



Financial Statements
December 31, 2010

City of Bowdle

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Independent Auditor’s Report	1
Financial Statements	
Statement of Net Assets–Modified Cash Basis	3
Statement of Activities–Modified Cash Basis.....	4
Balance Sheet–Modified Cash Basis–Governmental Funds	5
Statement of Revenues, Expenditures, and Changes in Fund Balances–Modified Cash Basis–Governmental Funds	6
Balance Sheet–Modified Cash Basis–Proprietary Funds.....	8
Statement of Revenues, Expenses, and Changes in Fund Net Assets–Modified Cash Basis–Proprietary Funds ..	9
Statement of Cash Flows–Modified Cash Basis–Proprietary Funds.....	10
Notes to Financial Statements	11
Required Supplementary Information	
Budgetary Comparison Schedule–General Fund	19
Notes to Required Supplementary Information.....	21
Supplementary Information	
Schedule of Changes in Notes and Bonds Payable	22
Schedule of Expenditures of Federal Awards	23
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	26
Summary Schedule of Prior Audit Findings.....	28
Schedule of Findings and Questioned Costs	29
Corrective Action Plan (Unaudited).....	33



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The City Council
City of Bowdle
Bowdle, South Dakota

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the City of Bowdle, South Dakota, as of and for the year ended December 31, 2010, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, the City of Bowdle prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities, business-type activities, and each major fund of the City of Bowdle as of December 31, 2010, and the respective changes in financial position - modified cash basis and, where applicable, cash flows - modified cash basis thereof and for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2011, on our consideration of the City of Bowdle's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City of Bowdle has not presented a Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information on pages 19 and 21, although not a part of the basic financial statements, is supplementary information required by the provisions of the Governmental Accounting Standards Board Statement No. 34. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bowdle's financial statements as a whole. The schedule of changes in notes and bonds payable is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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. The accompanying Municipal Officials and corrective action plan in the introductory section and on pages 33 through 35, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements. The Municipal Officials and corrective action plan have 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 assurance on them.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in dark ink and is positioned above the typed address and date.

Aberdeen, South Dakota
September 22, 2011

City of Bowdle
Statement of Net Assets—Modified Cash Basis
December 31, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 516,722	\$ 752,975	\$ 1,269,697
Internal balances	16,316	(16,316)	-
Restricted assets:			
Cash and cash equivalents restricted for:			
Deposits and cash held for others in trust	-	8,064	8,064
Debt service	-	102,116	102,116
Replacement of assets	-	10,653	10,653
	<u>\$ 533,038</u>	<u>\$ 857,492</u>	<u>\$ 1,390,530</u>
Liabilities			
Deposits held	\$ -	\$ 7,600	\$ 7,600
Trust fund payable	-	464	464
	<u>-</u>	<u>8,064</u>	<u>8,064</u>
Net Assets			
Restricted for:			
Debt service	-	102,116	102,116
Replacement of assets	-	10,653	10,653
Unrestricted	<u>533,038</u>	<u>736,659</u>	<u>1,269,697</u>
	<u>533,038</u>	<u>849,428</u>	<u>1,382,466</u>
	<u>\$ 533,038</u>	<u>\$ 857,492</u>	<u>\$ 1,390,530</u>

City of Bowdle
Statement of Activities—Modified Cash Basis
Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions, and Loan Proceeds	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 37,724	\$ 13,392	\$ -	\$ -	\$ (24,332)	\$ -	\$ (24,332)
Public safety	13,441	-	-	-	(13,441)	-	(13,441)
Public works	123,790	-	-	-	(123,790)	-	(123,790)
Health and welfare	1,017	-	-	-	(1,017)	-	(1,017)
Culture and recreation	34,018	-	1,950	-	(32,068)	-	(32,068)
Conservation and development	4,072	-	-	-	(4,072)	-	(4,072)
Miscellaneous	-	-	2,857	-	2,857	-	2,857
Total governmental activities	<u>214,062</u>	<u>13,392</u>	<u>4,807</u>	<u>-</u>	<u>(195,863)</u>	<u>-</u>	<u>(195,863)</u>
Business-type activities:							
Water	1,039,360	117,062	-	863,331	-	(58,967)	(58,967)
Sewer	968,927	63,837	-	863,331	-	(41,759)	(41,759)
Hospital	3,995,930	4,178,598	30,185	-	-	212,853	212,853
Total business-type activities	<u>6,004,217</u>	<u>4,359,497</u>	<u>30,185</u>	<u>1,726,662</u>	<u>-</u>	<u>112,127</u>	<u>112,127</u>
Total primary government	<u>\$ 6,218,279</u>	<u>\$ 4,372,889</u>	<u>\$ 34,992</u>	<u>\$ 1,726,662</u>	<u>(195,863)</u>	<u>112,127</u>	<u>(83,736)</u>
General Revenues							
Taxes:							
Property taxes					85,832	-	85,832
Sales taxes					138,419	-	138,419
Amusement taxes					72	-	72
State shared revenues					27,022	-	27,022
Unrestricted investment earnings					8,063	7,872	15,935
Miscellaneous revenue					28,067	-	28,067
Total general revenues					<u>287,475</u>	<u>7,872</u>	<u>295,347</u>
Change in Net Assets					91,612	119,999	211,611
Net Assets - Beginning					441,426	729,429	1,170,855
Net Assets - Ending					<u>\$ 533,038</u>	<u>\$ 849,428</u>	<u>\$ 1,382,466</u>

See Notes to Financial Statements

City of Bowdle
Balance Sheet—Modified Cash Basis—Governmental Funds
December 31, 2010

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 516,722
Due from water fund	14,329
Due from sewer fund	<u>13,948</u>
	<u>\$ 544,999</u>
Liabilities and Fund Balance	
Liabilities	
Due to hospital and nursing home fund	<u>\$ 11,961</u>
Fund Balance	
Unreserved fund balance	
Undesignated	<u>533,038</u>
	<u>\$ 544,999</u>

City of Bowdle

Statement of Revenues, Expenditures, and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2010

	General Fund
Revenues	
310 Taxes	
311 General property taxes	\$ 84,844
313 General sales and use taxes	138,419
315 Amusement taxes	72
319 Penalties and interest on delinquent taxes	988
	988
Total taxes	224,323
320 Licenses and permits	273
330 Intergovernmental revenue	
334 State grants	1,950
335 State shared revenue	
335.01 Bank franchise tax	488
335.02 Motor vehicle commercial prorata	2,269
335.03 Liquor tax reversion	4,076
335.04 Motor vehicle licenses (5%)	6,061
335.08 Local government highway and bridge fund	14,128
338 County shared revenue	
338.01 County road tax (25%)	768
338.99 Other	9,971
	9,971
Total intergovernmental revenue	39,711
360 Miscellaneous revenue	
361 Investment earnings	8,063
362 Rentals	13,119
367 Contributions and donations from private sources	2,857
368 Liquor operating	
Agreement income	10,800
369 Other	6,528
	6,528
Total miscellaneous revenue	41,367
Total revenues	305,674

City of Bowdle

Statement of Revenues, Expenditures, and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2010

	General Fund
Expenditures	
410 General government	
412 Executive	13,716
413 Elections	13
414 Financial administration	16,916
419 Other	7,079
Total general government	37,724
420 Public safety	
422 Fire	13,441
Total public safety	13,441
430 Public works	
431 Highways and streets	115,283
432 Sanitation	5,577
435 Airport	1,964
437 Cemeteries	66
439 Transit	900
Total public works	123,790
440 Health and welfare	
441 Health	1,017
Total health and welfare	1,017
450 Culture and recreation	
452 Parks	8,944
455 Libraries	25,074
Total culture and recreation	34,018
460 Conservation and development	
465 Economic development and assistance (industrial development)	4,072
Total conservation and development	4,072
Total expenditures	214,062
Net Change in Fund Balance	91,612
Fund Balance - Beginning	441,426
Fund Balance - Ending	\$ 533,038

City of Bowdle
Balance Sheet-Modified Cash Basis-Proprietary Funds
December 31, 2010

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Hospital and Nursing Home Fund	
Assets				
Current Assets				
Cash and cash equivalents	\$ -	\$ 167,822	\$ 585,153	\$ 752,975
Cash restricted for debt service	-	-	56,738	56,738
Due from water fund	-	40,246	-	40,246
Due from general fund	-	-	11,961	11,961
Total current assets	<u>-</u>	<u>208,068</u>	<u>653,852</u>	<u>861,920</u>
Noncurrent Assets				
Restricted cash for:				
Deposits and cash held for others in trust	7,600	-	464	8,064
Debt service	689	689	44,000	45,378
Replacement of assets	2,480	2,480	5,693	10,653
Total noncurrent assets	<u>10,769</u>	<u>3,169</u>	<u>50,157</u>	<u>64,095</u>
	<u>\$ 10,769</u>	<u>\$ 211,237</u>	<u>\$ 704,009</u>	<u>\$ 926,015</u>
Liabilities				
Current Liabilities				
Due to general fund	\$ 14,329	\$ 13,948	\$ -	\$ 28,277
Due to sewer fund	40,246	-	-	40,246
Deposits held	7,600	-	-	7,600
Trust fund payable	-	-	464	464
Total liabilities	<u>62,175</u>	<u>13,948</u>	<u>464</u>	<u>76,587</u>
Net Assets				
Restricted net assets for:				
Debt service	689	689	100,738	102,116
Replacement of assets	2,480	2,480	5,693	10,653
Unrestricted net assets	<u>(54,575)</u>	<u>194,120</u>	<u>597,114</u>	<u>736,659</u>
Total net assets	<u>(51,406)</u>	<u>197,289</u>	<u>703,545</u>	<u>849,428</u>
	<u>\$ 10,769</u>	<u>\$ 211,237</u>	<u>\$ 704,009</u>	<u>\$ 926,015</u>

City of Bowdle

Statement of Revenues, Expenses, and Changes in Fund Net Assets—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2010

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Hospital and Nursing Home Fund	
Operating Revenue				
Charges for goods and services	113,896	60,872	\$ 4,138,348	\$ 4,313,116
Miscellaneous	3,166	2,965	40,250	46,381
Total operating revenue	<u>117,062</u>	<u>63,837</u>	<u>4,178,598</u>	<u>4,359,497</u>
Operating Expenses				
Personal services	18,353	16,640	2,270,052	2,305,045
Other current expense	79,903	11,810	1,522,047	1,613,760
Capital assets	934,222	933,595	83,859	1,951,676
Total operating expenses	<u>1,032,478</u>	<u>962,045</u>	<u>3,875,958</u>	<u>5,870,481</u>
Operating Loss	<u>(915,416)</u>	<u>(898,208)</u>	<u>302,640</u>	<u>(1,510,984)</u>
Nonoperating Revenue (Expense)				
Investment earnings	855	3,244	3,773	7,872
Debt service (principal)	(5,256)	(5,256)	(76,330)	(86,842)
Interest expense	(1,626)	(1,626)	(43,642)	(46,894)
Noncapital grants and contributions	494,331	494,331	30,185	1,018,847
Long-term debt issued	369,000	369,000	-	738,000
Total nonoperating revenue (expense)	<u>857,304</u>	<u>859,693</u>	<u>(86,014)</u>	<u>1,630,983</u>
Change in Net Assets	(58,112)	(38,515)	216,626	119,999
Net Assets - Beginning	<u>6,706</u>	<u>235,804</u>	<u>486,919</u>	<u>729,429</u>
Net Assets - Ending	<u>\$ (51,406)</u>	<u>\$ 197,289</u>	<u>\$ 703,545</u>	<u>\$ 849,428</u>

City of Bowdle
Statement of Cash Flows-Modified Cash Basis-Proprietary Funds
Year Ended December 31, 2010

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Hospital and Nursing Home Fund	
Cash Flows from Operating Activities				
Receipt from customers	\$ 117,062	\$ 63,837	\$ 4,178,598	\$ 4,359,497
Payments to suppliers	(79,903)	(11,810)	(1,522,047)	(1,613,760)
Payments to employees	(18,353)	(16,640)	(2,270,052)	(2,305,045)
Other receipts - cash held for others	250	-	(173)	77
Net Cash from Operating Activities	<u>19,056</u>	<u>35,387</u>	<u>386,326</u>	<u>440,769</u>
Cash Flows from Noncapital and Related Financing Activities				
Internal activity - payment (to) from other funds	54,575	(26,298)	7,617	35,894
Noncapital grants and contributions	494,331	494,331	30,185	1,018,847
Net Cash from Noncapital and Related Financing Activities	<u>548,906</u>	<u>468,033</u>	<u>37,802</u>	<u>1,054,741</u>
Cash Flows used by Capital and Related Financing Activities				
Proceeds from capital debt	369,000	369,000	-	738,000
Purchase of capital assets	(934,222)	(933,595)	(83,859)	(1,951,676)
Principal paid on capital debt	(5,256)	(5,256)	(76,330)	(86,842)
Interest paid on capital debt	(1,626)	(1,626)	(43,642)	(46,894)
Net Cash used by Capital and Related Financing Activities	<u>(572,104)</u>	<u>(571,477)</u>	<u>(203,831)</u>	<u>(1,347,412)</u>
Cash Flows from Investing Activities				
Interest earnings	855	3,244	3,773	7,872
Net Cash from Investing Activities	<u>855</u>	<u>3,244</u>	<u>3,773</u>	<u>7,872</u>
Net Change in Cash and Cash Equivalents	<u>(3,287)</u>	<u>(64,813)</u>	<u>224,070</u>	<u>155,970</u>
Cash and Cash Equivalents - Beginning	<u>14,056</u>	<u>235,804</u>	<u>467,978</u>	<u>717,838</u>
Cash and Cash Equivalents - Ending	<u>\$ 10,769</u>	<u>\$ 170,991</u>	<u>\$ 692,048</u>	<u>\$ 873,808</u>
Cash and Cash Equivalents Consist of:				
Cash and cash equivalents	\$ -	\$ 167,822	\$ 585,153	\$ 752,975
Restricted cash	10,769	3,169	106,895	120,833
	<u>\$ 10,769</u>	<u>\$ 170,991</u>	<u>\$ 692,048</u>	<u>\$ 873,808</u>
Reconciliation of Operating Income (Loss) to				
Net Cash from Operating Activities				
Operating income (loss)	\$ (915,416)	\$ (898,208)	\$ 302,640	\$ (1,510,984)
Adjustments to reconcile operating income to net cash from operating activities:				
Purchase of capital assets	934,222	933,595	83,859	1,951,676
Proceeds (payments) of cash held for others	250	-	(173)	77
Net Cash from Operating Activities	<u>\$ 19,056</u>	<u>\$ 35,387</u>	<u>\$ 386,326</u>	<u>\$ 440,769</u>

Note 1 - Summary of Significant Accounting Policies

As discussed further in Note 1.C, the financial statements are presented on a modified cash basis of accounting. The modified 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 been applied, to the extent they are applicable to the modified 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 City of Bowdle (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, 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 City's financial statements to be misleading or incomplete.

The reporting entity is comprised of the primary government, City of Bowdle.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

Based upon the application of these criteria, the City does not have any component units.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the City as a whole. They include all funds of the City except for fiduciary. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants, loans 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.

Fund Financial Statements

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into 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 City or it meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5% 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 City of Bowdle are described below.

Governmental Funds

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

Proprietary Funds

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

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

Hospital and Nursing Home Fund - Financed primarily by user charges, this fund accounts for the construction and operation of hospitals, medical clinics, and nursing homes. (SDCL 34-9-1) This is a major fund.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

The City's basis of accounting is the modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (USGAAP). Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis of accounting, 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 modified 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 applied within the limitations of the modified 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 modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The only modifications to the cash basis of accounting implemented by the City in these financial statements is the recording of long-term investments in certificates of deposit (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost, deposits on hand held for others, and inter-fund advances and borrowings arising from the use of a pooled cash account.

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

If the City applied 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.

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

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.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months and/or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

E. Capital Assets

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs.

F. Long-Term Liabilities

Under the modified 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 expenditures. Under the modified cash basis, 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.

G. Program Revenues

In the government-wide statement of activities, reported program revenues derive directly from the program itself or from parties other than the City’s taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. **Charges for Services** – These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided or are otherwise directly affected by the services.

2. Program-Specific Operating Grants and 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, Contributions and Loan Proceeds – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

H. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's statement of revenues, expenses, and changes in fund net assets, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

I. Cash and Cash Equivalents

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

J. Equity Classifications

Government-Wide Statements

Equity is classified as net assets and is comprised of three components, invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Because capital assets are not reported by the City under the modified cash basis of accounting, only the following components are displayed:

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.
2. Unrestricted Net Assets – All other net assets that do not meet the definition of "restricted".

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

K. Application of Net Assets

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Note 2 - Deposits and Investments

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

Deposits

The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% 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.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2010, the City maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

The actual bank balances at December 31, 2010 are as follows:

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 600,738
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	779,752
	<u>\$ 1,380,490</u>

The City's carrying amount of deposits at December 31, 2010 is as follows:

Cash and cash equivalents	<u>\$ 1,390,530</u>
---------------------------	---------------------

Investments

In general, SDCL 4-5-6 permits City 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) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to 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.

As of December 31, 2010, the City did not hold any investments as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. The City also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

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

Under the modified cash basis of accounting, investments are stated at cost.

Note 3 - Property Taxes

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

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

Note 4 - Significant Contingencies - Litigation

At December 31, 2010, the City was not involved in any litigation that would be material to the financial statements.

Note 5 - Restricted Net Assets

The following table shows the net assets restricted for other purposes as shown on the statement of net assets:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Sewer - Debt Service	Contractual Agreement	\$ 689
Sewer - Replacement of Assets	Contractual Agreement	2,480
Water - Debt Service	Contractual Agreement	689
Water - Replacement of Assets	Contractual Agreement	2,480
Hospital and Nursing Home - Debt Service	Contractual Agreement	100,738
Hospital and Nursing Home - Replacement of Assets	Donor Imposed	5,693

Note 6 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2010, the City managed its risks as follows:

Employee Health Insurance

The City purchases health insurance for its employees from a commercial insurance carrier.

Liability Insurance

The City 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 from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

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

Unemployment Benefits

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

During the year ended December 31, 2010, no claims for unemployment benefits were paid. At December 31, 2010, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.



Required Supplementary Information
December 31, 2010

City of Bowdle

City of Bowdle
 Budgetary Comparison Schedule—General Fund
 Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 80,582	\$ 80,582	\$ 84,844	\$ 4,262
313 General sales and use taxes	122,300	122,300	138,419	16,119
315 Amusement taxes	120	120	72	(48)
319 Penalties and interest on delinquent taxes	300	300	988	688
Total taxes	<u>203,302</u>	<u>203,302</u>	<u>224,323</u>	<u>21,021</u>
320 Licenses and permits	<u>250</u>	<u>250</u>	<u>273</u>	<u>23</u>
330 Intergovernmental revenue				
334 State grants	-	1,950	1,950	-
335 State shared revenue	19,500	19,500	27,022	7,522
338 County shared revenue	768	768	768	-
338.99 Other	9,640	9,640	9,971	331
Total intergovernmental revenue	<u>29,908</u>	<u>31,858</u>	<u>39,711</u>	<u>7,853</u>
340 Charges for good and services				
348 Cemetery	<u>200</u>	<u>200</u>	<u>-</u>	<u>(200)</u>
Total charges for goods and services	<u>200</u>	<u>200</u>	<u>-</u>	<u>(200)</u>
360 Miscellaneous revenue				
361 Investment earnings	9,500	9,500	8,063	(1,437)
362 Rentals	9,000	9,000	13,119	4,119
367 Contributions and donations from private sources	-	2,072	2,857	785
368 Liquor operating Agreement income	10,800	10,800	10,800	-
369 Other	2,850	2,850	6,528	3,678
Total miscellaneous revenue	<u>32,150</u>	<u>34,222</u>	<u>41,367</u>	<u>7,145</u>
Total revenues	<u>265,810</u>	<u>269,832</u>	<u>305,674</u>	<u>35,842</u>
Expenditures				
410 General government				
411 Legislative				
411.5 Contingency	10,000	10,000	-	10,000
Amount transferred				
412 Executive	18,860	18,860	13,716	5,144
413 Elections	725	725	13	712
414 Financial administration	26,450	29,450	16,916	12,534
419 Other	6,950	10,450	7,079	3,371
Total general government	<u>62,985</u>	<u>69,485</u>	<u>37,724</u>	<u>31,761</u>

City of Bowdle
 Budgetary Comparison Schedule—General Fund
 Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
420 Public safety				
422 Fire	17,450	17,450	13,441	4,009
Total public safety	17,450	17,450	13,441	4,009
430 Public works				
431 Highways and streets	125,175	175,175	115,283	59,892
432 Sanitation	7,250	7,250	5,577	1,673
435 Airport	2,625	2,625	1,964	661
437 Cemeteries	425	425	66	359
439 Transit	600	600	900	(300)
Total public works	136,075	186,075	123,790	62,285
440 Health and welfare				
441 Health	1,850	1,850	1,017	833
450 Culture and recreation				
452 Parks	17,000	17,000	8,944	8,056
455 Libraries	22,350	29,872	25,074	4,798
Total culture and recreation	39,350	46,872	34,018	12,854
460 Conservation and development				
465 Economic development and assistance (industrial development)	8,100	8,100	4,072	4,028
Total expenditures	265,810	329,832	214,062	115,770
Excess of Revenue over (under) Expenditures	-	(60,000)	91,612	(79,928)
Fund Balance - Beginning	441,426	441,426	441,426	-
Fund Balance - Ending	\$ 441,426	\$ 381,426	\$ 533,038	\$ (79,928)

Note 1 - Budgets and Budgetary Accounting

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

1. At the first regular Board meeting in September of each year or within ten days thereafter, the City Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City Commission, 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% of the total municipal budget and may be transferred by resolution of the City Commission to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the City Commission.

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, special revenue funds and capital projects funds.

The City did not encumber any amounts at December 31, 2010.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. Budgets for the General Fund are adopted on a basis consistent with a modified cash basis of accounting.

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

The financial statements prepared on the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the governmental funds statement of revenues, expenditures, and changes in fund balances, however; in the budgetary RSI schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.



Supplementary Information
December 31, 2010

City of Bowdle

City of Bowdle
 Schedule of Changes in Notes and Bonds Payable
 Year Ended December 31, 2010

<u>Notes and Bonds Payable</u>	<u>Notes and Bonds Payable 1/1/2010</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Notes and Bonds Payable 12/31/2010</u>
Enterprise Notes and Bonds Payable				
Hospital and nursing home certificates of participation	\$ 570,000	\$ -	\$ (50,000)	\$ 520,000
Hospital and nursing home notes payable	118,894	-	(26,330)	92,564
Wastewater revenue bonds	-	369,000	(5,256)	363,744
Water revenue bonds	-	369,000	(5,256)	363,744
	<u>\$ 688,894</u>	<u>\$ 738,000</u>	<u>\$ (86,842)</u>	<u>\$ 1,340,052</u>

City of Bowdle
 Schedule of Expenditures of Federal Awards
 Summary Year Ended December 31, 2010

Federal Grantor/Pass-Through Grantor Program Title	Pass-Through Identification Number	CFDA Number	Amount
Department of Housing and Urban Development:			
Indirect Federal Funding:			
SD Governor's Office of Economic Development, Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	0809-104	14.228	\$ 515,000
Total Department of Housing and Urban Development			<u>515,000</u>
U.S. Department of Agriculture			
Rural Utilities Services			
ARRA - Water and Waste Disposal Systems for Rural Communities	*****	10.760	<u>1,061,661</u>
Total US Department of Agriculture			<u>1,061,661</u>
Department of Health and Human Services			
Indirect Federal Funding:			
SD Department of Health			
State Rural Hospital Flexibility Grant	11CAH14	93.241	17,000
Small Rural Hospital Improvement Grant	11SHP03	93.301	8,755
National Bioterrorism Hospital Preparedness Grant	10FPR46	93.889	<u>8,500</u>
			<u>34,255</u>
Environmental Protection Agency			
SD Department of Environment and Natural Resources, ARRA Capitalization Grants for Clean Water State Revolving Funds			
	C-461023-01	66.458	<u>150,000</u>
Total Environment Protection Agency			<u>150,000</u>
Grand Total			<u>\$ 1,760,916</u>

***** No Pass-Through Entity Identifying Number Given

Note 1 - Schedule of Federal Expenditures

The accompanying schedule of federal expenditures of federal awards includes the federal grant activity of the City of Bowdle and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



CPAs & BUSINESS ADVISORS

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*

The City Council
City of Bowdle
Bowdle, South Dakota

We have audited the financial statements of the governmental activities and the business-type activities of the City of Bowdle, South Dakota, as of and for the year ended December 31, 2010, which collectively comprise the City of Bowdle's basic financial statements and have issued our report thereon dated September 22, 2011. The financial statements are prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 City of Bowdle's internal control over financial reporting as a basis for designing our auditing procedures 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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 City of Bowdle's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did identify deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questions costs as findings 2010-1, 2, 3, and 4 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Bowdle'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 Audit Standards*.

The City of Bowdle's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Bowdle's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, City Council, management, and others within the entity, the South Dakota Legislature, state granting agencies, and federal awarding agencies and pass-through entities 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.

Aberdeen, South Dakota
September 22, 2011



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The City Council
City of Bowdle
Bowdle, South Dakota

Compliance

We have audited the compliance of the City of Bowdle, South Dakota, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Bowdle, South Dakota complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control over Compliance

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

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify a deficiency in internal control over compliance that we consider to be a material weakness, as defined above.

This report is intended solely for the information and use of the Mayor, City Council, management, and others within the entity, the South Dakota Legislature, state granting agencies, and federal awarding agencies and pass-through entities 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.

Aberdeen, South Dakota
September 22, 2011

Findings Relating to the Financial Statements

There are no audit findings prior to 2010 related to financial reporting.

Findings Relating to the Federal Award Programs:

There are no audit findings prior to 2010 related to federal award programs.

Part I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:
 Material weakness(es) identified? X Yes No

Significant deficiencies (formerly known as reportable condition(s)) identified that are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? Yes X No

Significant deficiencies (formerly known as reportable condition(s)) identified that are not considered to be material weaknesses? Yes X None reported

Type of auditor's report issued on compliance for major programs? Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities
14.228	Community Development Block Grant - ARRA

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

Part II – Findings Relating to the Financial Statements

2010-1 Preparation of Financial Statements, Footnotes, and Material Adjusting Journal Entries

Condition: The City of Bowdle requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2010. As a part of the financial statement preparation process, material audit adjustments were proposed that were not previously identified by management. As a result of the City's existing internal controls, a material misstatement of the City's financial statements is possible.

Criteria: The City's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Cause: The City does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to at times propose material journal entries.

Effect: This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Management Response: Management did provide an electronic version of the annual report submitted to the South Dakota Department of Legislative Audit and discussed audit recommendations with the auditor. Management accepts the risk associated with preparation of the final audited financial statements by the independent auditor.

2010-2 – Segregation of Duties

Condition: The City of Bowdle has a limited number of office personnel, and accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The City has an insufficient number of staff to adequately separate duties.

Effect: This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

Recommendation: While we recognize that your office staff may not be large enough to assure optimal internal control, it is important that you are aware of this condition. Under this condition, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Management Response: Management does not plan to respond to the finding, as management believes that it is not possible to implement a cost effective solution at this time.

2010-3 – Hospital Fund Foundation

Condition: The City's hospital and nursing home fund expensed \$168,928 of fundraising costs during the year ended December 31, 2004 on behalf of a local Foundation, which is not allowed under South Dakota Codified Law 6-14-1. The facility has received funds from the Foundation over the last several years which have been applied toward these costs. After deducting these funds the unreimbursed portion of the fundraising costs was \$109,048 at December 31, 2010.

Criteria: South Dakota Codified Law 6-14-1 does not authorize the expenditure for costs to generate gifts, bequests, or donations.

Cause: The facility paid for various fundraising costs for an affiliated Foundation in prior years.

Effect: These payments resulted in nonallowable expenditures by the facility.

Recommendations: The facility should continue to work with the Foundation on this matter.

Management's Response: Management is aware of the finding and is working with the Foundation to resolve this matter.

2010-4 – Sewer and Water Fund Accounts

Condition: The City does not have self balancing accounts setup for enterprise funds. The City did not have general ledger accounts setup for the sewer and water enterprise funds so these funds individually did not balance at year end. Without properly self balancing accounts, the financial statements could be materially misstated.

Criteria: All major funds are required to have trial balance and financial statements with a self balancing set of accounts.

Cause: The City's water and sewer enterprise funds did not properly establish cash accounts separate from general fund cash accounts.

Effect: The general, water, and sewer funds were misstated, and the funds did not balance. Internal balances (due to/due from) were not recorded between the water and sewer funds.

Recommendations: The City should implement policies to ensure that all amounts in all funds will be properly accounted for to avoid material misstatements in the financial statements.

Management's Response: Management will review current procedures and implement additional procedures necessary to properly record amounts included in the financial statements. As of the report date, management has begun this process.

Part III – Findings and Questioned Costs for Federal Award Programs

None.

Cognizant or Oversight Agency for Audit

The City of Bowdle respectfully submits the following corrective action plan for the year ended December 31, 2010.

Name and address of independent public accounting firm: Eide Bailly LLP
24 Second Avenue SW
PO Box 430
Aberdeen, SD 57402-0430

Audit Period: January 1, 2010 to December 31, 2010

The findings from the 2010 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings – Financial Statement Audit

Material Weakness

2010-1 Preparation of Financial Statements, Footnotes, and Material Adjusting Journal Entries

Condition: The City of Bowdle requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2010. As a part of the financial statement preparation process, material audit adjustments were proposed that were not previously identified by management. As a result of the City's existing internal controls, a material misstatement of the City's financial statements is possible.

Criteria: The City's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Cause: The City does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to at times propose material journal entries.

Effect: This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Management Response: Management did provide an electronic version of the annual report submitted to the South Dakota Department of Legislative Audit and discussed audit recommendations with the auditor. Management accepts the risk associated with preparation of the final audited financial statements by the independent auditor.

2010-2 – Segregation of Duties

Condition: The City of Bowdle has a limited number of office personnel, and accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The City has an insufficient number of staff to adequately separate duties.

Effect: This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

Recommendation: While we recognize that your office staff may not be large enough to assure optimal internal control, it is important that you are aware of this condition. Under this condition, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

2010-3 – Hospital Fund Foundation

Condition: The City's hospital and nursing home fund expensed \$168,928 of fundraising costs during the year ended December 31, 2004 on behalf of a local Foundation, which is not allowed under South Dakota Codified Law 6-14-1. The facility has received funds from the Foundation over the last several years which have been applied toward these costs. After deducting these funds the unreimbursed portion of the fundraising costs was \$109,048 at December 31, 2010.

Criteria: South Dakota Codified Law 6-14-1 does not authorize the expenditure for costs to generate gifts, bequests, or donations.

Cause: The facility paid for various fundraising costs for an affiliated Foundation in prior years.

Effect: These payments resulted in nonallowable expenditures by the facility.

Recommendations: The facility should continue to work with the Foundation on this matter.

Management's Response: Management is aware of the finding and is working with the Foundation to resolve this matter.

2010-4 – Sewer and Water Fund Accounts

Condition: The City does not have self balancing accounts setup for enterprise funds. The City did not have general ledger accounts setup for the sewer and water enterprise funds so these funds individually did not balance at year end. Without properly self balancing accounts, the financial statements could be materially misstated.

Criteria: All major funds are required to have trial balance and financial statements with a self balancing set of accounts.

Cause: The City's water and sewer enterprise funds did not properly establish cash accounts separate from general fund cash accounts.

Effect: The general, water, and sewer funds were misstated, and the funds did not balance. Internal balances (due to/due from) were not recorded between the water and sewer funds.

Recommendations: The City should implement policies to ensure that all amounts in all funds will be properly accounted for to avoid material misstatements in the financial statements.

Management's Response: Management will review current procedures and implement additional procedures necessary to properly record amounts included in the financial statements. As of the report date, management has begun this process.