

EAST DAKOTA WATER DEVELOPMENT DISTRICT
BROOKINGS, SOUTH DAKOTA
FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2013

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
BROOKINGS, SOUTH DAKOTA**

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**EAST DAKOTA WATER DEVELOPMENT DISTRICT
DISTRICT OFFICIALS AND OFFICIAL NEWSPAPERS
DECEMBER 31, 2013**

PRINCIPAL OFFICIALS:

Board of Directors:

Martin Jarrett.....	Chairman
Roger Scheibe	Secretary
Jerry Soholt.....	Vice-Chairman
Mark Anderson	Member
Lois J. Brown.....	Member
Mary Ellen Connelly.....	Member
Gary Duffy.....	Member
Kay Kassube	Member
John Moes.....	Member

Administrative Staff:

Jay Gilbertson	Manager-Treasurer
Kristi Thielen	Administrative Assistant

Attorney:

Gregg Greenfield, Boyce, Greenfield, Pashby & Welk, L.L.P.

Official Newspapers of the District

Brookings Register
Clear Lake Courier
Grant County Review
DeSmet News
Miner County Pioneer
Watertown Public Opinion
Moody County Enterprise
Hamlin County Herald Enterprise
Madison Daily Leader
Sioux Falls Argus Leader

Paul T. East, CPA
Paul W. Vander Woude, CPA
Rose M. Grant, CPA, MST

707 WEST 11th STREET
Sioux Falls, SD 57104
(605)334-9111
(605)334-2195 FAX

INDEPENDENT AUDITOR'S REPORT

To the Governing Board
East Dakota Water Development District
Brookings, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of East Dakota Water Development District, Brookings, South Dakota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 the 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the East Dakota Water Development District, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 28 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Dakota Water Development District's financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section 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 also issued a report dated December 3, 2014 on our consideration of the East Dakota Water Development District'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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Dakota Water Development District's internal control over financial reporting and compliance.

East, VanderWoods, Dent & Co, PC

Sioux Falls, South Dakota

December 3, 2014

East Dakota Water Development District

**132B Airport Drive
Brookings, SD 57006**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of East Dakota Water Development District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on December 31, 2013. Please read it in conjunction with our financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the year by \$1,190,868 (net position). Of this amount, \$1,123,862 (unrestricted net position) may be used to meet the District's ongoing obligations to customers and creditors. Also included in total net position is \$67,006 that is invested in capital assets.
- During the year, the District's revenues were \$7,878 less than the \$692,556 program expenditures, resulting in a corresponding decrease in the District's net position.
- The total cost of the District's programs increased by approximately 9%. The change reflects an increase in water development activities, while administrative costs remained static.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District government covered and the types of information contained. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of East Dakota Water Development District's Financial Statements

	Fund Statements	
	Government-wide Statements	Governmental
Scope	All activities of the District	All activities for the District
Required Financial Statements	* Statement of Net Position * Statement of Activities	* Balance Sheet * Statement of Revenues, Expenditures and changes in Fund Balances
Accounting Basis And Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of Asset / Liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets are included.
Type of Inflow/ Outflow information	All revenue and expenses during the year, regardless of when cash is received or paid.	Revenue for which cash is received during or soon after year end, expenditures when good or services have been received and payment is due during the year or soon thereafter.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

Government-wide Statements (continued)

- Increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District are reported in:

- **Governmental Activities -**
All of the District's basic services, such as consulting and developing water conservation projects. Property taxes and federal grants finance most of the cost of these services.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes. State Law requires the use of the fund.

The District has one fund (the General Fund), which is a "governmental fund."

- **Governmental Fund -** All of the District's services are included in the governmental fund, which focuses on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental fund statements, or on the subsequent page, that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position increased (decreased) as follows:

East Dakota Water Development District Statements of Net Position December 31, 2013 and 2012

	<u>12/31/13</u>	<u>12/31/12</u>
Current Assets	\$ 1,185,291	\$ 1,149,761
Capital Assets	<u>67,006</u>	<u>100,390</u>
Total Assets	<u>1,252,297</u>	<u>1,250,151</u>
Current Liabilities	9,796	7,127
Long-Term Debt Outstanding	<u>51,633</u>	<u>44,278</u>
Total Liabilities	<u>61,429</u>	<u>51,405</u>
Net Position:		
Investment in Capital Assets	67,006	100,390
Unrestricted	<u>1,123,862</u>	<u>1,098,356</u>
Total Net Position	<u>\$ 1,190,868</u>	<u>\$ 1,198,746</u>
Beginning Net Position	<u>1,198,746</u>	<u>1,184,834</u>
Increase (Decrease) in Net Assets	<u>\$(7,878)</u>	<u>\$ 13,912</u>
Percentage of Increase (Decrease) in Net Position for 2013 and 2012	<u>(0.66) %</u>	<u>1.17 %</u>

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components - the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of compensated absences payable, have been reported in this manner on the Statement of Net Position. The difference between the District's assets and liabilities is its net position.

CHANGES IN NET POSITION:

The District's total revenues totaled \$ 684,678. Approximately 90 % of the District's revenue comes from real estate taxes, with another 10 % coming from state and federal grants and interest.

The total cost of all programs and services increased by approximately 9%. The District's expenses encompass water development and support services.

GOVERNMENTAL ACTIVITIES

The table and the narrative that follows consider the operations of the governmental activities.

East Dakota Water Development District Changes in Net Position for 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenue:		
Operating grants	\$ 64,496	\$ 34,597
General revenues:		
Property taxes	615,050	602,042
Unrestricted investment earnings	5,107	9,947
Other	<u>25</u>	<u>3,700</u>
Total revenues	<u>684,678</u>	<u>650,286</u>
Expenses:		
Water development	453,485	401,819
Support	<u>239,071</u>	<u>234,555</u>
Total Expenses	<u>692,556</u>	<u>636,374</u>
Increase (Decrease) in Net Position	(7,878)	13,912
Beginning Net Position	<u>1,198,746</u>	<u>1,184,834</u>
Ending Net Position	<u>\$ 1,190,868</u>	<u>\$ 1,198,746</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General Fund had a modest increase (\$34,627) in fund balance, with District income exceeding expenses. The increase is due primarily to lower than expected demand for direct financial assistance grants.

BUDGETARY HIGHLIGHTS

Over the course to the year, the District Board revised the budget several times. These amendments were for changes to anticipated projects.

There were no significant budget variances for the year.

CAPITAL ASSET ADMINISTRATION

By the end of 2013 and 2012, the District had the following capital asset investment:

East Dakota Water Development District - Capital Assets (Net of depreciation)

	<u>12/31/13</u>	<u>12/31/12</u>
Furniture, equipment and vehicles	<u>\$ 67,006</u>	<u>\$100,390</u>
Total Capital Assets (net)	<u>\$ 67,006</u>	<u>\$100,390</u>

Capital additions for 2013 consisted of the purchase of two computers.

LONG-TERM DEBT

The District is liable for the accrued vacation and sick leave payable to certain employees.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The revenues of the District are generated from a tax levy. The District had an annual tax levy of \$615,050 for 2013. By law, the District can increase its budget for 2014 from the Consumer Price Index (adjustment for inflation) and property taxes from new construction and growth in the Counties tax base.

The District will continue to support necessary and important water resources activities within the constraints of state law and Board policy.

One of the primary sources of revenue to the District is grant awards. The District will continue to actively pursue new grant dollars for projects of interest/need, along with reapplying for continuation grants for projects the District is currently administering.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about the report or need additional information, contact the East Dakota Water Development District, 132B Airport Drive, Brookings, South Dakota 57006, (605)-688-6741.

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 1,160,386
Grants receivable	6,194
Taxes receivable-current	4,472
Taxes receivable-delinquent	4,153
Prepaid insurance	10,086
Capital Assets:	
Furniture and equipment, net of depreciation	<u>67,006</u>
TOTAL ASSETS	<u><u>\$ 1,252,297</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 4,600
Payroll taxes & benefits payable	5,196
Noncurrent liabilities:	
Due within one year	38,700
Due in more than one year	<u>12,933</u>
TOTAL LIABILITIES	<u>61,429</u>
NET POSITION:	
Investment in capital assets	67,006
Unrestricted	<u>1,123,862</u>
TOTAL NET POSITION	<u>1,190,868</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 1,252,297</u></u>

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

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Expenses:

Water Development	
Technical Assistance	\$ 223,746
Project Assistance	159,212
Dakota Water Watch	15,874
Wellhead Protection	12,073
Water Resource Projects	4,293
Water Quality Monitoring	4,111
Depreciation	34,176
	<u>453,485</u>
Support	
Administration	188,045
Board of Directors	27,103
Legal and Consultant	16,190
Capital Outlay	2,312
Depreciation	5,421
	<u>239,071</u>
Total expenses	<u>692,556</u>

Program Revenues:

Operating Grants	<u>64,496</u>
Net program expense	<u>628,060</u>

General Revenues:

Property taxes	615,050
Unrestricted Investment Earnings	5,107
Miscellaneous	25
	<u>620,182</u>
Total General Revenues	<u>620,182</u>
Change in Net Position	(7,878)
Net Position - beginning	<u>1,198,746</u>
Net Position - ending	<u><u>\$ 1,190,868</u></u>

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

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
AS OF DECEMBER 31, 2013**

ASSETS	<u>General Fund</u>
Current Assets:	
Cash	\$ 1,160,386
Due from other governments / non-profits	6,194
Taxes receivable - current	4,472
Taxes receivable - delinquent	4,153
Prepaid insurance	<u>10,086</u>
 TOTAL ASSETS	 <u><u>\$ 1,185,291</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	
Current Liabilities:	
Accounts payable	\$ 4,600
Payroll taxes & benefits payable	<u>5,196</u>
Total Current Liabilities	<u>9,796</u>
 Deferred Inflows of Resources	 <u>9,764</u>
Fund Balance	
Non-spendable for prepaid expenses	10,086
Assigned for next year's budget	200,000
Assigned	428,068
Unassigned fund balance	<u>527,577</u>
 Total Fund Balance	 <u>1,165,731</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	 <u><u>\$ 1,185,291</u></u>

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

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO
THE STATEMENT OF NET POSITION
DECEMBER 31, 2013**

Total Fund Balance-Governmental Fund \$ 1,165,731

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

Assets such as taxes receivable (delinquent) and grants receivable
are not available to pay for current period expenditures and therefore
are deferred inflows of resources in the funds 9,764

Capital assets of \$273,908, net of accumulated depreciation of \$206,902
used in governmental activities are not financial resources and therefore
are not reported in the funds. 67,006

Long-term liabilities, including accrued leave, are not due
and payable in the current period and therefore are not
reported in the funds. (51,633)

Total Net Position-Governmental Activities \$ 1,190,868

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

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

Revenue:

Taxes		\$ 617,897
Grants:		
SD Department of Natural Resources		
Brookings Area TMDL Sampling		8,184
Water Quality Monitoring		25,924
Wellhead Protection Area		19,505
SD Discovery Center and Aquarium		
Dakota Water Watch		6,752
Other		468
Other		2,582
Interest Income		5,107
Other Income		25
Total Revenue		686,444

Expenditures:

Board of Directors		27,103
Administration		186,039
Legal and Consultant		16,190
Technical Assistance		218,397
Capital Outlay		2,312
Water Quality Monitoring Project		10,324
Dakota Water Watch		15,874
Wellhead Protection		12,073
Water Resource Projects		4,293
Project Assistance		159,212
Total Expenditures		651,817
Net Changes in Fund Balance		34,627
Fund Balance, Beginning of year		1,131,104
Fund Balance, End of year		\$ 1,165,731

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

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-
WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Net Changes in Fund Balances-Total Governmental Funds \$ 34,627

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$39,597) exceeded capital outlays (\$6,213) in the current period. (33,384)

The fund financial statements recognize tax revenue in the fiscal period for which it was levied, provided the "available" criteria is met. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (within 30 days), but the statement of activities includes these revenues in the period for which they are levied on an accrual basis. (2,847)

The fund financial statements recognize grant revenue in the fiscal period for which it is earned, provided the "available" criteria is met as explained above. Under the accrual basis of accounting, grant revenues are recorded when all applicable eligibility requirements (time requirements, reimbursements, etc.) are met. 1,081

Governmental funds do not reflect the change in accrued leave payable, but the statement of activities reflects the changes in accrued leave payable through expenses. (7,355)

Change in Net Position of Governmental Activities \$ (7,878)

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

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity

The reporting entity included in this report is a primary government controlled by the East Dakota Water Development District's (District) board of directors. The East Dakota Water Development District (EDWDD) is a political subdivision of the State of South Dakota. The purpose, duties, functions and other controls relating to water development districts are found in South Dakota Codified Law chapters 46A-3A through 46A-3E. The districts have a broad mandate to work to promote the conservation, development and proper management of water resources within their respective boundaries. Water development districts have no regulatory authority. The District has been in existence since 1963.

These financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about a reporting entity as a whole. They include all funds of a reporting entity. The District operates using one fund, thus the District's statements include only governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

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

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

b. Basis of Presentation

Fund Financial Statements:

Fund financial statements of a reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. The District utilizes one fund, the General Fund, to account for its operations. It is used to account for all financial resources except those required to be accounted for in another fund. The District has no other funds. The General Fund is categorized as a governmental fund. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the main operating fund of the District or it meets certain criteria. Thus, the General Fund is always considered to be 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.

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental fund types.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets from grants are recorded when all applicable eligibility requirements (time requirements, reimbursements, etc.) are met; and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

c. Measurement Focus and Basis of Accounting, continued

Basis of Accounting, continued:

Fund Financial Statements:

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

Expenditures are generally recognized when the related fund liability is incurred.

d. Capital Assets

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. The District's policy is to capitalize those items with a useful life greater than one year and having an initial acquisition cost over \$500 prior to April 18, 2013. Effective April 18, 2013, the capitalization threshold was raised to \$1,000.

Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

At December 31, 2013, none of the costs of governmental activities capital assets were determined by estimates of the original costs.

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with accounting principles generally accepted in the United States.

Depreciation of all exhaustible capital assets is charged as an allocated expense against operations in the government-wide financial statements. Accumulated depreciation is reported on the government-wide Statement of Net Position. Depreciation has been provided over the estimated useful lives using the straight-line method.

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

d. Capital Assets, continued

The range of estimated useful lives of capital assets by asset class is as follows:

Machinery, furniture and equipment, (including vehicles) 5 – 10 years

Governmental activities capital assets and related depreciation expenses are only reported in the government-wide financial statements. Because their measurement focus is on “current financial resources,” capital assets and related depreciation expenses are not recorded in the governmental fund-type fund financial statements. Instead, in the governmental fund-type fund financial statements, capital asset acquisitions are reported as expenditures based upon where the capital assets were budgeted.

e. Program Revenue

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

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

For the year ended December 31, 2013, the District only had program-specific operating grants and contributions.

f. Deferred Inflows of Resources:

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

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

g. Equity Classifications

Government-wide Statements:

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

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Government-wide Statements, continued:

2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation. The District had no restricted net position at December 31, 2013.
3. Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

Fund Financial Statements:

In accordance with GASB No. 54, the District classified governmental fund balances as follows:

Non-spendable - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The District's non-spendable fund balances consist of prepaid insurance.

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 actions of the Board of Directors.

Assigned - Amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. Amounts can be assigned by the Board of Directors.

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

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

f. Equity Classifications, continued

The governing board constrained the following fund balance types by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
Assigned:		
For next year's budget	<u>\$200,000</u>	Resolution
Project assistance to specific projects / entities	\$135,481	Motion
Wellhead Protection Area Assistance Program	98,401	Motion
Riparian Easement Program	<u>194,186</u>	Motion
	<u>\$428,068</u>	

Fund Financial Statements:

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

g. Application of Net Position

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available. The District has a formal policy providing for a minimum fund balance for cash flow of \$50,000.

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The District’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 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 District funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At December 31, 2013, none of the District’s deposits in financial institutions were exposed to custodial credit risk.

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

Credit Risk – State law limits eligible investments for the District, as discussed above. The District has no investment policy that would further limit its investment choices. As of December 31, 2013, the District had no investments.

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

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

3. RECEIVABLE AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The District expects all receivables to be collected within one year.

4. DEFERRED INFLOWS OF RESOURCES

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

The District's deferred inflow of resources consists of the following:

Property taxes	\$ 4,153
Grant / contract reimbursements	<u>5,611</u>
Total	<u>\$ 9,764</u>

5. PROPERTY TAXES

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

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

6. CHANGES IN CAPITAL ASSETS

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

	<u>Balance</u> <u>12/31/2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>12/31/2013</u>
Governmental Activities:				
Capital assets, being Depreciated:				
Furniture and Equipment	\$ 267,695	\$ 6,213	\$ -	\$ 273,908
Less Accumulated Depreciation for:				
Furniture and Equipment	<u>167,305</u>	<u>39,597</u>	<u>-</u>	<u>206,902</u>
Governmental Activity				
Capital Assets, Net	<u>\$ 100,390</u>	<u>\$ 33,384</u>	<u>\$ -</u>	<u>\$ 67,006</u>

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

6. CHANGES IN CAPITAL ASSETS, continued

Capital assets were expensed where budgeted on the Statement of Revenues, Expenditures, and Changes in Fund Balance as follows:

Water Quality Monitoring \$ 6,213

7. LONG-TERM DEBT

Following is a schedule of changes in long-term debt for the year ending December 31, 2013:

	<u>Vacation Pay</u>	<u>Sick Leave</u>	<u>Total</u>
Balance, 12/31/12	\$26,271	\$18,007	\$44,278
Additions / increases	15,571	14,272	29,843
Used / decreases	<u>(16,074)</u>	<u>(6,414)</u>	<u>(22,488)</u>
Balance, 12/31/13	<u>\$25,768</u>	<u>\$25,865</u>	<u>\$51,633</u>
Amount due with one year	<u>\$25,768</u>	<u>\$12,932</u>	<u>\$38,700</u>

The above liabilities are payable by the General Fund.

8. OFFICE LEASE

The District renewed its lease for an office under a ten year lease commencing November 1, 2012 for \$1,725 a month. The District is also responsible for any increases in real estate taxes over the 2002 levy on the property as a whole. The District cannot sublet these premises without permission. The District has the option of renewing the lease for an additional period at a renegotiated monthly rental. At December 31, 2013, the District had paid \$20,700 in rent expense for the year and had a total remaining obligation of \$182,850 as follows:

The future minimum lease payments are as follows:

<u>Year</u>	<u>Total</u>
2014	\$ 20,700
2015	20,700
2016	20,700
2017	20,700
2018	20,700
2019 - 2022	<u>79,350</u>
Total	<u>\$ 182,850</u>

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

9 RETIREMENT PLAN

All full 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's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary, Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution.

	2013		2012		2011
District Contribution	\$14,325	6%	\$14,398	6%	\$14,220

10. RISK MANAGEMENT

The East Dakota Water Development District 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 period ended December 31, 2013, the District managed its risks as follows:

a. Employee Health Insurance

Currently the Blue Cross / Blue Shield program of the South Dakota Municipal League is offered to all full time employees of East Dakota Water Development District. This optional coverage is available as single or family coverage. East Dakota Water Development District will pay 75% of the premium for each employee's selected coverage whether it be single or family coverage. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

b. Liability Insurance

The District purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

10. RISK MANAGEMENT, continued

c. Workmen's Compensation

The District purchases liability insurance for workmen's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

d. Unemployment Benefits

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

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amount</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenue:				
Taxes	\$ 617,760	\$ 617,760	\$ 617,897	\$ 137
Grants:				
Water Quality Management	30,000	30,000	25,924	(4,076)
Water Resource Projects	150,000	150,000	30,739	(119,261)
Dakota Water Watch	15,000	15,000	6,752	(8,248)
Interest Income	12,000	12,000	5,107	(6,893)
Miscellaneous	-	-	25	25
Total Revenue	<u>824,760</u>	<u>824,760</u>	<u>686,444</u>	<u>(138,316)</u>
Expenditures:				
Board of Directors	37,586	37,586	27,103	10,483
Administrative	213,055	213,055	186,039	27,016
Legal and Consultant	27,500	27,500	16,190	11,310
Technical Assistance	255,709	255,709	218,397	37,312
Capital Outlay	11,000	11,000	2,312	8,688
Water Quality Monitoring Project	30,000	30,000	10,324	19,676
Dakota Water Watch	15,000	15,000	15,874	(874)
Water Resource Projects	150,000	150,000	16,366	133,634
Project Assistance	174,910	174,910	159,212	15,698
Contingency	60,000	60,000	-	60,000
Total Expenditures	<u>974,760</u>	<u>974,760</u>	<u>651,817</u>	<u>322,943</u>
Net Change in Fund Balance	(150,000)	(150,000)	34,627	184,627
Fund Balance, December 31, 2012	<u>727,305</u>	<u>727,305</u>	<u>1,131,104</u>	<u>-</u>
Fund Balance, December 31, 2013	<u>\$ 577,305</u>	<u>\$ 577,305</u>	<u>\$ 1,165,731</u>	<u>\$ 184,627</u>

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

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Budgets and Budgetary Accounting

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

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

Paul T. East, CPA
Paul W. Vander Woude, CPA
Rose M. Grant, CPA, MST

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**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***

INDEPENDENT AUDITOR'S REPORT

To the Governing Board
East Dakota Water Development District
Brookings, South Dakota

We have audited, in accordance with the 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 and the major fund of East Dakota Water Development District, Brookings South Dakota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 3, 2014.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we considered to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency #2013-01 through 2013-3 described in the accompanying schedule of findings and responses to be a material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency #2013-04 described the accompanying schedule of findings and responses to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Dakota Water Development District'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

East Dakota Water Development District's Response to Findings

East Dakota Water Development District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District'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.

Ernst, VanderWende, Grant & Co, PC

Sioux Falls, South Dakota
December 3, 2014

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

CURRENT YEAR FINDINGS:

Finding No. 2013-01 – Auditor performing the accounting period close and drafting of the financial statements and related footnote disclosures.

Finding Type: Internal control over financial reporting – material weakness

Condition

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As a result, the District requested the external auditors to prepare the journal entries to adjust the year-end financial statements and to draft the financial statements and related footnote disclosures as part of our regular audit services.

Effect

The District's internal control structure is not designed to provide for the preparation of financial statements being audited. AU Section 325 requires auditors to communicate this situation to the entity's Board of Directors as an internal control deficiency.

Cause

The District does not have the human resources necessary for the preparation of full disclosure financial statements.

Criteria

Government Auditing Standards, appendix I, paragraph A1.08, details management's responsibilities for establishing and maintaining effective internal control systems to prevent or timely detect material misstatements in financial statements.

As a part of the District's internal control system, management is to have controls over the entity's year-end financial reporting process. Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures.

Recommendation

It is the responsibility of management and those in charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. It is the responsibility of management to provide for closing of the books and the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both at the same time in connection with our audit. This is not unusual for us to do this with an organization of your size. However, based on auditing standards, it is our

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

CURRENT YEAR FINDINGS, continued

Finding No. 2013-01, continued

Recommendation, continued

responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy, have answered any questions they might have, and have encouraged research of any classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Additionally, we recommend that the staff responsible for the accounting and reporting function continue to develop their accounting skills.

Views of Responsible Officials

The District concurs with the finding and is aware of the risk associated with not preparing our financial statements, but believe our review of the financial statements to be adequate to reduce this risk. Additionally, as available, office staff will participate in training to improve skills and proficiency. Starting in July 2014, District financial matters (payroll and general accounting) are being handled by a local professional accounting firm rather than being handled in-house.

Conclusion – Response accepted.

Finding No. 2013-02 – Documentation for disbursements made by electronic funds transfer was not always initialed by the manager to evidence review and approval for payment by management.

Finding Type: Internal control over disbursements – material weakness

Condition

Of 28 expenses/disbursements tested, two expenses tested were charges on the monthly bank credit card billing which was paid electronically. One expense tested was for a travel reimbursement to a board member who was paid by direct deposit. The credit card billings and the board member expense report were not initialed by the manager to indicate review of the documentation and approval for payment.

Such transactions are listed on the bank statements which are initialed by the manager to indicate his review.

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

CURRENT YEAR FINDINGS, continued

Finding No. 2013-02, continued

Effect

Payment to vendors electronically without obtaining prior approval could result in improper payments being made.

Cause

The credit card billing was not presented to the manager for approval after the bookkeeper matched credit card receipts to the statement.

Expense report documentation was not presented to the manager for review and approval for payment because a check was not required to be processed to pay the board member as the member was paid by direct deposit.

Criteria

The District's policies for internal controls include segregation of duties which state that where possible, more than one person will be involved in the financial transaction. No one person shall be responsible for an entire financial transaction.

Recommendation

All invoices should be approved for payment prior to payment being made by check or electronically. Electronic payments to vendors reflected on the bank statements should be examined to ascertain that they were for disbursements approved prior to payment by management for District expenses that are adequately documented and that such expenses are appropriately recorded in the District records.

Views of Responsible Officials

The District concurs with the finding. Starting in July 2014, the manager now reviews all billings and payment requests prior to processing for payment by the District's accounting service. The Board of Directors is also now provided with a charge-by-charge breakdown of the credit card billings so that they are aware of each expense item, along with a line-by-line summary of monthly activity for the District's money market (savings) and electronic transfer bank accounts.

Conclusion -- Response accepted.

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

CURRENT YEAR FINDING, continued

Finding No. 2013-03 –Bank statements for the flex plan account were not reviewed by management.

Finding Type: Internal control over disbursements – material weakness

Condition

Bank statements were received electronically for the flex plan account. Bank statements in the District's files were not initialed to document management's review of the bank statement. The online bank statement was also not being accessed and reviewed by management.

Bank reconciliations were not prepared for this account. However, historically, activity has been limited with few, if any, outstanding items.

Effect

Transactions of the flex plan were not timely recorded in the District's records. Lack of segregation of duties and oversight could result in material misstatements of the financial statements presented to the Board of Directors.

Cause

The bookkeeper was not performing duties as assigned and there was a lack of management oversight.

Criteria

The District's policies for internal controls include segregation of duties which state that where possible, more than one person will be involved in the financial transaction. No one person shall be responsible for an entire financial transaction.

Recommendation

In general, the approval function, the accounting/reconciling function, and the asset custody function should be separated among employees. When these functions cannot be separated, a supervisory review should be done as a compensating control activity. Such review should be documented.

Paper bank statements should be received from the bank.

Bank reconciliations should also be prepared as necessary and reviewed to ensure that there is both creditability and completeness of data recorded in the District's financial statements.

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

CURRENT YEAR FINDINGS, continued

Finding No. 2013-03, continued

Views of Responsible Officials

The District concurs with the finding and has requested that the bank send paper copies of the monthly bank statements for this account. These statements are being reviewed directly by the manager, initialed and filed. Finally, the District is terminating its flexible medical spending account program, effective November 30, 2014, and this account will be closed once all appropriate activity is concluded. Closure is anticipated by April 1, 2015.

Conclusion – Response accepted

Finding No. 2013-04 – Quarterly Form 941, Employer's Quarterly Federal Tax Return, was not timely filed for two quarters in 2013.

Finding Type: Internal control over compliance – significant deficiency

Condition

While assembling District information for the 2013 financial statement audit, management discovered that the Form 941, Employer's Quarterly Federal Tax Return had not been filed with the Internal Revenue Service for the 2nd and 4th quarters of 2013. However, payroll tax deposits had been deposited for the 2nd and 4th quarters of 2013.

The District retained a local CPA firm to prepare the missing reports and the District filed them in October 2014.

Effect

The Internal Revenue Service can assess penalties against the District for not timely filing the required reports. Tax deposits not matched to a report could be refunded by the Internal Revenue Service or applied to other quarters.

Cause

The bookkeeper was not performing duties as assigned.

Criteria

Federal law requires an employer to withhold certain taxes from their employees' pay and for the employer to pay the employer's portion of social security and Medicare taxes. Such payroll taxes are required to be timely deposited with the Internal Revenue Service.

**EAST DAKOTA WATER DEVELOPMENT DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

CURRENT YEAR FINDINGS, continued

Finding No. 2013-04, continued

Criteria, continued

A Form 941 is required to be completed quarterly to report payroll tax withholdings. The IRS matches amounts reported on the employer's four quarterly Forms 941 with Form W-2 amounts totaled on the employer's yearly Form W-3, Transmittal of Wage and Tax Statements.

Recommendation

Timely file required payroll tax reports and retain a copy in District files noting the date such report was filed by paper or electronically.

Review any Internal Revenue Service correspondence received to ascertain what information is being requested and timely respond to such requests, retaining documentation as to how and when the issue was resolved.

Views of Responsible Officials

The District concurs with the finding. Payroll management and the filing of all necessary paperwork with the Internal Revenue Service is now being handled by the District's accounting firm. The accounting firm has reviewed District records and has made the necessary 2013 Quarterly Form 941 filings to address the failure of District staff. This has included review and amendments to all 2013 Form 941 filings, as well as those for 2014. The firm is now responsible of the preparation and filing of all such documents, and have engaged the manager in the process (signatures of forms submitted).

Conclusion – Response accepted

STATUS OF PRIOR AUDIT FINDINGS

Finding Number 2012-01: A material weakness was reported for the auditor performing the accounting period close and drafting of the financial statements and related footnote disclosures.

Current status – The finding continues to exist and is restated as Finding 2013-01.

RECEIVED

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LEGISLATIVE AUDIT