota
Schedule of Findings and Questioned Costs
December 31, 2011 and 2012

- SDCL 9-21-9 requires the City to limit expenditures to the amount appropriated for such purposes in the annual appropriation ordinance.
- SDCL 9-22-16 requires a separate account of each fund be maintained.
- SDCL 6-1-10 requires the governing board of each municipal corporation to publish with the minutes of the first meeting following the beginning of the fiscal year, or within 30 days thereafter, a complete list of all the salaries of all officers and employees.
- SDCL 9-18-1 requires the publication of a detailed statement of all expenditures of money, the names of persons to whom payment was made, and the services rendered.
- SDCL 9-22-21 requires the reporting of the financial condition of the municipality at the first regular meeting of March of each year.
- SDCL 9-22-22 requires the finance officer to maintain a list of outstanding municipal bonds, to whom issued, for what purpose, when and where payable, and the rate of interest they respectively bear.

Cause: Instances were noted during the audit where receipts were not entered into the general ledger accurately and detail was not maintained. Additionally, several errors were identified in the accounting records including the allocation of amounts to each fund. Audit adjustments were not proposed as the support was not available to determine the allocations. It was also noted that expenditures related to certain departments exceeded budgeted appropriations due to a failure to maintain adequate accounting records. The Council also did not approve the budgets for the year ended December 31, 2012 as required by SDCL 9-21-2. Increases in wages were approved by the Council. However, a complete list of all employees with salaries and positions was not published in 2011 or 2012. There were several instances noted where disbursements were not approved by the Council. Due to the failure to maintain proper accounting records, annual reports of the City's financial condition were not presented to the Council.

Effect: The City is not in compliance with the SDCLs listed above.

Auditor's Recommendation: The City staff and Council should review state statutes that are applicable to municipalities and implement procedures to ensure statutes are being followed. The City should monitor the budget and make appropriate budget supplemental appropriations when necessary. The City should also implement the recommendations related to the internal control weaknesses identified in finding 2012-001 and maintain detailed records for receipts and allocations.

2012-003 *Condition and Criteria:* During our review of debt compliance, we noted that the City was not in compliance with the covenants related to outstanding debt issues. Noncompliance identified included the following:

- The City does not charge fees sufficient to cover the expenses incurred in the Water Fund. This has resulted in insufficient equity in pooled cash for the Water Fund for the years ended December 31, 2011 and 2012.
- The Sewer Fund has a large positive cash balance and therefore appears to be subsidizing the operations of the other City funds, which is a violation of Sewer Bond covenants.
- The City has not established reserve accounts for debt service and asset management as required under various debt agreements.

City of Box Elder, South Dakota
Schedule of Findings and Questioned Costs
December 31, 2011 and 2012

- The City does not have appropriate accounts set up to track surcharge collections, normal usage collections, expenses related to surcharges, reserves, debt proceeds, or construction costs.
- The TID #1 debt agreement required the use of a separate fund to track debt proceeds and construction costs. Debt proceeds and most construction costs were recorded in the Water Fund.

Cause: The City does not have adequate controls in place to monitor compliance with debt agreements. In addition, the City's accounting system is not set up to properly track receipts and expenditures as required by debt agreements.

Effect: The City is not in compliance with the debt requirements related to outstanding bonds.

Auditor's Recommendation: We recommend that the City review the operations of the Water, Sewer, and TID #1 Funds and update the accounting system where necessary to maintain necessary records for debt compliance. The City management should also review all debt agreements to gain an understanding of compliance requirements. The Mayor and Council should monitor debt compliance regularly.

FEDERAL AWARD AUDIT

DEPARTMENT OF AGRICULTURE, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
ENVIRONMENTAL PROTECTION AGENCY

Water and Waste Disposal Systems for Rural Communities CFDA #10.760
Community Development Block Grant CFDA #14.228
Congressionally Mandated Projects CFDA #66.202

2012-004 *Condition and Criteria:* During our review of the major programs, we noted an overall lack of supporting documentation necessary to support disbursements and reporting. Due to the third party review and involvement with the major programs, we do not believe that there are any questioned costs. Additionally, the City did not complete their A-133 audit or the Data Collection Form by the deadline set by OMB Circular A-133.

Cause: The City did not have necessary supporting documentation for both major programs and did not have an audit performed in a timely manner.

Effect: The City is not in compliance with the requirements related to OMB Circular A-133.

Auditor's Recommendation: We recommend that the City review each of their grant agreements to obtain an understanding of the individual compliance requirements and retain all documentation related to federal awards. We recommend that the City review their federal expenditures on an annual basis to determine if a Single Audit is necessary due to expending \$500,000 or more in federal awards and strive to complete the audit within the nine months after year-end as required by OMB Circular A-133.

2012-005 See 2012-001 for the condition, criteria, cause, effect, and auditor's recommendation.

City of Box Elder, South Dakota
Schedule of Prior Audit Findings and Questioned Costs
December 31, 2011 and 2012

FINANCIAL STATEMENTS AUDIT

2010-1 *Condition and Criteria:* There were numerous errors identified during the audit. The errors are related to a lack of reconciliation of accounting records, lack of segregation of duties, and a lack of oversight of the accounting function of the City. Specific errors identified were as follows:

- General journal entries are not approved or reviewed.
- Bank reconciliations were not completed in a timely manner each month and reviewed by someone other than the preparer when completed. It was also noted that the bank reconciliations that were prepared were incorrect, as items that had cleared the bank account were listed as outstanding and not all outstanding items were included.
- Receipts are not entered into the general ledger in a timely manner.
- The City does not have an internal control system to prepare the financial statements and schedule of expenditures of federal awards, and therefore, requested their auditors to draft the financial statements and the schedule of expenditures of federal awards.
- Debt reconciliations are not performed to track debt balances, payments, and proceeds from debt.
- Numerous instances of miscoding of disbursements and receipts to improper revenue/expenditure accounts and funds were noted. This condition resulted in difficulties in identifying expenditures for reporting on the schedule of expenditures of federal awards.

Auditor's Recommendation: We recommend the following items to address the deficiencies noting during the audit:

- General journal entries should be reviewed and approved, prior to posting, by someone with accounting knowledge, other than the employee preparing and posting the general journal entry. Additionally, the general journal entries should be compared to the approvals at the end of each month by the employee that regularly approves journal entries to ensure all journal entries have been approved.
- Bank reconciliations should be completed correctly in a timely manner each month. Bank reconciliations should also be reviewed by someone other than the preparer. The reviewer should ensure that there are no unusual reconciling items and that the bank and book balances agree with bank statements and the general ledger, respectively.
- Receipts should also be entered into the general ledger in a timely manner. This can be accomplished by entering receipts at the end of each day from the duplicate receipt book or deposit slip.
- Debt balances should be tracked using Excel to calculate the outstanding balance based on payments and issuances of debt throughout the year. This will provide the City with an accurate outstanding balance at any time. All debt agreements and related amortization schedules should be filed in a central location, and debt balances on the Excel schedule should be reconciled to the amortization schedule on a monthly basis.
- As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements and schedule of expenditures of federal awards, which is not uncommon for a City of this size. However, 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.

City of Box Elder, South Dakota
Schedule of Prior Audit Findings and Questioned Costs
December 31, 2011 and 2012

- Financial reports should be completed and reviewed at least monthly by management and the City Council. Reports reviewed should detail the cash position of each fund and also a budget to actual schedule for each fund. Any significant discrepancies should be investigated and corrected immediately.
- Instead of netting disbursements against related revenues, which has been common practice for the City for such things as grants, receipts should only be coded to revenue accounts and disbursements should only be coded to expenditure accounts.
- The City should engage a separate accounting firm or third party with expertise in governmental compliance and accounting to train key employees and to assist in the month-end and year-end processes.

Current Status: This finding was partially resolved in the current year. However, many items were reported again as finding 2012-001.

2010-2 *Condition and Criteria:* During our review of statutory compliance, we noted that the City was not in compliance with the following state statutes:

- SDCL 9-14-17 and 9-22-3 require the finance officer to maintain regular books of account for all financial transactions and receive all moneys belonging to the City and keep accurate and detailed accounts of the receipts.
- SDCL 9-21-2 and 9-21-6 require the City to appropriate budgets in the format prescribed by the State of South Dakota each year.
- SDCL 9-22-16 requires a separate account of each fund be maintained.
- SDCL 43-41B-14 and 43-41B-18 require the City to report and transmit to Unclaimed Property any checks that were not cashed within one year of their issuance date.

Auditor's Recommendation: The City should complete a budget each year in the format prescribed by the State of South Dakota. The prescribed format can be found online at the SD Department of Legislative Audit's website. The City should also monitor the budget and implement the recommendations related to the internal control weaknesses identified in finding 2010-1.

Current Status: This finding was partially resolved in the current year. However, many items were reported again as finding 2012-002.

2010-3 *Condition and Criteria:* During our review of debt compliance, we noted that the City was not in compliance with the covenants related to any of the outstanding debt issues. Noncompliance identified included the following:

- The City does not charge fees sufficient to cover the expenses incurred in the Water Fund. This has resulted in negative equity in pooled cash for the Water Fund.
- The Sewer Fund has a large positive cash balance and therefore appears to be subsidizing the operations of the other City funds.
- The City has not established reserve accounts for debt service and asset management as required under the TID #1 debt agreement.
- The City does not have appropriate accounts set up to track surcharge collections, normal usage collections, expenses related to surcharges, reserves, debt proceeds, or construction costs.

City of Box Elder, South Dakota
Schedule of Prior Audit Findings and Questioned Costs
December 31, 2011 and 2012

- The TID #1 debt agreement required the use of a separate fund to track debt proceeds and construction costs. Debt proceeds and most construction costs were recorded in the Water Fund.
- TID #1 Fund was established to track the property tax receipts related to the TID. The property tax proceeds should be used to repay debt balances, however some of the receipts were used to pay construction costs.

Auditor's Recommendation: We recommend that the City review the operations of the Water, Sewer, and TID #1 Funds and update the accounting system where necessary to maintain necessary records for debt compliance. The City management should also review all debt agreements to gain an understanding of debt compliance requirements. The Mayor and Council should monitor debt compliance regularly.

Current Status: This finding is repeated as finding 2012-003.

FEDERAL AWARD AUDIT

FEDERAL HIGHWAY ADMINISTRATION, DEPARTMENT OF AGRICULTURE

Highway Planning and Construction CFDA #20.205

Water and Waste Disposal Systems for Rural Communities CFDA #10.760

2010-4 *Condition and Criteria:* The City did not complete their A-133 audit or the Data Collection Form by the deadline set by OMB Circular A-133.

Auditor's Recommendation: We recommend that the City review their federal expenditures on an annual basis to determine if a Single Audit is necessary due to expending \$500,000 or more in federal awards and strive to complete the audit within the nine months after year-end as required by OMB Circular A-133.

Current Status: This finding is repeated as finding 2012-004.

2010-5 See 2010-1 for the condition and criteria, auditor's recommendation and current status.

City of Box Elder, South Dakota Corrective Action Plan December 31, 2011 and 2012

City of Box Elder, South Dakota respectfully submits the following corrective action plan for the years ended December 31, 2011 and 2012.

Name and address of independent public accounting firm:

Casey Peterson & Associates, Ltd.
909 St. Joseph Street, Suite 101
Rapid City, SD 57701

The findings from the December 31, 2011 and 2012 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. The City Finance Officer is responsible for corrective action of the findings disclosed within this document.

FINANCIAL STATEMENTS AUDIT

2012-001 *Condition and Criteria:* There were numerous errors identified during the audit. The errors are related to a lack of reconciliation of accounting records, lack of segregation of duties, and a lack of oversight of the accounting function of the City. Specific errors identified were as follows:

- General journal entries are not approved or reviewed.
- The City does not have an internal control system to prepare the financial statements and schedule of expenditures of federal awards, and therefore, requested their auditors to draft the financial statements and the schedule of expenditures of federal awards.
- Several instances of miscoding of disbursements to improper expenditure accounts and funds were noted. Several instances of disbursement lacking Council approval were also noted.
- The City received a private donation that was to be allocated between the general fund, water fund, and sewer fund. However, the entire donation was receipted into the general fund. The funds were to be spent for infrastructure to a housing development. It appears that the funds were spent completely and the purposes of the funding were accomplished. However, the City does not have adequate documentation to support the spending of the donation in accordance with the intended purpose.
- Construction project costs are not tracked separately in the accounting records, but rather, are comingled with operating costs in the various funds. It appears the General Fund and Water Fund may have inappropriately absorbed excess construction costs for various projects.

Auditor's Recommendation: We recommend the following items to address the deficiencies noting during the audit:

- General journal entries should be reviewed and approved, prior to posting, by someone with accounting knowledge, other than the employee preparing and posting the general journal entry. Additionally, the general journal entries should be compared to the approvals at the end of each month by the employee that regularly approved journal entries to ensure all journal entries have been approved. Documentation of journal entries made and support for adjustments should be retained.

City of Box Elder, South Dakota Corrective Action Plan December 31, 2011 and 2012

- As auditors, we were requested to draft the financial statements, the accompanying notes to the financial statements, and the schedule of expenditures of federal awards, which is not uncommon for a City of this size. However, 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.
- Financial reports should be completed and reviewed at least monthly by management and the City Council. Reports reviewed should detail the cash position of each fund and also a budget to actual schedule for each fund. Any significant discrepancies should be investigated and corrected immediately.
- The City should establish specific account coding to track projects or use capital project funds to separately track proceeds and expenditures for each project.

Action Taken: The City will continue to work with the third party accounting firm to get the accounting records in order and to reconcile accounts. The City will also evaluate its procedures to provide more oversight of the finance function by the Mayor and Council. The City will implement the audit recommendations where feasible

2012-002 *Condition and Criteria:* During our review of statutory compliance, we noted that the City was not in compliance with the following state statutes:

- SDCL 9-14-17 and 9-22-3 require the finance officer to maintain regular books of account for all financial transactions and receive all moneys belonging to the City and keep accurate and detailed accounts of the receipts.
- SDCL 9-21-2 requires the governing body to approve and adopt the annual appropriation ordinance no later than its first regular meeting in September of each year for the ensuing fiscal year.
- SDCL 9-21-9 requires the City to limit expenditures to the amount appropriated for such purposes in the annual appropriation ordinance.
- SDCL 9-22-16 requires a separate account of each fund be maintained.
- SDCL 6-1-10 requires the governing board of each municipal corporation to publish with the minutes of the first meeting following the beginning of the fiscal year, or within 30 days thereafter, a complete list of all the salaries of all officers and employees.
- SDCL 9-18-1 requires the publication of a detailed statement of all expenditures of money, the names of persons to whom payment was made, and the services rendered.
- SDCL 9-22-21 requires the reporting of the financial condition of the municipality at the first regular meeting of March of each year.
- SDCL 9-22-22 requires the finance officer to maintain a list of outstanding municipal bonds, to whom issued, for what purpose, when and where payable, and the rate of interest they respectively bear.

Auditor's Recommendation: The City staff and Council should review state statutes that are applicable to municipalities and implement procedures to ensure statutes are being followed. The City should monitor the budget and make appropriate budget supplemental appropriations when necessary. The City should also implement the recommendations related to the internal control weaknesses identified in finding 2012-001 and maintain detailed records for receipts and allocations.

**City of Box Elder, South Dakota
Corrective Action Plan (Continued)
December 31, 2011 and 2012**

Action Taken: The City will continue to work with the third party accounting firm to get the accounting records in order and to reconcile accounts. The City will also evaluate its procedures to provide more oversight of the finance function by the Mayor and Council. The City will implement the audit recommendations where feasible.

2012-003 *Condition and Criteria:* During our review of debt compliance, we noted that the City was not in compliance with the covenants related to outstanding debt issues. Noncompliance identified included the following:

- The City does not charge fees sufficient to cover the expenses incurred in the Water Fund. This has resulted in negative equity in pooled cash for the Water Fund for the years ended December 31, 2011 and 2012.
- The Sewer Fund has a large positive cash balance and therefore appears to be subsidizing the operations of the other City funds.
- The City has not established reserve accounts for debt service and asset management as required under various debt agreements.
- The City does not have appropriate accounts set up to track surcharge collections, normal usage collections, expenses related to surcharges, reserves, debt proceeds, or construction costs.
- The TID #1 debt agreement required the use of a separate fund to track debt proceeds and construction costs. Debt proceeds and most construction costs were recorded in the Water Fund.

Auditor's Recommendation: We recommend that the City review the operations of the Water, Sewer, and TID #1 Funds and update the accounting system where necessary to maintain necessary records for debt compliance. The City management should also review all debt agreements to gain an understanding of compliance requirements. The Mayor and Council should monitor debt compliance regularly.

Action Taken: The City will continue to work with the third party accounting firm to get the accounting records in order and to reconcile accounts. The City will also evaluate its procedures to provide more oversight of the finance function by the Mayor and Council. The City will implement the audit recommendations where feasible

FEDERAL AWARD AUDIT

DEPARTMENT OF AGRICULTURE, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
ENVIRONMENTAL PROTECTION AGENCY

Water and Waste Disposal Systems for Rural Communities CFDA #10.760

Community Development Block Grant CFDA #14.228

Congressionally Mandated Projects CFDA #66.202

2012-004 *Condition and Criteria:* During our review of the major programs, we noted an overall lack of supporting documentation necessary support disbursements and reporting. Due to the third party review and involvement with the major programs, we do not believe that there are any questioned costs. Additionally, the City did not complete their A-133 audit or the Data Collection Form by the deadline set by OMB Circular A-133.

**City of Box Elder, South Dakota
Corrective Action Plan (Continued)
December 31, 2011 and 2012**

Auditor's Recommendation: We recommend that the City review each of their grant agreements to obtain an understanding of the individual compliance requirements and retain all documentation related to federal awards. We recommend that the City review their federal expenditures on an annual basis to determine if a Single Audit is necessary due to expending \$500,000 or more in federal awards and strive to complete the audit within the nine months after year-end as required by OMB Circular A-133.

Action Taken: The City will continue to work with the third party accounting firm to get the accounting records in order. The City will also evaluate its procedures to provide more oversight of the finance function by the Mayor and Council. The City will implement the audit recommendations where feasible

2012-005 See 2012-001 for the condition, auditor's recommendation, and action taken.

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Box Elder, South Dakota
Box Elder, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Box Elder, South Dakota (the City) as of and for the years ended December 31, 2011 and 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management.

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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities (2011 & 2012)	Modified
Business-type Activities (2011 & 2012)	Modified
General Fund (2011 & 2012)	Unmodified
Liquor, Lodging, and Dining Gross Receipts Tax Fund (2011 & 2012)	Unmodified
TID #1 Fund (2011 & 2012)	Modified
Water Fund (2011 & 2012)	Modified
Sewer Fund (2011 & 2012)	Modified

Basis for Modified Opinions

The accounting records of the City are inadequate and did not allow us to verify accounting and classification of certain income and expenses or beginning fund balances. The impact of this departure on the City's financial statements is unknown.

Modified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions" paragraph, the financial statements referred to above, present fairly, in all material respects, the cash position of the governmental activities, the business type activities, TID #1 Fund, Water Fund, and Sewer Funds for the City of Box Elder as of December 31, 2011 and 2012, and the receipts and disbursements thereof for the years then ended in accordance with the modified cash basis of accounting.

Unmodified Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the cash position of the General Fund and the Liquor, Lodging, and Dining Gross Receipts Tax Fund for the City of Box Elder as of December 31, 2011 and 2012, and the respective cash receipts and disbursements thereof for the years then ended in accordance with the modified cash basis of accounting.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements.

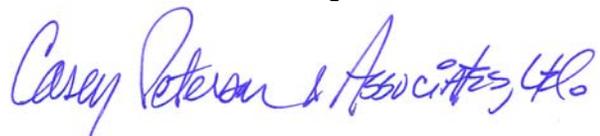
The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The budgetary comparison information, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The Schedule of Municipal Officials is presented for purposes of additional analysis and is not a required part of the financial statements. The Schedule of Municipal Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated May 06, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Casey Peterson & Associates, LTD

Rapid City, South Dakota

May 06, 2014

BASIC FINANCIAL STATEMENTS

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City of Box Elder, South Dakota
Statement of Net Position - Modified Cash Basis
December 31, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 385,975	\$ 1,102,838	\$ 1,488,813
Restricted Assets:			
Cash Restricted for Capital Outlay	1,962,866	-	1,962,866
Cash Restricted for Debt Service	393,028	-	393,028
TOTAL ASSETS	<u>\$ 2,741,869</u>	<u>\$ 1,102,838</u>	<u>\$ 3,844,707</u>
NET POSITION			
Restricted for:			
Debt Service	\$ 393,028	\$ 64,308	\$ 457,336
Capital Outlay	1,962,866	-	1,962,866
Construction and City Promotion	640,286	-	640,286
Parks Improvement	11,371	-	11,371
Unrestricted	<u>(265,682)</u>	<u>1,038,530</u>	<u>772,848</u>
TOTAL NET POSITION	<u>\$ 2,741,869</u>	<u>\$ 1,102,838</u>	<u>\$ 3,844,707</u>

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2011

Functions/Programs	Disbursements
PRIMARY GOVERNMENT	
Governmental Activities:	
General Government	\$ 2,371,166
Public Safety	728,172
Public Works	958,687
Culture and Recreation	219,985
Conservation and Development	32,350
Long-term Debt	455,134
Total Governmental Activities	4,765,494
Business-type Activities:	
Water	1,193,856
Sewer	173,016
Total Business-type Activities	1,366,872
Total Primary Government	\$ 6,132,366

The accompanying notes are an integral part of this statement.

Program Receipts		Net (Disbursements) Receipts and Changes in Net Position		
Charges for Services	Capital Grants, Loans & Contributions	Primary Government		
		Governmental Activities	Business-type Activities	Total
\$ 114,525	\$ 3,995,555	\$ 1,738,914	\$ -	\$ 1,738,914
268	-	(727,904)	-	(727,904)
-	-	(958,687)	-	(958,687)
-	-	(219,985)	-	(219,985)
-	-	(32,350)	-	(32,350)
-	-	(455,134)	-	(455,134)
<u>114,793</u>	<u>3,995,555</u>	<u>(655,146)</u>	<u>-</u>	<u>(655,146)</u>
893,999	402,430	-	102,573	102,573
<u>618,380</u>	<u>-</u>	<u>-</u>	<u>445,364</u>	<u>445,364</u>
<u>1,512,379</u>	<u>402,430</u>	<u>-</u>	<u>547,937</u>	<u>547,937</u>
<u>\$ 1,627,172</u>	<u>\$ 4,397,985</u>	<u>(655,146)</u>	<u>547,937</u>	<u>(107,209)</u>
GENERAL RECEIPTS				
Property Taxes		1,245,252	-	1,245,252
Sales Tax		1,054,866	-	1,054,866
State Shared Receipts		44,537	-	44,537
Unrestricted Investment Earnings		954	-	954
Sales of Municipal Property		268,145	-	268,145
Miscellaneous Receipts		<u>55,852</u>	<u>-</u>	<u>55,852</u>
Total General Receipts		<u>2,669,606</u>	<u>-</u>	<u>2,669,606</u>
CHANGE IN NET POSITION		2,014,460	547,937	2,562,397
NET POSITION - BEGINNING		<u>727,409</u>	<u>554,901</u>	<u>1,282,310</u>
NET POSITION - ENDING		<u>\$ 2,741,869</u>	<u>\$ 1,102,838</u>	<u>\$ 3,844,707</u>

The accompanying notes are an integral part of this statement.

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City of Box Elder, South Dakota
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2011

	<u>General Fund</u>	<u>Liquor, Lodging and Dining Gross Receipts Tax Fund</u>	<u>Tax Increment District #1 Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ (254,311)	\$ 640,286	\$ -	\$ 385,975
Restricted Assets:				
Cash Restricted for Capital Outlay	1,962,866	-	-	1,962,866
Cash Restricted for Debt	<u>300,969</u>	<u>-</u>	<u>92,059</u>	<u>393,028</u>
TOTAL ASSETS	<u>\$ 2,009,524</u>	<u>\$ 640,286</u>	<u>\$ 92,059</u>	<u>\$ 2,741,869</u>
FUND BALANCES				
Restricted				
Debt Service	\$ 300,969	\$ -	\$ 92,059	\$ 393,028
Capital Outlay	1,962,866	-	-	1,962,866
Parks Improvements	11,371	-	-	11,371
Construction and City Promotion	-	640,286	-	640,286
Unassigned	<u>(265,682)</u>	<u>-</u>	<u>-</u>	<u>(265,682)</u>
TOTAL FUND BALANCES	<u>\$ 2,009,524</u>	<u>\$ 640,286</u>	<u>\$ 92,059</u>	<u>\$ 2,741,869</u>

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Statement of Revenues, Expenditures and Changes in Fund Balances -
Modified Cash Basis - Governmental Funds
For the Year Ended December 31, 2011

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Tax Increment District #1 - Debt Service Fund	Total Governmental Funds
RECEIPTS				
Taxes:				
General Property Taxes	\$ 811,101	\$ -	\$ 396,363	\$ 1,207,464
General Sales and use Taxes	965,592	88,842	-	1,054,434
Amusement Taxes	432	-	-	432
Penalties and Interest on Delinquent Taxes	2,378	-	-	2,378
Licenses and Permits	116,936	-	-	116,936
Intergovernmental Receipts:				
State Shared Receipts:				
Bank Franchise Tax	3,486	-	-	3,486
Liquor Tax Reversion	17,767	-	-	17,767
Motor Vehicle Licenses	35,409	-	-	35,409
Local Government Highway and Bridge Fund	21,616	-	-	21,616
Federal Grants	45,555	-	-	45,555
Miscellaneous Receipts:				
Investment Earnings	841	-	113	954
Contributions and Donations from Private Sources	103	-	-	103
Other	55,275	-	-	55,275
TOTAL RECEIPTS	2,076,491	88,842	396,476	2,561,809

The accompanying notes are an integral part of this statement.

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Tax Increment District #1 - Debt Service Fund	Total Governmental Funds
DISBURSEMENTS				
General Government:				
Executive	99,268	-	-	99,268
Elections	123	-	-	123
Financial Administration	346,943	-	-	346,943
Public Safety:				
Police	728,172	-	-	728,172
Public Works:				
Highways and Streets	408,091	-	-	408,091
Planning and Zoning	191,080	-	-	191,080
Health and Welfare:				
Animal Control	7,450	-	-	7,450
Culture and Recreation:				
Recreation	3,700	-	-	3,700
Parks	173,223	-	-	173,223
Libraries	3,750	-	-	3,750
Conservation and Development:				
Community Development	-	32,350	-	32,350
Debt Service	-	-	455,134	455,134
Capital Outlay	2,167,708	-	-	2,167,708
TOTAL DISBURSEMENTS	<u>4,129,508</u>	<u>32,350</u>	<u>455,134</u>	<u>4,616,992</u>
OTHER FINANCING SOURCES (USES)				
Debt Issuance Costs	(148,502)	-	-	(148,502)
Sale of Municipal Property	268,145	-	-	268,145
Debt Issued	3,950,000	-	-	3,950,000
Total Other Financing Sources (Uses)	<u>4,069,643</u>	<u>-</u>	<u>-</u>	<u>4,069,643</u>
NET CHANGE IN FUND BALANCE	<u>2,016,626</u>	<u>56,492</u>	<u>(58,658)</u>	<u>2,014,460</u>
FUND BALANCE - BEGINNING	(358,526)	583,794	150,717	375,985
PRIOR PERIOD ADJUSTMENT	<u>351,424</u>	<u>-</u>	<u>-</u>	<u>351,424</u>
FUND BALANCE - BEGINNING, AS RESTATED	<u>(7,102)</u>	<u>583,794</u>	<u>150,717</u>	<u>727,409</u>
FUND BALANCE - ENDING	<u>\$ 2,009,524</u>	<u>\$ 640,286</u>	<u>\$ 92,059</u>	<u>\$ 2,741,869</u>

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Balance Sheet - Modified Cash Basis - Proprietary Funds
December 31, 2011

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ (234,362)	\$ 1,337,200	\$ 1,102,838
TOTAL ASSETS	<u>\$ (234,362)</u>	<u>\$ 1,337,200</u>	<u>\$ 1,102,838</u>
NET POSITION			
Restricted:			
Debt Service	\$ -	\$ 64,308	\$ 64,308
Unrestricted	<u>(234,362)</u>	<u>1,272,892</u>	<u>1,038,530</u>
TOTAL NET POSITION	<u>\$ (234,362)</u>	<u>\$ 1,337,200</u>	<u>\$ 1,102,838</u>

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Statement of Revenues, Expenses and Changes in Fund Net Position -
Modified Cash Basis - Proprietary Funds
For the Year Ended December 31, 2011

	Water Fund	Sewer Fund	Total Proprietary Funds
OPERATING RECEIPTS			
Charges for Goods and Services	\$ 893,999	\$ 611,976	\$ 1,505,975
Revenues Used as Security for Revenue Bonds	<u>-</u>	<u>6,404</u>	<u>6,404</u>
Total Operating Receipts	<u>893,999</u>	<u>618,380</u>	<u>1,512,379</u>
OPERATING DISBURSEMENTS			
Personal Services	224,838	37,439	262,277
Repairs and Maintenance	174,521	24,125	198,646
Other Current Disbursements	<u>202,041</u>	<u>31,555</u>	<u>233,596</u>
Total Operating Disbursements	<u>601,400</u>	<u>93,119</u>	<u>694,519</u>
Operating Income	<u>292,599</u>	<u>525,261</u>	<u>817,860</u>
NONOPERATING RECEIPTS			
(DISBURSEMENTS)			
Capital Purchases	(477,960)	(4,916)	(482,876)
Principal Payments	(39,193)	(23,588)	(62,781)
Interest Payments	(75,303)	(51,393)	(126,696)
Debt Proceeds	<u>402,430</u>	<u>-</u>	<u>402,430</u>
Net Nonoperating Disbursements	<u>(190,026)</u>	<u>(79,897)</u>	<u>(269,923)</u>
NET INCOME	102,573	445,364	547,937
NET POSITION - BEGINNING	<u>(336,935)</u>	<u>891,836</u>	<u>554,901</u>
NET POSITION - ENDING	<u>\$ (234,362)</u>	<u>\$ 1,337,200</u>	<u>\$ 1,102,838</u>

The accompanying notes are an integral part of this statement.

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City of Box Elder, South Dakota
Statement of Net Position - Modified Cash Basis
December 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ (279,561)	\$ 1,915,338	\$ 1,635,777
Restricted Assets:			
Cash Restricted for Capital Outlay	385,329	-	385,329
Cash Restricted for Debt Service	668,840	-	668,840
TOTAL ASSETS	<u>\$ 774,608</u>	<u>\$ 1,915,338</u>	<u>\$ 2,689,946</u>
NET POSITION			
Restricted for:			
Debt Service	\$ 668,840	\$ 64,308	\$ 733,148
Capital Outlay	385,329	-	385,329
Construction and City Promotion	718,507	-	718,507
Other Purposes	11,268	-	11,268
Unrestricted	<u>(1,009,336)</u>	<u>1,851,030</u>	<u>841,694</u>
TOTAL NET POSITION	<u>\$ 774,608</u>	<u>\$ 1,915,338</u>	<u>\$ 2,689,946</u>

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Statement of Activities - Modified Cash Basis
December 31, 2012

<u>Functions/Programs</u>	<u>Disbursements</u>
PRIMARY GOVERNMENT	
Governmental Activities:	
General Government	\$ 3,042,465
Public Safety	763,010
Public Works	1,238,843
Culture and Recreation	235,489
Conservation and Development	8,032
Long-term Debt	<u>332,615</u>
Total Governmental Activities	<u>5,620,454</u>
Business-type Activities:	
Water	3,788,557
Sewer	<u>231,246</u>
Total Business-type Activities	<u>4,019,803</u>
Total Primary Government	<u>\$ 9,640,257</u>

The accompanying notes are an integral part of this statement.

Program Receipts			Net (Disbursements) Receipts and Changes in Net Position		
Charges for Services	Capital Grants, Loans & Contributions	Operating Grants and Contributions	Primary Government		
			Governmental Activities	Business-type Activities	Total
\$ 124,859	\$ 764,600	\$ -	\$ (2,153,006)	\$ -	\$ (2,153,006)
547	-	20,936	(741,527)	-	(741,527)
1,150	-	-	(1,237,693)	-	(1,237,693)
-	16,360	-	(219,129)	-	(219,129)
-	-	-	(8,032)	-	(8,032)
-	-	-	(332,615)	-	(332,615)
<u>126,556</u>	<u>780,960</u>	<u>20,936</u>	<u>(4,692,002)</u>	<u>-</u>	<u>(4,692,002)</u>
1,031,289	2,992,577	-	-	235,309	235,309
<u>808,437</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>577,191</u>	<u>577,191</u>
<u>1,839,726</u>	<u>2,992,577</u>	<u>-</u>	<u>-</u>	<u>812,500</u>	<u>812,500</u>
<u>\$ 1,966,282</u>	<u>\$ 3,773,537</u>	<u>\$ 20,936</u>	<u>(4,692,002)</u>	<u>812,500</u>	<u>(3,879,502)</u>
GENERAL RECEIPTS					
Taxes:					
Property Taxes			1,466,443	-	1,466,443
Sales Tax			1,050,074	-	1,050,074
State Shared Receipts			113,092	-	113,092
Unrestricted Investment Earnings			798	-	798
Sale of Municipal Property			18,145	-	18,145
Miscellaneous Receipts			<u>76,188</u>	<u>-</u>	<u>76,188</u>
Total General Receipts			<u>2,724,740</u>	<u>-</u>	<u>2,724,740</u>
CHANGE IN NET POSITION			(1,967,262)	812,500	(1,154,762)
NET POSITION - BEGINNING			<u>2,741,869</u>	<u>1,102,838</u>	<u>3,844,707</u>
NET POSITION - ENDING			<u>\$ 774,607</u>	<u>\$ 1,915,338</u>	<u>\$ 2,689,945</u>

The accompanying notes are an integral part of this statement.

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City of Box Elder, South Dakota
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2012

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Tax Increment District #1 Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ (998,068)	\$ 718,507	\$ -	\$ (279,561)
Restricted Assets:				
Cash Restricted for Capital Outlay	385,329	-	-	385,329
Cash Restricted for Debt	<u>301,060</u>	<u>-</u>	<u>367,780</u>	<u>668,840</u>
TOTAL ASSETS	<u>\$ (311,679)</u>	<u>\$ 718,507</u>	<u>\$ 367,780</u>	<u>\$ 774,608</u>
FUND BALANCES				
Restricted:				
Debt Service	\$ 301,060	\$ -	\$ 367,780	\$ 668,840
Capital Outlay	385,329	-	-	385,329
Parks Improvements	11,268	-	-	11,268
Construction and City Promotion		718,507	-	718,507
Unassigned	<u>(1,009,336)</u>	<u>-</u>	<u>-</u>	<u>(1,009,336)</u>
TOTAL FUND BALANCES	<u>\$ (311,679)</u>	<u>\$ 718,507</u>	<u>\$ 367,780</u>	<u>\$ 774,608</u>

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Statement of Revenues, Expenditures and Changes in Fund Balances -
Modified Cash Basis - Governmental Funds
For the Year Ended December 31, 2012

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Tax Increment District #1 - Debt Service Fund	Total Governmental Funds
RECEIPTS				
Taxes:				
General Property Taxes	\$ 855,596	\$ -	\$ 608,272	\$ 1,463,868
General Sales and use Taxes	964,731	85,031	-	1,049,762
Amusement Taxes	312	-	-	312
Penalties and Interest on Delinquent Taxes	2,575	-	-	2,575
Licenses and Permits	126,909	-	-	126,909
Intergovernmental Receipts:				
State Grants	1,000	-	-	1,000
State Shared Receipts:				
Bank Franchise Tax	4,166	-	-	4,166
Liquor Tax Reversion	18,907	-	-	18,907
Motor Vehicle Licenses	43,291	-	-	43,291
Local Government Highway and Bridge Fund	27,476	-	-	27,476
Other	111,269	-	-	111,269
Federal Grants	37,296	-	64	37,360
Fines and Forfeits:				
Court Fines and Costs	1,697	-	-	1,697
Contributions and Donations from Private Sources	764,600	-	-	764,600
TOTAL RECEIPTS	<u>2,959,825</u>	<u>85,031</u>	<u>608,336</u>	<u>3,653,192</u>

The accompanying notes are an integral part of this statement.

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Tax Increment District #1 - Debt Service Fund	Total Governmental Funds
DISBURSEMENTS				
General Government:				
Executive	97,361	-	-	97,361
Elections	2,199	-	-	2,199
Financial Administration	471,141	-	-	471,141
Public Safety:				
Police	763,010	-	-	763,010
Public Works:				
Highways and Streets	814,021	-	-	814,021
Planning and Zoning	224,822	-	-	224,822
Culture and Recreation:				
Recreation	5,763	-	-	5,763
Parks	187,123	-	-	187,123
Libraries	3,750	-	-	3,750
Conservation and Development:				
Economic Development	1,221	6,810	-	8,031
Debt Service	-	-	332,615	332,615
Capital Outlay	2,710,617	-	-	2,710,617
TOTAL DISBURSEMENTS	<u>5,281,028</u>	<u>6,810</u>	<u>332,615</u>	<u>5,620,453</u>
NET CHANGE IN FUND BALANCE	(2,321,203)	78,221	275,721	(1,967,261)
FUND BALANCE - BEGINNING	<u>2,009,524</u>	<u>640,286</u>	<u>92,059</u>	<u>2,741,869</u>
FUND BALANCE - ENDING	<u>\$ (311,679)</u>	<u>\$ 718,507</u>	<u>\$ 367,780</u>	<u>\$ 774,608</u>

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Balance Sheet - Modified Cash Basis - Proprietary Funds
December 31, 2012

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 950	\$ 1,914,388	\$ 1,915,338
TOTAL ASSETS	<u>\$ 950</u>	<u>\$ 1,914,388</u>	<u>\$ 1,915,338</u>
 NET POSITION			
Restricted:			
Debt Service	\$ -	\$ 64,308	\$ 64,308
Unrestricted	<u>950</u>	<u>1,850,080</u>	<u>1,851,030</u>
TOTAL NET POSITION	<u>\$ 950</u>	<u>\$ 1,914,388</u>	<u>\$ 1,915,338</u>

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Statement of Revenues, Expenses and Changes in Fund Net Position -
Modified Cash Basis - Proprietary Funds
For the Year Ended December 31, 2012

	Water Fund	Sewer Fund	Total Proprietary Funds
OPERATING RECEIPTS			
Charges for Goods and Services	\$ 826,271	\$ 801,688	\$ 1,627,959
Revenues Used as Security for Revenue Bonds	<u>205,018</u>	<u>6,749</u>	<u>211,767</u>
Total Operating Receipts	<u>1,031,289</u>	<u>808,437</u>	<u>1,839,726</u>
OPERATING DISBURSEMENTS			
Personal Services	217,200	32,616	249,816
Repairs and Maintenance	144,228	88,083	
Other Current Disbursements	<u>287,842</u>	<u>33,528</u>	<u>321,370</u>
Total Operating Disbursements	<u>649,270</u>	<u>154,227</u>	<u>803,497</u>
Operating Income	<u>382,019</u>	<u>654,210</u>	<u>1,036,229</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)			
Capital Purchases	(3,005,470)	(2,041)	(3,007,511)
Principal Payments	(24,559)	(24,702)	(49,261)
Interest Payments	(73,625)	(50,279)	(123,904)
Debt Issuance Costs	(35,630)	-	(35,630)
Federal Grant Receipts	1,007,700	-	1,007,700
Debt Issued	<u>1,984,877</u>	<u>-</u>	<u>1,984,877</u>
Net Nonoperating Disbursements	<u>(146,707)</u>	<u>(77,022)</u>	<u>(223,729)</u>
NET INCOME	235,312	577,188	812,500
NET POSITION - BEGINNING	<u>(234,362)</u>	<u>1,337,200</u>	<u>1,102,838</u>
NET POSITION - ENDING	<u>\$ 950</u>	<u>\$ 1,914,388</u>	<u>\$ 1,915,338</u>

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2011 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. These statements 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 receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct disbursements and program receipts for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct disbursements are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program receipts 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. Receipts that are not classified as program revenues, including all taxes, are presented as general receipts.

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, receipts, and disbursements. 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, receipts, or disbursements 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, receipts, or disbursements of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2011 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The funds of the City 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.

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.

Liquor, Lodging and Dining Gross Receipts Tax Fund - To account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food, and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the city per SDCL 10-52A-2. This 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.

Tax Increment District #1 Debt Service Fund - Accounts for the accumulation of property tax receipts received on the tax increment district and the payment of general long-term debt principal and interest as related to the tax increment district. This fund is 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 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 - Financed primarily by user charges this fund accounts for the construction and operation of the municipal waterworks system and related facilities (SDCL 9-47-1). This fund is a major fund.

Sewer Fund - Financed primarily by user charges this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-48-2). This fund 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, regardless of the measurement focus.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2011 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City uses the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States. Under accounting principles generally accepted in the United States, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the balance sheet reports only cash and cash equivalents (those investments with terms to maturity of 90 days or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed.

Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements include the recording of investments arising from cash transactions. The City also presents negative cash balances rather than interfund loans.

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

If the City applied accounting principles generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. DEPOSITS AND INVESTMENTS

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2011 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. INTERFUND ELIMINATIONS AND RECLASSIFICATIONS

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:

As previously discussed, the City presents negative cash instead of interfund loans. In order to minimize the grossing-up effect within the governmental and business-type activities columns of the primary government, the City has also chosen to net all cash balances 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 cash and cash equivalents.

F. CAPITAL ASSETS

Under the modified cash basis of accounting, the City's capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash, in the government-wide financial statements, the fund financial statements and the proprietary financial statements.

G. LONG-TERM LIABILITIES

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances are recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category.

Long-term debts arising from cash transactions of all funds are not reported as liabilities in the modified cash basis financial statements.

H. REVENUE RECEIVED IN ADVANCE

Under the cash basis of accounting, cash may have been received in advance of the City's providing a good or service to a customer. These amounts are reported in the financial statements, as applicable.

I. PROGRAM RECEIPTS

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

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

J. PROPRIETARY FUNDS RECEIPTS AND DISBURSEMENTS CLASSIFICATION

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2011 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. EQUITY CLASSIFICATIONS

Government-Wide Financial Statements:

Equity is classified as net position and is displayed in two components under the modified cash basis:

1. 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.
2. Unrestricted Net Position - All other net assets that do not meet the definition of "restricted."

Fund Financial Statements

Governmental fund equity is classified as fund balance which is distinguished between the following classifications:

Nonspendable - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted - Constraints are placed on the use of resources by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by resolutions of the City Commissioners.

Assigned - Amounts that are constrained by the City management and are intended to be used for specific purposes but are neither restricted nor committed. The City Commissioners have given management the authority to create assignments of fund equity.

Unassigned - Represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned.

Proprietary fund equity is classified the same as in the government-wide financial statements.

L. 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 a disbursement is made for purposes for which both restricted and unrestricted net position are available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

NOTE 2 - INTERFUND TRANSFERS AND BALANCES

As a result of the City reporting under the modified cash basis of accounting, at times the funds will report negative cash and cash equivalents. Negative cash and cash equivalents represent the amount these funds have overdrawn their portion of pooled cash, and subsequently borrowed from other funds. As of December 31, 2011, Water Fund had overdrawn it's equity in pooled cash by \$234,362 and the General Fund had overdrawn its equity in pooled cash by \$254,311. As of December 31, 2012, the General Fund had overdrawn it's equity in pooled cash by \$998,068.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2011 and 2012

NOTE 3 - DEPOSITS AND INVESTMENTS

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 as follows.

Deposits

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

Investments

In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government; provided that, for other than permanent, trust, retirement, building and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of and meeting the requirements of §4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities act of 1933 and whose only investments are in securities described in (a) above and repurchase agreements described in (b) above.

The City's investments consisted of \$2,631,451 and \$1,818,878 at December 31, 2011 and 2012, respectively, invested in the South Dakota Public Fund Investment Trust (SDFIT) pool, which include no specific maturity date. The SDFIT is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

Custodial Credit Risk - 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. As of December 31, 2011 and 2012, none of the City's deposits were exposed to custodial credit risk.

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

Credit Risk - State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices. As of December 31, 2011 and 2012, the City's investment in the SDFIT pool was unrated.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2011 and 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

State law allows income from deposits and investments to be credited to either the General Fund of the fund making the investment. The City's policy is to credit all income from deposits and investments to the fund making the investment.

NOTE 4 - PROPERTY TAXES

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

NOTE 5 - COMMITMENTS

The following is a summary of the long-term commitments for the year ended December 31, 2011:

	Balance 12/31/10	Additions	Deletions	Balance 12/31/11
Governmental Funds:				
Tax Increment Financing	\$ 4,597,570	\$ 402,430	\$ (205,486)	\$ 4,794,514
Sales Tax Revenue Bonds	<u>-</u>	<u>3,950,000</u>	<u>(95,000)</u>	<u>3,855,000</u>
Total Governmental Funds	<u>4,597,570</u>	<u>4,352,430</u>	<u>(300,486)</u>	<u>8,649,514</u>
Business-type Activities:				
Revenue Bonds	2,868,566	-	(56,098)	2,812,468
Capital Acquisition Leases	<u>6,683</u>	<u>-</u>	<u>(6,683)</u>	<u>-</u>
Total Business-type Activities	<u>2,875,249</u>	<u>-</u>	<u>(62,781)</u>	<u>2,812,468</u>
Total	<u>\$ 7,472,819</u>	<u>\$ 4,352,430</u>	<u>\$ (363,267)</u>	<u>\$ 11,461,982</u>

The following is a summary of the long-term commitments for the year ended December 31, 2012:

	Balance 12/31/11	Additions	Deletions	Balance 12/31/12
Governmental Funds:				
Tax Increment Revenue Bonds	\$ 4,794,514	\$ -	\$ (248,143)	\$ 4,546,371
Sales Tax Revenue Bonds	<u>3,855,000</u>	<u>-</u>	<u>(155,000)</u>	<u>3,700,000</u>
Total Governmental Funds	<u>8,649,514</u>	<u>-</u>	<u>(403,143)</u>	<u>8,246,371</u>
Business-type Activities:				
Revenue Bonds	<u>2,812,468</u>	<u>1,984,887</u>	<u>(49,260)</u>	<u>4,748,095</u>
Total Business-type Activities	<u>2,812,468</u>	<u>1,984,887</u>	<u>(49,260)</u>	<u>4,748,095</u>
Total	<u>\$ 11,461,982</u>	<u>\$ 1,984,887</u>	<u>\$ (452,403)</u>	<u>\$ 12,994,466</u>

**City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2011 and 2012**

NOTE 5 - COMMITMENTS (CONTINUED)

Long-term debt at December 31, 2012 was comprised of the following:

Tax Increment Revenue Bonds:

Tax Increment Revenue Bond, Series 2010A, including interest at 3.25% and is due in annual installments of \$213,541 through December 1, 2025. Repayment is financed through the TIF Debt Service Fund (TID #1).	\$ 2,587,379
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Tax Increment Revenue Bond, Series 2010B, including interest at 3.25%, due in annual installments of \$192,209 through May 2025. Repayment is financed through the TIF Debt Service Fund (TID #1).	<u>1,958,993</u>
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4,546,372

Revenue Bonds:

Sales Tax Revenue Bonds, series 2011, including varying interest to 5%, due in annual escalating principal installments and semiannual interest installments through December 2030.	3,700,000
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2006 Water Utility Revenue bonds through Rural Development. Bears interest at 4.375%. Due in monthly installments of \$8,182 through November 2042. Financed through the Water Fund	1,669,526
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2012 State Revolving Fund Revenue Bonds through the South Dakota Conservancy District. Bears interest at 2.5% and an annual administrative fee of .5%. Due in quarterly installments of \$60,743 through January 2034. Financed through the Water Fund.	1,984,887
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1978 Sewer Revenue Note through Rural Development. Bears interest at 5.00%, including annual payments of \$10,673. Matures in September 2018. Financed through the Sewer Fund.	53,027
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2003 Sewer Revenue Note through Rural Development. Bears interest at 4.50 percent, including monthly payments of \$4,459. Matures in December 2041. Financed through the Sewer Fund.	865,846
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2003 Sewer Revenue Note through Rural Development. Bears interest at 4.50%, including monthly payments of \$900. Matures in January 2042. Financed through the Sewer Fund.	<u>174,808</u>
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8,448,094

\$ 12,994,466

As of December 31, 2012, the City was in the middle of a construction project for a new well and reservoir. The costs incurred as of December 31, 2012 are \$3,476,792. The total estimated costs of the project are \$4,570,650. The project is being financed with grant funding and the Series 2012 State Revolving Fund Revenue Bonds.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2011 and 2012

NOTE 6 - RETIREMENT PLAN

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

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the years ended December 31, 2009, 2010, 2011 and 2012, were \$77,616; \$64,285; \$66,255; and \$71,730; respectively, equal to the required contributions each year.

NOTE 7 - RISK ASSESSMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2011 and 2012, the City managed risks as follows:

Pending Litigation

The City is the defendant in a number of lawsuits arising principally in the normally course of business. In the opinion of management, the outcome of these lawsuits will not have a materially adverse effect on the accompanying financial statements and, accordingly, no provision for losses has been reflected.

Unemployment Benefits

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the two years ended December 31, 2011 and 2012, claims for unemployment benefits were filed in the amount of \$0 and \$7,577, respectively. Claims have resulted in the payment of benefits for each of the years ended December 31, 2009, 2010, 2011, and 2012 in the amount of \$0; \$0; \$0; and \$7,577; respectively.

Liability Insurance

The City is a member of 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 general liability, officials' liability, automobile liability and damage, property damage, and law enforcement liability.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2011 and 2012

NOTE 7 - RISK ASSESSMENT (CONTINUED)

The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members, to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and to 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 and to 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 agreement with the South Dakota Public Assurance Alliance provides that the above coverage will be provided up to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance of claims in excess of \$250,000 for property coverage and \$500,000 for liability to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

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

As of December 31, 2011 and 2012, the City had vested balances in the cumulative reserve fund of \$43,668, and is considered to be fully vested. The deposit is not recorded in the City's financial statements due to the modified cash basis of accounting elected by the City.

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.

Employee Health Insurance

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

Worker's Compensation

The City joined the South Dakota Municipal League of Worker's Compensation (the 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 \$325,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,675,000 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 during the past four years.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2011 and 2012

NOTE 8 - DESIGNATED NET POSITION

Although the unrestricted net position of the City's Water Fund is deficit, the City is obligated for designated customer deposits.

NOTE 9 - VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

This City is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents overdrafts of the expenditures compared to appropriations for the years ended December 31, 2011 and 2012.

For the Year Ended December 31, 2011			
General Fund	Appropriations	Total Spent	Overdraft of Expenditures
General Government			
Legislative / Executive	\$ 98,292	\$ 99,268	\$ (976)
Financial Administration	<u>553,002</u>	<u>2,123,273</u>	<u>(1,570,271)</u>
Total General Government	<u>\$ 651,294</u>	<u>\$ 2,222,541</u>	<u>\$ (1,571,247)</u>
Public Safety			
Police	<u>\$ 680,125</u>	<u>\$ 728,172</u>	<u>\$ (48,047)</u>
Highways and Streets	<u>\$ 533,059</u>	<u>\$ 760,157</u>	<u>\$ (227,098)</u>
Health and Welfare	<u>\$ -</u>	<u>\$ 7,450</u>	<u>\$ (7,450)</u>
Culture and Recreation			
Recreation	<u>\$ 3,500</u>	<u>\$ 3,700</u>	<u>\$ (200)</u>

For the Year Ended December 31, 2012			
General Fund	Appropriations	Total Spent	Overdraft of Expenditures
General Government			
Financial Administration	<u>\$ 533,853</u>	<u>\$ 2,942,905</u>	<u>\$ (2,409,052)</u>
Public Safety			
Police	<u>\$ 724,933</u>	<u>\$ 763,010</u>	<u>\$ (38,077)</u>
Public Works	<u>\$ 344,642</u>	<u>\$ 1,014,021</u>	<u>\$ (669,379)</u>
Culture and Recreation			
Recreation	\$ 4,100	\$ 5,763	\$ (1,663)
Parks	<u>183,894</u>	<u>225,976</u>	<u>(42,082)</u>
Total Culture and Recreation	<u>\$ 187,994</u>	<u>\$ 231,739</u>	<u>\$ (43,745)</u>
Conservation and Development			
Economic Development	<u>\$ -</u>	<u>\$ 1,221</u>	<u>\$ (1,221)</u>

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2011 and 2012

NOTE 9 - VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS (CONTINUED)

As reported in finding 2012-003 in the schedule of findings and questioned costs, the City violated several debt covenants for all outstanding debt issues.

The City also filed the audit after the nine-month deadline and was unable to prepare the schedule of expenditures of federal awards, both of which are required by the City's various federal grant awards.

NOTE 10 - PRIOR PERIOD ADJUSTMENT

As mentioned in Note 1, the City implemented GASB 54 which required reclassification of the Second Penny Sales Tax Fund into the General Fund, resulting in a prior period adjustment in the General Fund and Governmental Activities.

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SUPPLEMENTARY INFORMATION

City of Box Elder, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - General Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		Budgetary	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	Basis - Actual Amounts	
REVENUE				
Taxes:				
General Property Taxes	\$ 1,675,526	\$ 1,675,526	\$ 811,101	\$ (864,425)
General Sales and Use Taxes	-	-	965,592	965,592
Amusement Taxes	-	-	432	432
Penalties and Interest on Delinquent Taxes	-	-	2,378	2,378
Licenses and Permits	120,825	120,825	116,936	(3,889)
Intergovernmental Revenue:				
Federal Grants	331,100	331,100	45,555	(285,545)
State Shared Revenue:				
Liquor Tax Reversion	-	-	17,767	17,767
Motor Vehicle Licenses (5%)	-	-	35,409	35,409
Bank Franchise Tax	-	-	3,486	3,486
Local Government Highway and Bridge Fund	-	-	21,616	21,616
Charges for Goods and Services:				
General Government	42,250	42,250	-	(42,250)
Fines and Forfeits:				
Court Fines and Costs	500	500	-	(500)
Miscellaneous Revenue:				
Investment Earnings	-	-	841	841
Private Contributions	-	-	103	103
Other	34,000	34,000	55,275	21,275
TOTAL REVENUE	<u>2,204,201</u>	<u>2,204,201</u>	<u>2,076,491</u>	<u>(127,710)</u>

See independent auditor's report.

	Budgeted Amounts		Budgetary	Variance
	Original	Final	Basis - Actual Amounts	
DISBURSEMENTS				
General Government:				
Legislative / Executive	\$ 98,292	\$ 98,292	\$ 99,268	\$ (976)
Elections	2,450	2,450	123	2,327
Financial Administration	553,002	553,002	2,123,273	(1,570,271)
Public Safety:				
Police	680,125	680,125	728,172	(48,047)
Public Works:				
Highways and Streets	533,059	533,059	760,157	(227,098)
Planning and Zoning	251,851	251,851	191,080	60,771
Health and Welfare:				
Animal Control	-	-	7,450	(7,450)
Culture and Recreation:				
Recreation	3,500	3,500	3,700	(200)
Parks	246,290	246,290	212,535	33,755
Library	3,750	3,750	3,750	-
Debt Service	169,983	169,983	148,502	21,481
TOTAL DISBURSEMENTS	<u>2,542,302</u>	<u>2,542,302</u>	<u>4,278,010</u>	<u>(1,735,708)</u>
OTHER FINANCING SOURCES				
Sale of Municipal Property	-	-	268,145	268,145
Loan Proceeds	-	-	3,950,000	3,950,000
Total Other Financing Sources	-	-	4,218,145	4,218,145
CHANGE IN CASH				
BASIS FUND BALANCE	(338,101)	(338,101)	2,016,626	2,354,727
FUND BALANCE -				
BEGINNING, RESTATED	<u>(7,102)</u>	<u>(7,102)</u>	<u>(7,102)</u>	<u>-</u>
ENDING FUND BALANCE - ENDING	<u>\$ (345,203)</u>	<u>\$ (345,203)</u>	<u>\$ 2,009,524</u>	<u>\$ 2,354,727</u>

See independent auditor's report.

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City of Box Elder, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - Liquor, Lodging
and Dining Gross Receipts Tax Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Budgetary	Basis - Actual
	Original	Final	Amounts	Variance
REVENUE				
Taxes:				
General Sales and Use Taxes	\$ 60,000	\$ 60,000	\$ 88,842	\$ 28,842
Miscellaneous Revenue:				
Contributions and Donations				
from Private Sources	200	200	-	(200)
TOTAL REVENUE	60,200	60,200	88,842	28,642
DISBURSEMENTS				
Conservation and Development:				
Economic Development	60,000	60,000	32,350	27,650
TOTAL DISBURSEMENTS	60,000	60,000	32,350	27,650
CHANGE IN CASH				
BASIS FUND BALANCE	200	200	56,492	56,292
FUND BALANCE - BEGINNING	583,794	583,794	583,794	-
ENDING FUND BALANCE - ENDING	\$ 583,994	\$ 583,994	\$ 640,286	\$ 56,292

See independent auditor's report.

City of Box Elder, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - General Fund
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		Budgetary	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	Basis - Actual <u>Amounts</u>	
REVENUE				
Taxes:				
General Property Taxes	\$ 1,716,872	\$ 1,716,872	\$ 855,596	\$ (861,276)
General Sales and Use Taxes	-	-	964,731	964,731
Amusement Taxes	-	-	312	312
Penalties and Interest on Delinquent Taxes	-	-	2,575	2,575
Licenses and Permits	94,950	94,950	126,909	31,959
Intergovernmental Revenue:				
Federal Grants	485,910	485,910	37,296	(448,614)
State Grants	-	-	1,000	1,000
State Shared Revenue:				
Liquor Tax Reversion	-	-	18,907	18,907
Motor Vehicle Licenses (5%)	-	-	43,291	43,291
Bank Franchise Tax	-	-	4,166	4,166
County Shared Revenue:				
County Road Tax	-	-	27,476	27,476
Other	-	-	111,269	111,269
Charges for Goods and Services:				
General Government	20,500	20,500	-	(20,500)
Fines and Forfeits:				
Court Fines and Costs	100	100	1,697	1,597
Miscellaneous Revenue:				
Private Contributions	<u>552,000</u>	<u>552,000</u>	<u>764,600</u>	<u>212,600</u>
TOTAL REVENUE	<u>2,870,332</u>	<u>2,870,332</u>	<u>2,959,825</u>	<u>89,493</u>

See independent auditor's report.

	Budgeted Amounts		Budgetary	Variance
	Original	Final	Basis - Actual Amounts	
DISBURSEMENTS				
General Government:				
Legislative / Executive	\$ 104,654	\$ 104,654	\$ 97,361	\$ 7,293
Elections	2,450	2,450	2,199	251
Financial Administration	533,853	533,853	2,942,905	(2,409,052)
Public Safety:				
Police	724,933	724,933	763,010	(38,077)
Public Works	344,642	344,642	1,014,021	(669,379)
Culture and Recreation:				
Recreation	4,100	4,100	5,763	(1,663)
Parks	183,894	183,894	225,976	(42,082)
Library	3,750	3,750	3,750	-
Conservation and Development:				
Planning and Zoning	281,865	281,865	224,822	57,043
Economic Development	-	-	1,221	(1,221)
Debt Service	569,732	569,732	-	569,732
TOTAL DISBURSEMENTS	<u>2,753,873</u>	<u>2,753,873</u>	<u>5,281,028</u>	<u>(2,527,155)</u>
CHANGE IN CASH				
BASIS FUND BALANCE	116,459	116,459	(2,321,203)	(2,437,662)
FUND BALANCE - BEGINNING	<u>2,009,524</u>	<u>2,009,524</u>	<u>2,009,524</u>	<u>-</u>
ENDING FUND BALANCE - ENDING	<u>\$ 2,125,983</u>	<u>\$ 2,125,983</u>	<u>\$ (311,679)</u>	<u>\$ (2,437,662)</u>

See independent auditor's report.

City of Box Elder, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - Liquor, Lodging
and Dining Gross Receipts Tax Fund
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		Budgetary	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	Basis - Actual Amounts	
REVENUE				
Taxes:				
General Sales and Use Taxes	\$ 60,000	\$ 60,000	\$ 85,031	\$ 25,031
Miscellaneous Revenue:				
Contributions and Donations from Private Sources	<u>200</u>	<u>200</u>	<u>-</u>	<u>(200)</u>
TOTAL REVENUE	<u>60,200</u>	<u>60,200</u>	<u>85,031</u>	<u>24,831</u>
DISBURSEMENTS				
Conservation and Development:				
Economic Development	<u>60,000</u>	<u>60,000</u>	<u>6,810</u>	<u>53,190</u>
TOTAL DISBURSEMENTS	<u>60,000</u>	<u>60,000</u>	<u>6,810</u>	<u>53,190</u>
CHANGE IN CASH				
BASIS FUND BALANCE	200	200	78,221	78,021
FUND BALANCE - BEGINNING	<u>640,286</u>	<u>640,286</u>	<u>640,286</u>	<u>-</u>
ENDING FUND BALANCE - ENDING	<u>\$ 640,486</u>	<u>\$ 640,486</u>	<u>\$ 718,507</u>	<u>\$ 78,021</u>

See independent auditor's report.

City of Box Elder, South Dakota
Notes to Supplementary Information
For the Year Ended December 31, 2012

NOTE 1 – BASIS OF PRESENTATION

The Budgetary Comparison Schedules have been prepared on the modified cash basis of accounting and present capital outlay and debt service expenditures within each function similar to the Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriations 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 line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board. The City did not encumber any amounts at December 31, 2012 or 2011.
6. The budget for the general fund is adopted on a basis consistent with that which is presented in the financial statements.

See independent auditor's report.

**City of Box Elder, South Dakota
Municipal Officials
December 31, 2011 and 2012**

2011

Mayor

Al Dial

Council Members

William Griffiths

Jane Maine

Al LaBine

Terry Wenrick

Charlie Wood

Barb Frerichs

Finance Officer

Debbie Knapp

2012

Mayor

William Griffiths

Council Members

Scott Allen

Kelly Foster

Mark Coatney

Terry Wenrick

Charlie Wood

Steven Cowley

Finance Officer

Debbie Knapp / Mystee Lashwood

See independent auditor's report.

**City of Box Elder, South Dakota
Schedule of Expenditures of Federal Awards
For the Years Ended December 31, 2011 and 2012**

Federal CFDA Number	Direct Award	Major Program	Federal Program or Cluster Title	Pass-through Entity	Expenditures For the Year Ended December 31, 2011	Expenditures For the Year Ended December 31, 2012	Total Expenditures
<u>US Department of Agriculture</u>							
10 . 760	Y	Y	Water and Waste Disposal Systems for Rural Communities (Note 2)		\$ 402,430	\$ -	\$ 402,430
Total US Department of Agriculture					<u>402,430</u>	<u>-</u>	<u>402,430</u>
<u>US Department of Housing and Urban Development:</u>							
14 . 228	N	Y	Community Development Block Grant/State's Program	SD Governor's Office of Economic Development	-	515,000	515,000
Total US Department of Housing and Urban Development					<u>-</u>	<u>515,000</u>	<u>515,000</u>
<u>Department of Transportation</u>							
Highway Safety Cluster:							
20 . 600	N	N	State and Community Highway Safety	SD Department of Public Safety	18,732	20,097	38,829
Total Highway Safety Cluster					<u>18,732</u>	<u>20,097</u>	<u>38,829</u>
Federal Highway Administration							
20 . 219	N	N	Recreational Trails Program	SD Game Fish & Parks	-	16,360	16,360
Total US Department of Transportation					<u>18,732</u>	<u>36,457</u>	<u>55,189</u>
<u>Environmental Protection Agency</u>							
66 . 202	Y	Y	Congressionally Mandated Projects		-	492,700	492,700
Total Environmental Protection Agency					<u>-</u>	<u>492,700</u>	<u>492,700</u>
<u>US Department of Justice</u>							
16 . 710	Y	N	Public Safety Partnership and Community Policing Grants, Recovery		20,192	-	20,192
Total US Department of Justice					<u>20,192</u>	<u>-</u>	<u>20,192</u>
<u>General Service Administration</u>							
39 . 003	N	N	Donation of Federal Surplus Personal Property	SD Federal Property Agency	573	519	1,092
Total General Service Administration					<u>573</u>	<u>519</u>	<u>1,092</u>
Total Federal Financial Assistance					<u>\$ 441,927</u>	<u>\$ 1,044,676</u>	<u>\$ 1,486,603</u>

NOTE 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Box Elder, South Dakota and is presented on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations." Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2: The total outstanding balance on this loan at December 31, 2012 and 2011 was \$4,546,371 and \$4,794,514, respectively. Total draws on this loan program were \$5,000,000. Repayment began in 2011.

See independent auditor's report.