

**MUNICIPALITY OF ALEXANDRIA  
ALEXANDRIA, SOUTH DAKOTA**

**AUDIT REPORT**

**FOR THE YEAR JANUARY 1, 2011 TO DECEMBER 31, 2011**

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF ALEXANDRIA

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MUNICIPAL OFFICIALS  
DECEMBER 31, 2011

MAYOR:

Todd Waldera

GOVERNING BOARD:

Tim Wenande – President  
Darwin Persson – Vice-President  
Mike Brown  
Brian Carmody  
Mark Haynes  
Don Huber

FINANCE OFFICER:

Patty Gullickson

ATTORNEY:

James Davies

*Schoenfish & Co., Inc.*

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P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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

Municipal Council  
Municipality of Alexandria  
Alexandria, South Dakota

We have audited the financial statements of the governmental activities, business-type activities, and each major fund of the Municipality of Alexandria, South Dakota (Municipality), as of December 31, 2011, and for the year then ended which collectively comprise the Municipality's financial statements and have issued our report thereon dated February 1, 2012, which was qualified because interest income for funds other than the general fund was not recognized in the fund reporting the investment. Also, the opinion was qualified for the business-type activities and the water fund because the Municipality did not record interfund services. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to 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 Current Audit Findings, 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2011-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws,

regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Municipality of Alexandria's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. We did not audit the Municipality's responses and, accordingly, we express no opinion on them.

We also noted certain additional matters that we have reported to the management of the Municipality in a separate communication dated March 28, 2012.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the Municipality of Alexandria, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. 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.



Schoenfish & Co., Inc.  
Certified Public Accountants  
February 1, 2012

*Schoenfish & Co., Inc.*

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2007-01:

A significant deficiency and material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2011-01.

Compliance – Related Finding:

Finding Number 2007-02:

Expenditures exceeded the amounts budgeted in the General and Second Penny Fund. This comment has been corrected.

Finding Number 2007-03:

The Municipality did not adopt a capitalization policy, did not take an annual inventory, and had a negative cash balance in the Debt Service Fund. This comment has been corrected.

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2011-01:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is the second audit in which a similar comment has occurred.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Condition:

The Finance Officer processes all revenue transactions from beginning to end. The Finance Officer receives money, issues receipts, records receipts, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

1. We recommend that the Municipality of Alexandria officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The Municipality of Alexandria Mayor, Todd Waldera, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Alexandria, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the officials during the course of the audit and with the Mayor, Council President, and Finance Officer on March 28, 2012.

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INDEPENDENT AUDITOR'S REPORT

Municipal Council  
Municipality of Alexandria  
Alexandria, South Dakota

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Alexandria, South Dakota, as of December 31, 2011 and for the year then ended, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Municipality of Alexandria's management. Our responsibility is to express opinions on the financial statements based on our audit.

Except as discussed in the fourth and fifth paragraph, 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1.c. to the financial statements, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Municipality does not record the amounts of interfund services provided and used. We were unable to determine if these amounts are material.

Interest income for funds other than the General Fund was not recognized in the fund reporting the investment. As required by GAAP, this income should be reported in each respective fund and subsequently transferred to the General Fund per municipal policy. The amounts of this subject are not reasonably determinable.

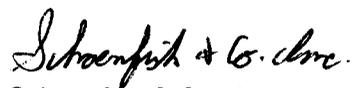
In our opinion, except for the effects, if any, of the matters discussed in paragraphs four and five, above, the financial statements referred to above present fairly, in all material respects, the respective financial position - cash basis, of the business-type activities and the water fund of the Municipality of Alexandria as of December 31, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with the cash basis of accounting described in Note 1.c. to the financial statements.

In addition, in our opinion, except for the effects, if any, of the matters discussed in paragraph five, above, the financial statements referred to above present fairly, in all material respects, the respective

financial position - cash basis, of the governmental activities and each major fund, except the water fund, of the Municipality of Alexandria as of December 31, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with the cash basis of accounting described in Note 1.c. to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2012, on our consideration of the Municipality of Alexandria's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The Budgetary Comparison Schedules and the Long-Term Liabilities schedule listed in the Table of Contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information 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. The 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 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. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Schoenfish & Co., Inc.  
Certified Public Accountants  
February 1, 2012

**MUNICIPALITY OF ALEXANDRIA**  
**STATEMENT OF NET ASSETS - CASH BASIS**  
**December 31, 2011**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and Cash Equivalents	<u>309,292.67</u>	<u>481,427.47</u>	<u>790,720.14</u>
<b>TOTAL ASSETS</b>	<u><u>309,292.67</u></u>	<u><u>481,427.47</u></u>	<u><u>790,720.14</u></u>
<b>NET ASSETS:</b>			
Restricted:			
TIF Capital Projects	<u>11,698.53</u>		<u>11,698.53</u>
Debt Service	<u>1,849.94</u>		<u>1,849.94</u>
Unrestricted	<u>295,744.20</u>	<u>481,427.47</u>	<u>777,171.67</u>
<b>TOTAL NET ASSETS</b>	<u><u>309,292.67</u></u>	<u><u>481,427.47</u></u>	<u><u>790,720.14</u></u>

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

**MUNICIPALITY OF ALEXANDRIA**  
**STATEMENT OF ACTIVITIES - CASH BASIS**  
**For the Year Ended December 31, 2011**

Functions/Programs	Disbursements	Program Receipts			Net (Expense) Receipts and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
General Government	77,187.44	4,695.00			(72,492.44)		(72,492.44)
Public Safety	10,780.00				(10,780.00)		(10,780.00)
Public Works	181,738.65	67,660.51	21,816.35		(92,261.79)		(92,261.79)
Health and Welfare			1,300.00		1,300.00		1,300.00
Culture and Recreation	26,648.16				(26,648.16)		(26,648.16)
Miscellaneous Disbursements	705.00				(705.00)		(705.00)
*Interest on Long-Term Debt	7,237.31				(7,237.31)		(7,237.31)
Principal on Long-Term Debt	102,904.70				(102,904.70)		(102,904.70)
<b>Total Governmental Activities</b>	<b>407,201.26</b>	<b>72,355.51</b>	<b>23,116.35</b>	<b>0.00</b>	<b>(311,729.40)</b>	<b>0.00</b>	<b>(311,729.40)</b>
<b>Business-type Activities:</b>							
Water	80,350.84	120,030.02				39,679.18	39,679.18
Sewer	26,496.93	48,646.45				22,149.52	22,149.52
<b>Total Business-Type Activities</b>	<b>106,847.77</b>	<b>168,676.47</b>	<b>0.00</b>	<b>0.00</b>		<b>61,828.70</b>	<b>61,828.70</b>
<b>Total Primary Government</b>	<b>514,049.03</b>	<b>241,031.98</b>	<b>23,116.35</b>	<b>0.00</b>	<b>(311,729.40)</b>	<b>61,828.70</b>	<b>(249,900.70)</b>
<b>General Receipts:</b>							
Taxes:							
					156,194.60		156,194.60
					117,667.20		117,667.20
					4,194.14		4,194.14
					2,896.95		2,896.95
					16,716.59		16,716.59
<b>Total General Receipts</b>					<b>297,669.48</b>	<b>0.00</b>	<b>297,669.48</b>
<b>Change in Net Assets</b>					<b>(14,059.92)</b>	<b>61,828.70</b>	<b>47,768.78</b>
<b>Net Assets - Beginning</b>					<b>323,352.59</b>	<b>419,598.77</b>	<b>742,951.36</b>
<b>NET ASSETS - ENDING</b>					<b>309,292.67</b>	<b>481,427.47</b>	<b>790,720.14</b>

\*The Municipality does not have interest disbursements related to the functions presented above. This amount includes indirect interest disbursement on general long-term debt.

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

**MUNICIPALITY OF ALEXANDRIA  
BALANCE SHEET - CASH BASIS  
GOVERNMENTAL FUNDS  
December 31, 2011**

	<u>General Fund</u>	<u>TIF Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
<b>ASSETS:</b>				
Cash and Cash Equivalents	295,744.20	11,698.53	1,849.94	309,292.67
<b>TOTAL ASSETS</b>	<u>295,744.20</u>	<u>11,698.53</u>	<u>1,849.94</u>	<u>309,292.67</u>
<b>FUND BALANCES:</b>				
Restricted Fund Balance:				
Capital Projects		11,698.53		11,698.53
Debt Service			1,849.94	1,849.94
Unassigned	295,744.20			295,744.20
<b>TOTAL FUND BALANCES</b>	<u>295,744.20</u>	<u>11,698.53</u>	<u>1,849.94</u>	<u>309,292.67</u>

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

**MUNICIPALITY OF ALEXANDRIA**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES**  
**IN FUND CASH BALANCES - CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2011**

	General Fund	TIF Capital Projects Fund	Debt Service Fund	Total
<b>Receipts:</b>				
Taxes:				
General Property Taxes	117,108.28		38,990.32	156,098.60
General Sales and Use Taxes	58,833.59		58,833.61	117,667.20
Amusement Taxes	96.00			96.00
Total Taxes	176,037.87	0.00	97,823.93	273,861.80
Licenses and Permits	3,745.00	0.00	0.00	3,745.00
Intergovernmental Receipts:				
Federal Grants	1,300.00			1,300.00
State Shared Receipts:				
Bank Franchise Tax	673.03			673.03
Motor Vehicle Licenses	13,355.63			13,355.63
Liquor License Reversion	3,521.11			3,521.11
Local Government Highway and Bridge Fund	4,675.76			4,675.76
County Shared Receipts:				
County Road Tax	2,558.41			2,558.41
County HBR Tax	1,226.55			1,226.55
Total Intergovernmental Receipts	27,310.49	0.00	0.00	27,310.49
Charges for Goods and Services:				
Sanitation	67,660.51			67,660.51
Total Charges for Goods and Services	67,660.51	0.00	0.00	67,660.51
Miscellaneous Receipts:				
Investment Earnings	2,896.95			2,896.95
Rentals	950.00			950.00
Other	16,716.59			16,716.59
Total Miscellaneous Receipts	20,563.54	0.00	0.00	20,563.54
Total Receipts	295,317.41	0.00	97,823.93	393,141.34

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

**MUNICIPALITY OF ALEXANDRIA**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES**  
**IN FUND CASH BALANCES - CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2011**

	<b>General Fund</b>	<b>TIF Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>
<b>Disbursements:</b>				
General Government:				
Legislative	23,486.35			23,486.35
Financial Administration	25,566.00			25,566.00
Other	28,135.09			28,135.09
Total General Government	77,187.44	0.00	0.00	77,187.44
Public Safety:				
Fire	10,780.00			10,780.00
Total Public Safety	10,780.00	0.00	0.00	10,780.00
Public Works:				
Highways and Streets	88,405.51	29,999.00		118,404.51
Sanitation	63,334.14			63,334.14
Total Public Works	151,739.65	29,999.00	0.00	181,738.65
Culture and Recreation:				
Parks	15,987.30			15,987.30
Libraries	10,660.86			10,660.86
Total Culture and Recreation	26,648.16	0.00	0.00	26,648.16
Debt Service	0.00	0.00	110,142.01	110,142.01
Miscellaneous:				
Other	705.00			705.00
Total Miscellaneous	705.00	0.00	0.00	705.00
Total Disbursements	267,060.25	29,999.00	110,142.01	407,201.26
Net Change in Fund Cash Balance	28,257.16	(29,999.00)	(12,318.08)	(14,059.92)
Fund Cash Balance - Beginning	267,487.04	41,697.53	14,168.02	323,352.59
FUND CASH BALANCE- ENDING	295,744.20	11,698.53	1,849.94	309,292.67

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

**MUNICIPALITY OF ALEXANDRIA  
BALANCE SHEET - CASH BASIS  
PROPRIETARY FUNDS  
December 31, 2011**

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
<b>ASSETS:</b>			
Current Assets:			
Cash and Cash Equivalents	230,299.88	251,127.59	481,427.47
Total Current Assets	<u>230,299.88</u>	<u>251,127.59</u>	<u>481,427.47</u>
 TOTAL ASSETS	 <u>230,299.88</u>	 <u>251,127.59</u>	 <u>481,427.47</u>
 <b>NET ASSETS:</b>			
Unrestricted Net Assets	<u>230,299.88</u>	<u>251,127.59</u>	<u>481,427.47</u>
 TOTAL NET ASSETS	 <u>230,299.88</u>	 <u>251,127.59</u>	 <u>481,427.47</u>

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

**MUNICIPALITY OF ALEXANDRIA**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN**  
**FUND CASH NET ASSETS - CASH BASIS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2011**

	<b>Enterprise Funds</b>		<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
<b>Operating Receipts:</b>			
Charges for Goods and Services	120,030.02	48,646.45	168,676.47
Total Operating Receipts	120,030.02	48,646.45	168,676.47
<b>Operating Disbursements:</b>			
Personal Services	21,617.26	18,219.46	39,836.72
Other Current Disbursements	58,733.58	8,277.47	67,011.05
Total Operating Disbursements	80,350.84	26,496.93	106,847.77
Change in Net Cash Assets	39,679.18	22,149.52	61,828.70
Net Cash Assets - Beginning	190,620.70	228,978.07	419,598.77
<b>NET CASH ASSETS - ENDING</b>	<b>230,299.88</b>	<b>251,127.59</b>	<b>481,427.47</b>

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

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c, these financial statements are presented on a cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have not been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

a. Financial Reporting Entity:

The reporting entity of the Municipality of Alexandria (Municipality) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting 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 Assets – Cash Basis and Statement of Activities – Cash Basis display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities – Cash Basis presents a comparison between direct disbursements and program receipts for each segment of the business-type activities of the Municipality and for each function of the Municipality'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 receipts, 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 three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or it meets the following criteria.

See Independent Auditor's Report.

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

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

**Governmental Funds:**

General Fund – The General Fund is the general operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always 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.

Series 2005 Bond Debt Service Fund – to account for property taxes which may be used only for the payment of the debt principal, interest, and related costs. This is a major fund.

Capital Projects Funds – capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or governments).

Industrial Development Tax Increment Financing Capital Projects Fund – to account for financial resources to be used for Industrial Development. This 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 (disbursements, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of receipts, earned, disbursements incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

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

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 is a major fund.

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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" receipts and disbursements are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

During 2011, the Municipality used the cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when receipts are earned and liabilities are incurred. Under the cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

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

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

Basis of Accounting:

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

The 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, 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.

As a result of the use of this 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 Municipality applied USGAAP, 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. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
(Continued)

e. Long-Term Liabilities:

Under the cash basis of accounting, cash proceeds from long-term debt issuances is 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 governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as disbursements. The accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

f. Revenue Received in Advance:

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

g. Program Receipts:

Program receipts derive directly from the program itself or from parties other than the Municipality'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 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.

h. Proprietary Funds Receipts and Disbursement Classifications:

In the proprietary fund's Statement of Receipts, Disbursements and Changes in Fund Cash Net Assets, receipts and disbursements are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating receipts and disbursements.

i. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in the following components:

1. Restricted net assets – Consists of net assets 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.

See Independent Auditor's Report.

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
(Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned, or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

j. Application of Net Assets:

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

k. Fund Balance Classification Policies and Procedures:

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

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

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

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

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
(Continued)

**2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS**

The Municipality is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts to the disbursements compared to appropriations:

	<u>Year Ended</u> <u>12/31/2011</u>
General Fund:	
Public Works:	
Sanitation	\$ 4,863.14
Parks	287.30
Libraries	660.86
Other Expenditures	705.00

The Municipality plans to take the following actions to address these violations: use contingency transfers and supplements when needed.

**3. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK**

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

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

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

Investments – In general, SDCL 4-5-6 permits Municipality funds to be invested 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, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of 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 and meeting the requirements of Section 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) and repurchase agreements described in (b).

See Independent Auditor's Report.

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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

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

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

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making investment. The Municipality's policy is to credit all income from deposits and investments to the General Fund. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund should be reported. The Municipality did not follow this practice.

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

5. RESTRICTED NET ASSETS

Restricted net assets for the year ended December 31, 2011 were as follows:

<u>Purpose:</u>	<u>Restricted By</u>	<u>12/31/2011</u>
Major Funds:		
Debt Service Fund	Debt Covenants	\$ 1,849.94
Capital Projects Fund	Law	<u>11,698.53</u>
Total Restricted Net Assets		<u><u>\$ 13,548.47</u></u>

6. LONG-TERM COMMITMENTS

The Municipality of Alexandria entered into a 20-year commitment with Hanson Rural Water to provide water to the Municipality. A monthly service charge in the amount of \$885 is paid by the Municipality to Hanson Rural Water. The monthly service charge represents a contribution by the Municipality to aid Hanson Rural Water in the construction of the facilities necessary to provide the Municipality with water. The Municipality will not acquire ownership of any of these water facilities through these lease payments. Payments are made from the Municipality's Water Fund.

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
(Continued)

The following are the minimum payments on this commitment:

2012	\$ 10,620.00
2013	\$ 10,620.00
2014	\$ 10,620.00
2015	\$ 10,620.00
2016	\$ 10,620.00
2017-2021	\$ 53,100.00

**7. SIGNIFICANT CONTINGENCIES - LITIGATION**

At December 31, 2011, the Municipality was not involved in any significant litigation.

**8. RISK MANAGEMENT**

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

Employee Health Insurance:

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

Liability Insurance:

The Municipality purchases liability insurance for risks related to torts; theft of 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.

Worker's Compensation:

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

Unemployment Benefits:

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

**SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF ALEXANDRIA**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2011**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Receipts:</b>				
Taxes:				
General Property Taxes	118,564.00	118,564.00	117,108.28	(1,455.72)
General Sales and Use Taxes	30,000.00	30,000.00	58,833.59	28,833.59
Amusement Taxes	0.00	0.00	96.00	96.00
Licenses and Permits	3,510.00	3,510.00	3,745.00	235.00
Intergovernmental Receipts:				
Federal Grants	0.00	0.00	1,300.00	1,300.00
State Shared Receipts:				
Bank Franchise Tax	0.00	0.00	673.03	673.03
Motor Vehicle Licenses	6,100.00	6,100.00	13,355.63	7,255.63
Liquor License Reversion	2,100.00	2,100.00	3,521.11	1,421.11
Local Government Highway and Bridge Fund	2,000.00	2,000.00	4,675.76	2,675.76
County Shared Receipts:				
County Road Tax	1,000.00	1,000.00	2,558.41	1,558.41
County Wheel Tax	0.00	0.00	1,226.55	1,226.55
Charges for Goods and Services:				
Sanitation	58,471.00	58,471.00	67,660.51	9,189.51
Culture and Recreation	4,400.00	4,400.00	0.00	(4,400.00)
Fines and Forfeits:				
Library	5,200.00	5,200.00	0.00	(5,200.00)
Miscellaneous Receipts:				
Investment Earnings	3,100.00	3,100.00	2,896.95	(203.05)
Rentals	100.00	100.00	950.00	850.00
Other	800.00	800.00	16,716.59	15,916.59
<b>Total Receipts</b>	<b>235,345.00</b>	<b>235,345.00</b>	<b>295,317.41</b>	<b>59,972.41</b>
<b>Disbursements:</b>				
General Government:				
Legislative	24,500.00	24,500.00	23,486.35	1,013.65
Contingency	5,000.00	5,000.00		
Amount Transferred		0.00		5,000.00
Financial Administration	26,000.00	26,000.00	25,566.00	434.00
Other	63,000.00	63,000.00	28,135.09	34,864.91
<b>Total General Government</b>	<b>118,500.00</b>	<b>118,500.00</b>	<b>77,187.44</b>	<b>41,312.56</b>
Public Safety:				
Fire	13,200.00	13,200.00	10,780.00	2,420.00
<b>Total Public Safety</b>	<b>13,200.00</b>	<b>13,200.00</b>	<b>10,780.00</b>	<b>2,420.00</b>

**SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF ALEXANDRIA**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2011**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Disbursements (Continued):</b>				
Public Works:				
Highways and Streets	115,000.00	115,000.00	88,405.51	26,594.49
Sanitation	58,471.00	58,471.00	63,334.14	(4,863.14)
<b>Total Public Works</b>	<b>173,471.00</b>	<b>173,471.00</b>	<b>151,739.65</b>	<b>21,731.35</b>
Health and Welfare:				
Health	3,500.00	3,500.00	0.00	3,500.00
<b>Total Health and Welfare</b>	<b>3,500.00</b>	<b>3,500.00</b>	<b>0.00</b>	<b>3,500.00</b>
Culture and Recreation:				
Parks	15,700.00	15,700.00	15,987.30	(287.30)
Libraries	10,000.00	10,000.00	10,660.86	(660.86)
<b>Total Culture and Recreation</b>	<b>25,700.00</b>	<b>25,700.00</b>	<b>26,648.16</b>	<b>(948.16)</b>
Miscellaneous:				
Other Disbursements	0.00	0.00	705.00	(705.00)
<b>Total Miscellaneous</b>	<b>0.00</b>	<b>0.00</b>	<b>705.00</b>	<b>(705.00)</b>
<b>Total Disbursements</b>	<b>334,371.00</b>	<b>334,371.00</b>	<b>267,060.25</b>	<b>67,310.75</b>
<b>Net Change in Fund Cash Balances</b>	<b>(99,026.00)</b>	<b>(99,026.00)</b>	<b>28,257.16</b>	<b>127,283.16</b>
<b>Fund Cash Balance - Beginning</b>	<b>267,487.04</b>	<b>267,487.04</b>	<b>267,487.04</b>	<b>0.00</b>
<b>FUND CASH BALANCE - ENDING</b>	<b>168,461.04</b>	<b>168,461.04</b>	<b>295,744.20</b>	<b>127,283.16</b>

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NOTES TO THE SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund  
and for each major Special Revenue Fund with a legally required budget.

NOTE 1. Budgets and Budgetary Accounting:

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpected appropriations lapse at year end unless encumbered by resolution of the Governing Board.

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

The Municipality did not encumber any amounts at December 31, 2011.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with the cash basis of accounting.

NOTE 2. GAAP/Budgetary Accounting Basis Differences

The Municipality's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenue and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

