

MUNICIPALITY OF IROQUOIS

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

FOR THE TWO YEARS ENDED

DECEMBER 31, 2011

**HARRINGTON & ASSOCIATES, LTD.**  
**CERTIFIED PUBLIC ACCOUNTANT**

MUNICIPALITY OF IROQUOIS  
MUNICIPAL OFFICIALS  
DECEMBER 31, 2011

Mayor:

James Lynch

Governing Board:

James Hulbert, President  
Marlys Peskey, Vice President  
Danny DeJong  
Sheryl Blue

Municipal Finance Officer:

Jill Cundy

Municipal Attorney:

Todd Wilkinson

MUNICIPALITY OF IROQUOIS  
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governing Board  
Municipality of Iroquois  
Iroquois, South Dakota

We have audited the cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Iroquois, South Dakota (Municipality) as of December 31, 2011 and 2010 and for each of the years then ended which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated July 12, 2012. 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 on 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 and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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 Municipality'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 and Questioned Costs as item 2011-01 to be a material weakness.

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

We also noted certain matters that we reported to management of the Municipality in a separate letter dated July 12, 2012.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, and the governing board and management of the Municipality of Iroquois, 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 and OMB Circular A-133 §\_\_.320, this report is matter of public record and its distribution is not limited.



Huron, South Dakota  
July 12, 2012

# HARRINGTON & ASSOCIATES, LTD.

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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

Governing Board  
Municipality of Iroquois  
Iroquois, South Dakota

### Compliance

We have audited the compliance of the Municipality of Iroquois, South Dakota (Municipality), 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 the Municipality's major federal programs for the two years ended December 31, 2011. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit 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 Municipality's management. Our responsibility is to express an opinion on the Municipality'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 Municipality'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 Municipality's compliance with those requirements.

In our opinion, the Municipality of Iroquois, 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 two years ended December 31, 2011.

### Internal Control Over Compliance

The management of the Municipality 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 Municipality's internal control over compliance with 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 Municipality's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2011-01 to be a material weakness.

The Municipality of Iroquois's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. We did not audit the Municipality's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, the governing board and management of the Municipality of Iroquois, 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 and OMB Circular A-133 § .320, this report is matter of public record and its distribution is not limited.

*Harrington & Associates, P.C.*

Huron, South Dakota  
July 12, 2012

MUNICIPALITY OF IROQUOIS  
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

PRIOR FEDERAL AUDIT FINDINGS:

The Municipality of Iroquois was not subject to an audit in prior years so there were no prior written audit findings.

PRIOR OTHER AUDIT FINDINGS:

The Municipality of Iroquois was not subject to an audit in prior years so there were no prior written audit findings.

MUNICIPALITY OF IROQUOIS  
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

***Financial Statements***

- a. An unqualified opinion was issued on the financial statements of each opinion unit.
- b. A material weakness was disclosed by our audit of the financial statements for a lack of segregation of duties for revenues as discussed in finding number 2011-01.
- c. Our audit did not disclose any noncompliance which was material to the financial statements.

***Federal Awards***

- d. A material weakness was disclosed for internal control over major federal programs for a lack of segregation of duties affecting the reporting compliance requirement category as discussed in finding number 2011-01.
- e. An unqualified opinion was issued on compliance with the requirements applicable to major programs.
- f. Our audit disclosed audit findings that are required to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a). See finding number 2011-01.
- g. The federal awards tested as major programs were:
  - 1. Water and Waste Disposal Systems for Rural Communities CFDA No. 10.760
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
- i. The Municipality of Iroquois did not qualify as a low-risk auditee.

MUNICIPALITY OF IROQUOIS  
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

Current Federal Audit Findings:

Internal Control-Related Findings - Material Weaknesses:

Finding # 2011-01

A material weakness in internal controls was noted due to a lack of proper segregation of duties for the revenues. The federal program affected is Water and Waste Disposal Systems for Rural Communities CFDA No. 10.760. This affects the reporting compliance requirements category.

Criteria:

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

Condition Found:

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

Other information:

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:

We recommend that the Municipality of Iroquois 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.

Corrective Action Plan:

The Municipality of Iroquois' Finance Officer, Jill Cundy, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Iroquois, 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.

Federal Compliance-Related Audit Findings and Questioned Costs:

There are no written current federal compliance audit findings to report.

MUNICIPALITY OF IROQUOIS  
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

CURRENT OTHER AUDIT FINDINGS:

Finding # 2011-01

A material weakness in internal controls was noted due to a lack of proper segregation of duties for the revenues.

Criteria:

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

Condition Found:

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

Other information:

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:

We recommend that the Municipality of Iroquois 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.

Corrective Action Plan:

The Municipality of Iroquois' Finance Officer, Jill Cundy, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Iroquois, 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 closing conference was held on July 12, 2012 with Jill Cundy, Finance Officer and James Hulbert, Mayor.

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### INDEPENDENT AUDITOR'S REPORT

Governing Board  
Municipality of Iroquois  
Iroquois, South Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Iroquois, South Dakota, (Municipality) as of December 31, 2011 and for the two years 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'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 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 the 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 described 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 generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - cash basis of the governmental activities, the business-type activities, and each major fund of the

Municipality of Iroquois, South Dakota as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for each of the two years 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 July 12, 2012 on our consideration of the Municipality's internal control over financial reporting and 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, listed in the Table of Contents is presented for purposes of additional analysis and is 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 as a whole.

*Hawington & Associates, P.A.*

Huron, South Dakota  
July 12, 2012

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

	<u>PRIMARY GOVERNMENT</u>		
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 360,210	\$ 120,443	\$ 480,653
<b>TOTAL ASSETS</b>	<u>360,210</u>	<u>120,443</u>	<u>480,653</u>
<b>NET ASSETS:</b>			
Restricted for:			
Debt Service Purposes	-	1,089	1,089
Unrestricted (Deficit)	360,210	119,354	479,564
<b>TOTAL NET ASSETS</b>	<u>\$ 360,210</u>	<u>\$ 120,443</u>	<u>\$ 480,653</u>

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

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

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES CHARGES FOR SERVICES
Primary Government:		
Governmental Activities:		
General Government	\$ 64,419	\$ 259
Public Safety	10,000	-
Public Works	50,096	22,637
Culture and Recreation	2,577	-
Total Governmental Activities	\$ 127,092	\$ 22,896
Business-type Activities:		
Water	39,554	58,016
Sewer	651,460	30,774
Cemetery	2,925	2,324
Total Business-Type Activities	693,939	91,114
Total Primary Government	\$ 821,031	\$ 114,010

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

PROGRAM REVENUES	NET(EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	Primary Government BUSINESS ACTIVITIES	TOTAL
\$ -	\$ (64,160)	\$ -	\$ (64,160)
-	(10,000)	-	(10,000)
15,855	(11,604)	-	(11,604)
-	(2,577)	-	(2,577)
<u>\$ 15,855</u>	<u>\$ (88,341)</u>	<u>\$ -</u>	<u>\$ (88,341)</u>
-		18,462	18,462
110,700		(509,986)	(509,986)
-		(601)	(601)
110,700		(492,125)	(492,125)
<u>\$ 126,555</u>	<u>(88,341)</u>	<u>(492,125)</u>	<u>(580,466)</u>
<b>General Revenues:</b>			
Taxes:			
Property Taxes	90,497	-	90,497
Sales Taxes	33,964	-	33,964
State Shared Revenues	1,494	-	1,494
Unrestricted Investment Earnings	2,741	418	3,159
Debt Issued	-	490,000	490,000
Miscellaneous Revenue	8,809	-	8,809
Transfers	14,400	(14,400)	-
Total General Revenues and Transfers	151,905	476,018	627,923
Change in Net Assets	63,564	(16,107)	47,457
Net Assets-Beginning	296,646	136,550	433,196
 NET ASSETS-ENDING	 <u>\$ 360,210</u>	 <u>\$ 120,443</u>	 <u>\$ 480,653</u>

MUNICIPALITY OF IROQUOIS  
BALANCE SHEET - CASH BASIS  
GOVERNMENTAL FUNDS  
12/31/2011

	<u>GENERAL FUND</u>
<b>ASSETS:</b>	
Cash and Cash Equivalents	\$ 360,210
<b>TOTAL ASSETS</b>	<u>\$ 360,210</u>
<b>FUND BALANCES:</b>	
Assigned	20,850
Unassigned	<u>339,360</u>
<b>TOTAL FUND BALANCES</b>	<u>\$ 360,210</u>

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

MUNICIPALITY OF IROQUOIS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - CASH BASIS  
 GOVERNMENTAL FUNDS  
 For the Year Ended December 31, 2011

	GENERAL FUND
<b>Revenues:</b>	
Taxes:	
General Property Taxes	\$ 90,172
General Sales and Use Taxes	33,964
Amusement Taxes	36
Penalties and Interest on Delinquent Taxes	289
Licenses and Permits	159
Intergovernmental Revenue:	
State Shared Revenue:	
Bank Franchise Tax	594
Motor Vehicle Commercial Prorate	99
Motor Vehicle Licenses (5%)	3,822
Liquor License Reversion	900
County Shared Revenue:	
County Road Tax (25%)	454
County Highway and Bridge Reserve Tax (25%)	11,480
Charges for Goods and Services:	
Sanitation	22,637
Miscellaneous Revenue:	
Investment Earnings	2,741
Rentals	100
Other	8,809
<b>Total Revenue</b>	<b>\$ 176,256</b>

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

MUNICIPALITY OF IROQUOIS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2011

	GENERAL FUND
<b>Expenditures:</b>	
General Government:	
Legislative	\$ 3,622
Elections	981
Financial Administration	6,606
Other	53,210
Public Safety:	
Fire	10,000
Public Works:	
Highways and Streets	28,853
Sanitation	21,243
Culture and Recreation:	
Parks	2,577
Total Expenditures	127,092
Excess of Revenues Over (Under) Expenditures	49,164
<b>Other Financing Sources (Uses):</b>	
391.01 Transfers In	14,400
Net Change in Fund Balance	63,564
Fund Balance - Beginning	296,646
FUND BALANCE- ENDING	\$ 360,210

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

MUNICIPALITY OF IROQUOIS  
BALANCE SHEET - CASH BASIS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2011

	ENTERPRISE FUNDS			TOTALS
	WATER FUND	SEWER FUND	CEMETERY FUND	
<b>ASSETS:</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 64,003	\$ 23,719	\$ 32,721	\$ 120,443
Total Current Assets	64,003	23,719	32,721	120,443
<b>TOTAL ASSETS</b>	<b>\$ 64,003</b>	<b>\$ 23,719</b>	<b>\$ 32,721</b>	<b>\$ 120,443</b>
<b>NET ASSETS:</b>				
Restricted Net Assets, Restricted for:				
Revenue Bond Debt Service	-	1,089	-	1,089
Unrestricted Net Assets	64,003	22,630	32,721	119,354
<b>TOTAL NET ASSETS</b>	<b>\$ 64,003</b>	<b>\$ 23,719</b>	<b>\$ 32,721</b>	<b>\$ 120,443</b>

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

MUNICIPALITY OF IROQUOIS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - CASH BASIS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2011

	ENTERPRISE FUNDS			TOTALS
	WATER FUND	SEWER FUND	CEMETERY FUND	
<b>Operating Revenue:</b>				
Charges for Goods and Services	\$ 57,616	\$ 25,874	\$ 2,324	\$ 85,814
Revenue Dedicated to Servicing Debt	-	4,900	-	4,900
Miscellaneous	400	-	-	400
Total Operating Revenue	<u>58,016</u>	<u>30,774</u>	<u>2,324</u>	<u>91,114</u>
<b>Operating Expenses:</b>				
Other Current Expense	31,265	7,844	2,925	42,034
Materials	1,628	643,616	-	645,244
Total Operating Expenses	<u>32,893</u>	<u>651,460</u>	<u>2,925</u>	<u>687,278</u>
Operating Income (Loss)	<u>25,123</u>	<u>(620,686)</u>	<u>(601)</u>	<u>(596,164)</u>
<b>Nonoperating Revenue (Expense):</b>				
Operating Grants	-	110,700	-	110,700
Investment Earnings	361	57	-	418
Debt Service (Principal)	(6,645)	-	-	(6,645)
Interest Expense	(16)	-	-	(16)
Long-Term Debt Issued	-	490,000	-	490,000
Total Nonoperating Revenue (Expense)	<u>(6,300)</u>	<u>600,757</u>	<u>-</u>	<u>594,457</u>
Income (Loss) Before Transfers	<u>18,823</u>	<u>(19,929)</u>	<u>(601)</u>	<u>(1,707)</u>
Transfers Out	(14,400)	-	-	(14,400)
Change in Net Assets	4,423	(19,929)	(601)	(16,107)
Net Assets - Beginning	<u>59,580</u>	<u>43,648</u>	<u>33,322</u>	<u>136,550</u>
NET ASSETS - ENDING	<u>\$ 64,003</u>	<u>\$ 23,719</u>	<u>\$ 32,721</u>	<u>\$ 120,443</u>

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

MUNICIPALITY OF IROQUOIS  
 STATEMENT OF ACTIVITIES - CASH BASIS  
 For the Year Ended December 31, 2010

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES
		CHARGES FOR SERVICES
Primary Government:		
Governmental Activities:		
General Government	\$ 76,388	\$ 253
Public Safety	10,000	-
Public Works	51,470	41,600
Culture and Recreation	5,777	-
<b>Total Governmental Activities</b>	<b>\$ 143,635</b>	<b>\$ 41,853</b>
Business-type Activities:		
Water	34,059	55,898
Sewer	28,764	25,676
Cemetary	2,881	11,142
<b>Total Business-Type Activities</b>	<b>65,704</b>	<b>92,716</b>
<b>Total Primary Government</b>	<b>\$ 209,339</b>	<b>\$ 134,569</b>

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

PROGRAM REVENUES	NET(EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	OPERATING GRANTS AND CONTRIBUTIONS	Primary Government	
	GOVERNMENTAL ACTIVITIES	BUSINESS ACTIVITIES	TOTAL
\$ -	\$ (76,135)	\$ -	\$ (76,135)
-	(10,000)	-	(10,000)
-	(9,870)	-	(9,870)
-	(5,777)	-	(5,777)
<u>\$ -</u>	<u>\$ (101,782)</u>	<u>\$ -</u>	<u>\$ (101,782)</u>
-		21,839	21,839
8,000		4,912	4,912
-		8,261	8,261
<u>8,000</u>		<u>35,012</u>	<u>35,012</u>
<u>\$ 8,000</u>	<u>(101,782)</u>	<u>35,012</u>	<u>(66,770)</u>
<b>General Revenues:</b>			
Taxes:			
Property Taxes	85,375	-	85,375
Sales Taxes	30,516	-	30,516
State Shared Revenues	1,824	-	1,824
Unrestricted Investment Earnings	4,154	542	4,696
Miscellaneous Revenue	6,619	-	6,619
Transfers	14,400	(14,400)	-
Total General Revenues and Transfers	142,888	(13,858)	129,030
Change in Net Assets	41,106	21,154	62,260
Net Assets-Beginning	<u>255,539</u>	<u>115,396</u>	<u>370,935</u>
NET ASSETS-ENDING	<u>\$ 296,645</u>	<u>\$ 136,550</u>	<u>\$ 433,195</u>

MUNICIPALITY OF IROQUOIS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - CASH BASIS  
 GOVERNMENTAL FUNDS  
 For the Year Ended December 31, 2010

	GENERAL FUND
<b>Revenues:</b>	
Taxes:	
General Property Taxes	\$ 85,021
General Sales and Use Taxes	30,516
Amusement Taxes	48
Penalties and Interest on Delinquent Taxes	306
Licenses and Permits	153
Intergovernmental Revenue:	
State Shared Revenue:	
Bank Franchise Tax	724
Motor Vehicle Commercial Prorate	55
Motor Vehicle Licenses (5%)	5,083
Liquor License Reversion	1,100
County Shared Revenue:	
County Road Tax (25%)	33
County Highway and Bridge Reserve Tax (25%)	11,168
Other Intergovernmental Revenue	2,934
Charges for Goods and Services:	
Sanitation	22,327
Miscellaneous Revenue:	
Investment Earnings	4,154
Rentals	100
Other	6,619
<b>Total Revenue</b>	<b>\$ 170,341</b>

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - CASH BASIS  
 GOVERNMENTAL FUNDS  
 For the Year Ended December 31, 2010

	GENERAL FUND
<b>Expenditures:</b>	
General Government:	
Legislative	\$ 4,148
Elections	1,090
Financial Administration	5,070
Other	66,080
Public Safety:	
Fire	10,000
Public Works:	
Highways and Streets	30,527
Sanitation	20,943
Culture and Recreation:	
Parks	5,777
Total Expenditures	143,635
Excess of Revenues Over (Under) Expenditures	26,706
<b>Other Financing Sources (Uses):</b>	
Transfers In	14,400
Net Change in Fund Balance	41,106
Fund Balance - Beginning	255,539
FUND BALANCE- ENDING	\$ 296,645

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

MUNICIPALITY OF IROQUOIS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - CASH BASIS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2010

	ENTERPRISE FUNDS			TOTALS
	WATER FUND	SEWER FUND	CEMETERY FUND	
<b>Operating Revenue:</b>				
Charges for Goods and Services	\$ 55,898	\$ 25,676	\$ 11,142	\$ 92,716
Total Operating Revenue	55,898	25,676	11,142	92,716
<b>Operating Expenses:</b>				
Other Current Expense	25,738	15,164	2,881	43,783
Materials	1,113	13,600	-	14,713
Total Operating Expenses	26,851	28,764	2,881	58,496
Operating Income (Loss)	29,047	(3,088)	8,261	34,220
<b>Nonoperating Revenue (Expense):</b>				
Operating Grants	-	8,000	-	8,000
Investment Earnings	542	-	-	542
Debt Service	(7,208)	-	-	(7,208)
Total Nonoperating Revenue (Expense)	(6,666)	8,000	-	1,334
Income (Loss) Before Transfers	22,381	4,912	8,261	35,554
Transfers Out	(14,400)	-	-	(14,400)
Change in Net Assets	7,981	4,912	8,261	21,154
Net Assets - Beginning	51,599	38,736	25,061	115,396
NET ASSETS - ENDING	<u>\$ 59,580</u>	<u>\$ 43,648</u>	<u>\$ 33,322</u>	<u>\$ 136,550</u>

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

MUNICIPALITY OF IROQUOIS  
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

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.

a. Financial Reporting Entity:

The reporting entity of the Municipality of Iroquois (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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Municipality 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 Municipality (primary government). The Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality. The municipality does not have any component units as of December 31, 2011.

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. 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.

MUNICIPALITY OF IROQUOIS  
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

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

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

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

The funds of the 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 considered to be a major fund.

MUNICIPALITY OF IROQUOIS  
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

**Proprietary Funds:**

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

Water Fund - 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.

Cemetery Fund - to account for the operation of the municipal cemetery that does not offer perpetual care. Financed primarily by charges for plots and donations. This is a major fund.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The Municipality's basis of accounting is the cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

**Measurement Focus:**

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.

MUNICIPALITY OF IROQUOIS  
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

In the fund financial statements, the "current financial resources" measurement focus or the economic resources" measurement focus is used, applied within the limitations of the 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 and fiduciary 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.

MUNICIPALITY OF IROQUOIS  
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

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 and business-type 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. 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 Revenues:

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

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

MUNICIPALITY OF IROQUOIS  
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

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. Equity Classifications:

**Government-wide Financial Statements:**

Equity is classified as net assets and is displayed in one component:

1. 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 may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned" and "Unassigned" components. Proprietary fund

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 Municipality 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.

MUNICIPALITY OF IROQUOIS  
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

- 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 (fill in appropriate titles such as Municipal Council, Municipal Administrator, Mayor, Finance Officer, etc.).
- 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 amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Municipality's Assigned Fund Balance consists of Amounts Designated to Finance 2012's Budget in the General Fund.

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

2. 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

MUNICIPALITY OF IROQUOIS  
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (CONT'D)

home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

**Investments** - In general, SDCL 4-5-6 permits Municipality funds to be invested only 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.

**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 the investment.

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, is 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 real property in the Municipality.

MUNICIPALITY OF IROQUOIS  
 NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
 FOR THE TWO YEARS ENDED DECEMBER 31, 2011

4. LONG-TERM DEBT

A summary of changes in long-term debt follows:

Business- Type Activities:	Beginning Balance			Ending Balance	Due Within
	<u>1/1/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2011</u>	<u>One Year</u>
Bonds Payable: Revenue	\$ --	\$ 490,000	\$ --	\$ 490,000	\$ 2,044

Debt payable at December 31, 2011 is comprised of the following:

Revenue Bonds:

The Municipality of Iroquois received \$490,000 in Revenue Bonds from Rural Development on August 11, 2011. The bonds are payable from September 11, 2012 through July 11, 2051 with fixed interest rates of 3.375%. The Sewer Fund makes payment on this debt

\$ 490,000

The annual requirements to amortize all debt outstanding as of December 31, 2011, except for compensated absences but including interest payments of \$390,523, are as follows:

Annual Requirements to Amortize Long-Term Debt  
 December 31, 2011

Year Ending Dec. 31,	Revenue Bonds	
	Principal	Interest
2012	\$ 2,044	\$ 5,504
2013	6,272	16,372
2014	6,487	16,157
2015	6,709	15,935
2016	6,939	15,705
2017-2021	38,431	74,789
2022-2026	45,485	67,735
2027-2031	53,834	59,386
Thereafter	<u>323,799</u>	<u>118,940</u>
TOTAL	<u>\$ 490,000</u>	<u>\$ 390,523</u>

MUNICIPALITY OF IROQUOIS  
 NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
 FOR THE TWO YEARS ENDED DECEMBER 31, 2011

5. INTERFUND TRANSFERS:

Interfund transfers for the year ended December 31, 2010 were as follows:

<u>Transfers</u> <u>From:</u>	<u>General</u> <u>Fund</u>
Major Funds:	
Water Fund	\$14,400

This transfer was made from the Water Fund to the General Fund to reimburse it for making debt payments.

Interfund transfers for the year ended December 31, 2011 were as follows:

<u>Transfers</u> <u>From:</u>	<u>General</u> <u>Fund</u>
Major Funds:	
Water Fund	\$14,400

This transfer was made from the Water Fund to the General Fund to reimburse it for making debt payments. The city made its last transfer from Water Fund to General Fund in 2012.

6. 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, 2010 and December 31, 2011, the Municipality managed its risks as follows:

Liability Insurance:

The Municipality joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The Municipality's responsibility is to promptly report

MUNICIPALITY OF IROQUOIS  
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

6. RISK MANAGEMENT: (CONT'D)

to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the Municipality. The Municipality pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The Municipality pays an annual premium to the pool to provide coverage for:

General Liability  
Automobile Liability  
Officials Liability

The agreement with the SDPAA provides that the above coverages will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit.

The Municipality carries a \$500 deductible for the Officials Liability coverage.

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

Worker's Compensation:

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. 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 statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

MUNICIPALITY OF IROQUOIS  
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2011

6. RISK MANAGEMENT: (CONT'D)

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

Unemployment Benefits:

The Municipality has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended December 31, 2010 no claims for unemployment benefits were paid. During the year ended December 31, 2011 no claims for unemployment benefits were paid. At December 31, 2011 no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

MUNICIPALITY OF IROQUOIS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Two Years Ended December 31, 2011

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Expenditures 2010	Expenditures 2011
US Department of Agriculture Rural Utilities Service:			
Indirect Federal Funding			
Water and Waste Disposal Systems for Rural Communities - B	10.760	\$ -	\$ 110,700
Water and Waste Disposal Systems for Rural Communities - E (Note 2)	10.760	-	490,000
Total Department of Agriculture Rural Utilities Service:		-	600,700
US General Services Administration:			
Indirect Federal Funding:			
SD Federal Property Agency, Donation of Federal Surplus Personal Property (Note 3)	39.003	364	583
Total US General Services Administration		364	583
US Department of Homeland Security:			
Other Programs:			
Indirect Federal Funding:			
SD Department of Public Safety, Office of Emergency Management, Disaster Grants-Public Assistance	97.036		2,934
Total US Department of Homeland Security			2,934
GRAND TOTAL			<u>\$ 604,217</u>

Note 1: This accompanying schedule of expenditures of federal awards includes the federal grant activity of the municipality and is presented on the cash basis of accounting unless otherwise noted. 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 the general purpose financial statements.

Note 2: The municipality had the following loan balances outstanding at December 31, 2011. The loan balances outstanding which are not considered to have continuing compliance requirements are also included in the federal expenditures presented in the schedule.

Note 3: The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the municipality.

SCHEDULE OF CHANGES IN LONG-TERM DEBT  
For the Two Years Ended December 31, 2011

<u>Indebtedness</u>	<u>Long-Term Debt 1-Jan-10</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 31-Dec-11</u>
Enterprise Long-Term Debt:				
Revenue Bonds	<u>\$ -</u>	<u>\$ 490,000</u>	<u>\$ -</u>	<u>\$ 490,000</u>
Total	<u><u>\$ -</u></u>	<u><u>\$ 490,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 490,000</u></u>