

KENNEBEC HOUSING & REDEVELOPMENT COMMISSION
KENNEBEC, SOUTH DAKOTA

PROJECT CODE: SD008
ANNUAL CONTRIBUTION CONTRACT NUMBER: C-793

FINANCIAL REPORT

FOR THE ONE YEAR ENDING JUNE 30, 2011

WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA

P.O. Box 262

Madison, South Dakota 57042

KENNEBEC HOUSING & REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE TOWN OF KENNEBEC, SOUTH DAKOTA

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TABLE OF CONTENTS TO THE FINANCIAL REPORT
FOR THE ONE YEAR ENDING JUNE 30, 2011

FINANCIAL SECTION

- 1 Independent Auditor's Report
- 3 Management's Discussion and Analysis
(Required Supplementary Information)
- Fund Financial Statements - Enterprise Funds:
 - 7 Statement of Net Assets
 - 8 Statement of Revenues, Expenses, and Changes in Net Assets
 - 9 Statement of Cash Flows
- 10 Notes to the Financial Statements

GOVERNMENTAL SECTION

- 17 Report on Compliance and Other Matters and on Internal Control over
Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
- 19 Schedule of Prior Audit Findings
- 19 Schedule of Current Audit Findings and Responses

SUPPLEMENTARY INFORMATION

- 20 Financial Data Schedule For the One Year Ending June 30, 2011
(Required by the Dept. of Housing and Urban Development - Low Rent)

NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
P.O. Box 262
Madison, South Dakota 57042
605.483.3225

Board of Commissioners
Kennebec Housing & Redevelopment Commission
Kennebec, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of the major fund of the Kennebec Housing & Redevelopment Commission (Commission), a component unit of the Town of Kennebec, Lyman County, South Dakota, as of and for the one year ending June 30, 2011, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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 Commission's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

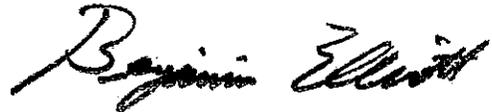
In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position, changes in financial position and cash flows thereof of the major fund of the Kennebec Housing & Redevelopment Commission, a component unit of the Town of Kennebec, South Dakota, as of and for the one year ending June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 23, 2012 (page 17) on my tests of the Commission's compliance with certain provisions of laws, regulations, and contracts and other matters, and on my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of my audit.

The Management's Discussion and Analysis (page 3 to 6) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The financial data schedules (page 20 and 21) are presented for purposes of additional analysis, as required by the U.S. Department of Housing and Urban Development, and are not a required part of the basic financial statements. The financial data schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

A handwritten signature in black ink that reads "Benjamin Elliott". The signature is written in a cursive, flowing style.

January 23, 2012

KENNEBEC HOUSING & REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE TOWN OF KENNEBEC, SOUTH DAKOTA

PROJECT CODE: SD008
ANNUAL CONTRIBUTION CONTRACT NUMBER: C-793

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDING JUNE 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The Kennebec Housing & Redevelopment Commission (Commission) is a component unit of the Town of Kennebec, South Dakota. Its basic financial statements account for the operation of 17 subsidized low-income rental housing units under the "Conventional Public Housing Program".

FINANCIAL HIGHLIGHTS

The Commission receives a subsidy from the U.S. Department of Housing and Urban Development (HUD). The Commission receives both an operating subsidy and "capital fund program" (CFP) subsidy from HUD. The CFPs are for site and building improvements and for operation. During the year ending June 30, 2011, the Commission received the following subsidies from HUD.

	<u>6-30-11</u>
Operations	55,047
CFP 501-10 for operations	6,027
CFP 501-10 for buildings and improvements	18,155

	79,229

Operations of the Commission during the year ending June 30, 2011 are as follows.

	<u>6-30-11</u>	<u>6-30-10</u>
Revenues:		
Tenant revenues	61,427	42,685
HUD operating subsidy	55,047	53,835
HUD CFPs	24,182	61,142
Interest	234	477
	-----	-----
	140,890	158,139
	-----	-----
Expenses:		
Operations	103,779	104,830
Depreciation	35,908	33,650
Extraordinary	4,175	0
	-----	-----
	143,862	138,480
	-----	-----
Increase (decrease) in Net Assets	(2,972)	19,659
Net Assets:		
June 30, 2009		304,912

June 30, 2010	324,571	324,571
	-----	=====
June 30, 2011	321,599	
	=====	

MATERIAL CHANGES IN STATEMENT OF NET ASSETS AND THE STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS

(Material changes = changes greater than \$25,000.)

	Increase (Decrease)	Reason
Current assets	51,640)	Received prior year HUD receivable of \$54,615.
Current liabilities	(59,514)	Paid engineer and contractor payables of \$64,181.
HUD capital CFP	(42,987)	Prior year additional CFP's for building and curb and gutter improvements.

FUND FINANCIAL STATEMENTS

The Commission has no governmental funds so only enterprise fund financial statements are presented in these basic financial statements. Enterprise funds operate similar to a private business. The Commission uses one enterprise fund to account for the activity of 17 subsidized low-income "Conventional Public Housing" units.

The fund financial statements include a Statement of Net Assets which reports all financial and capital resources of the Commission. This statement is presented in a format where assets minus liabilities equals "Net Assets" (formally known as equity). Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

The Statement of Net Assets is designed to present the net available assets in the following three broad categories:

Net Assets Invested in Capital Assets, Net of Related Debt: This component of Net Assets consists of all capital assets, reduced by (if any) the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets: This component of Net Assets consists of restricted assets, when constraints are placed on the asset by external parties such as creditors (debt covenants), grantors, contributors, laws, regulations, etc.

Unrestricted Net Assets: This component of Net Assets consists of net assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt", or "Restricted Net Assets".

The fund financial statements also include a Statement of Revenue, Expenses and Changes in Net Assets (similar to an Income Statement). This statement includes operating revenues (such as rental income and HUD subsidies), operating expenses (such as administrative, utilities, maintenance, and depreciation), and non-operating revenue and expenses (such as investment income).

The focus of the Statement of Revenues, Expenses and Changes in Net Assets is the "Change in Net Assets", which is similar to Net Income or Loss.

Finally, the fund financial statements include a Statement of Cash Flows, which discloses net cash provided by or used for operating activities, non-capital financing activities, capital financing activities, and investing activities.

Condensed financial information of the Commission, comparing FY11 and FY10 is presented on page 6.

CONVENTIONAL PUBLIC HOUSING PROGRAM

Under the Conventional Public Housing Program, the Commission rents housing units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides operating subsidy and capital grant funding to enable the Commission to provide its housing at a rent that is based upon 30% of household income. The Conventional Public Housing Program also includes the Capital Fund Program, which is the primary funding source for physical improvements to the Commission's property.

CAPITAL ASSET

At June 30, 2011 the Commission had invested \$264,719 in land, buildings, improvements, and equipment. This is a net decrease (including additions and deductions) of \$10,846 or 4.10% from June 30, 2010.

During the year ending June 30, 2011 the Commission made the following significant capital asset additions and deletions. See page 16 for more information.

Parking lot repairs, curb and gutters, sidewalks and landscaping	89,882
Appliances	2,286
Depreciation	(35,908)
Obsolete items and items under \$500	(9,896)
Related depreciation removed	9,499

DEBT

The Commission had no debt during the year ending June 30, 2011.

CURRENTLY KNOWN FACTS - ECONOMIC FACTORS

In July 2011 the Commission sold its pick-up truck for \$17,026.

CFP funds for 2011 will be used 90% for window and door replacement and 10% for administration.

On May 9, 2011 the Commission adopted a Procurement Policy with a \$50,000 Small Purchase Threshold.

On May 19, 2011 the Commission accepted a bid from BTU Engineering to do a Physical Needs Assessment for \$1,900 and an Energy Audit for \$1,975.

The Commission is primarily dependent on HUD for funding its operations. The Commission is affected more by the federal budget than local economic conditions. The funding of the Commission's programs could be significantly affected by changes in the federal budget in the current and future years.

FINANCIAL CONTACT

The individual to be contacted regarding this report is Arlo D. Smith, Fee Accountant for the Kennebec Housing & Redevelopment Commission, at 605-229-0180. Specific request may be submitted to Arlo D. Smith, RAM Enterprises, Inc., P.O. Box 1270, Aberdeen, South Dakota 57402-1270.

KENNEBEC HOUSING AND REDEVELOPMENT COMMISSION
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KENNEBEC, SOUTH DAKOTA

Project Code: SD008
Annual Contribution Contract Number: C-793

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
CONDENSED FINANCIAL INFORMATION -- ENTERPRISE FUND
FOR THE TWO YEARS ENDING JUNE 30, 2011

	6-30-11	6-30-10	Dollar Change	Percent Change
	-----	-----	-----	-----
Assets:				
Current assets	68,223	119,863	(51,640)	(43)
Capital assets	264,719	275,565	(10,846)	(4)
	-----	-----	-----	-----
Total assets	<u>332,942</u>	<u>395,428</u>	<u>(62,486)</u>	
Liabilities:				
Current liabilities	11,343	70,857	(59,514)	(84)
Long-term liabilities	0	0	0	
	-----	-----	-----	-----
Total liabilities	<u>11,343</u>	<u>70,857</u>	<u>(59,514)</u>	
Net assets:				
Invested in capital assets, net of related debt	264,719	275,565	(10,846)	(4)
Unrestricted	56,880	49,006	7,874	16
	-----	-----	-----	-----
Total net assets	<u>321,599</u>	<u>324,571</u>	<u>(2,972)</u>	
Revenue:				
Tenant revenue	61,427	42,685	18,742	44
HUD operating subsidies	61,074	53,835	7,239	13
Interest earned	234	477	(243)	(51)
	-----	-----	-----	-----
Total revenue	<u>122,735</u>	<u>96,997</u>	<u>25,738</u>	
Expenses:				
Administration	23,844	27,485	(3,641)	(13)
Tenant services	0	0	0	
Utilities	38,735	33,315	5,420	16
Maintenance and operations	31,087	33,014	(1,927)	(6)
General	10,113	11,016	(903)	(8)
Interest expense	0	0	0	
Extraordinary costs	3,778		3,778	na
(Gain) Loss on disposal of equipment	397		397	na
Depreciation	35,908	33,650	2,258	7
	-----	-----	-----	-----
Total expenses	<u>143,862</u>	<u>138,480</u>	<u>5,382</u>	
Net income (loss) before contributions	(21,127)	(41,483)	20,356	
HUD capital contributions	18,155	61,142	(42,987)	(70)
	-----	-----	-----	-----
Change in net assets	(2,972)	19,659	(22,631)	
Net assets:				
June 30, 2009		304,912		

June 30, 2010	324,571	324,571		
	-----	-----		
June 30, 2011	<u>321,599</u>			

KENNEBEC HOUSING AND REDEVELOPMENT COMMISSION
 A COMPONENT UNIT OF THE TOWN OF KENNEBEC, SOUTH DAKOTA
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STATEMENT OF NET ASSETS -- ENTERPRISE FUND
 AS OF JUNE 30, 2011

ASSETS

Current assets:

Cash:

Petty	100.00
Checking	13,184.78
Savings - restricted	2,506.00

Total cash	15,790.78
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Certificates of deposit	45,085.33
Accounts receivable, tenant occupied	927.00
Accounts receivable, tenant vacant	64.00
Allowance for doubtful accounts	(32.00)
Accounts receivable, HUD	0.00
Accrued interest receivable	24.96
Prepaid insurance	6,362.33

Total current assets	68,222.40
----------------------	-----------

Capital assets:

Land	7,527.50
Buildings and improvements	864,260.68
Equipment - dwellings	27,506.65
Equipment - administration	51,657.89
Accumulated depreciation	(686,233.46)

Total capital assets	264,719.26
----------------------	------------

Total assets	332,941.66
--------------	------------

LIABILITIES

Current liabilities:

Accounts payable	6,343.43
Accrued payment in lieu of taxes	2,084.53
Tenant security deposits	2,506.00
Prepaid tenant rents	408.50

Total current liabilities	11,342.46
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Noncurrent liabilities:

None	0.00
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Total liabilities	11,342.46
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NET ASSETS (deficit):

Invested in capital assets, net of related debt	264,719.26
Unrestricted	56,879.94

Total net assets	321,599.20
------------------	------------

See accompanying notes.

KENNEBEC HOUSING AND REDEVELOPMENT COMMISSION
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STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS -- ENTERPRISE FUND
FOR THE YEAR ENDING JUNE 30, 2011

Operating revenues:	
Dwelling rents	59,580.00
Excess utilities	996.00
Other income	850.66

Total operating revenues	61,426.66

Operating expenses:	
Administration	23,844.15
Tenant services	0.00
Utilities	38,734.68
Maintenance and operations	31,086.72
General expenses	10,112.64
Depreciation	35,907.73

Total operating expenses	139,685.92

Operating income (loss):	(78,259.26)
Nonoperating revenues (expenses):	
HUD - operating subsidy	55,047.00
HUD - operating subsidy from CFP 501-10	6,027.50
Interest earned	233.81
Extraordinary cost	(3,778.46)
Gain/(loss) on disposal of equipment	(396.79)

Total nonoperating revenues (expenses):	57,133.06

Net income (loss) before contributions	(21,126.20)
HUD capital contribution: CFP 501-10	18,154.50

Change in net assets	(2,971.70)
Net assets (deficit):	
July 1, 2010	324,570.90

June 30, 2011	321,599.20
	=====

See accompanying notes.

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STATEMENT OF CASH FLOWS -- ENTERPRISE FUND
FOR THE YEAR ENDING JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from renters	61,468.80
Payments to employees for services	(35,319.66)
Payments to suppliers for goods and services	(64,483.85)

Net cash provided (used) by operating activities	(38,334.71)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
HUD operating subsidy	55,047.00
HUD capital grant for operating subsidy	6,027.50

Net cash provided (used) by non-capital financing activities	61,074.50

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
HUD capital contribution	18,154.50
Cash paid for building and improvements	(33,067.11)
Cash paid for appliances	(2,285.50)
Casualty loss costs	(4,181.40)
Casualty loss insurance proceeds	730.20

Net cash provided (used) by capital financing activities	(20,649.31)

CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	325.85
Purchase certificates of deposit	(325.85)

Net cash provided (used) by investing activities	0.00

Net increase (decrease) in cash	2,090.48

Cash and cash equivalents:	
July 1, 2010	13,700.30

June 30, 2011	15,790.78
	=====
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	(78,259.26)
Adjustments required for reconciliation:	
Depreciation expense	35,907.73
Change in:	
Accounts receivable	(458.36)
Prepaid insurance	(190.77)
Accounts payable	2,959.20
Accrued PILOT	1,206.25
Prepaid rents	250.50
Tenant security deposits	250.00

Net cash provided (used) by operating activities	(38,334.71)
	=====
Noncash financing, capital, and investing activities:	
Gain/(loss) on disposal of equipment	396.79

See accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity:

The funds included in this report are controlled by or dependent upon the Kennebec Housing & Redevelopment Commission's (Commission) Board of Commissioners. The Commission is a component unit of the Town of Kennebec, South Dakota which owns the project and approves all members of the Commission's Board.

The Commission is a Public Housing Authority, established under the authority of SDCL 11-7, to operate 17 conventional low rent public housing units. These units are subsidized by the U.S. Dept. of Housing and Urban Development (HUD).

At June 30, 2011, the Commission's officials were:

Town of Kennebec
Eugene Mertens, President

Executive Director:
Pamela Beinlich

Board of Commissioners:
Rod Bowar, Chairperson
Doreine Anderson
Rodney Mick
Kristen Thomas
Vacant

Attorney:
Herb Sundall

The Commission complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Commission does not apply Financial Accounting Board Standard (FASB) Statements issued after November 30, 1989.

b. Fund Accounting:

The accounts are organized in a fund, which is considered a separate accounting entity. The fund is a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. The fund in this financial report is classified as an "enterprise" fund type.

Enterprise funds:

Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The Commission maintains its fund to operate 17 low rent subsidized conventional housing units and related capital projects. This fund is considered major fund.

c. Measurement Focus and Basis of Accounting:

Measurement focus refers to what financial resources make up a fund. Basis of accounting refers to when revenues and expenses are recognized by a fund and reported in the financial statements.

Enterprise Funds:

Measurement Focus - All enterprise funds are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with a fund are included in its statement of net assets. Enterprise fund operating statements present increases (revenues) and decreases (expenses) in total net assets.

Basis of Accounting - All enterprise funds are accounted for using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash is received or paid. Revenues from grants, entitlements, and donations are recognized in the year in which all eligibility requirements are satisfied.

d. Capital Assets and Depreciation:

Capital assets must cost at least \$500. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date donated.

Approximately 0% of the June 30, 2011 enterprise fund capital assets are determined by estimates of historical cost.

The cost of normal maintenance and repairs that do not add value of the assets, or materially extend asset lives, are not capitalized. Improvements that add value, or materially extend asset lives, are capitalized.

Depreciation of all exhaustible capital assets used by the enterprise funds is charged as an expense against that fund's operation. Depreciation has been provided over estimated useful life using the straight-line method. Buildings and improvements are given a useful life of 15 or 40 years. Equipment is given a useful life of 3-10 years. Accumulated depreciation is reported on the enterprise fund statement of net assets.

Interest cost incurred during construction of capital assets is capitalized along with other capital asset costs.

e. Long-term Liabilities:

The Commission has no debt.

f. Operating and Nonoperating Revenues:

Operating revenues are those associated with tenant activity such as rents, utilities, and laundry. Nonoperating revenues are those not associated with tenant activity such as the HUD subsidy, interest income and interest expense.

The Commission's rental units generally are subsidized based on the higher of 30% of adjusted gross income (based on HUD guidelines) or 10% of gross income. HUD pays the remainder of the rent.

g. Net Asset Classifications:

Net assets are displayed in up to three components:

1. Invested in Capital Assets, Net of Related Debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Restricted Net Assets - Consists of net assets with constraints placed on their use by either (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Assets - All other net assets that do not meet the criteria of 1 or 2 above.

h. Application of Net Assets:

It is the Commission's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred which can be charged to either restricted or unrestricted net assets.

i. Interfund Transactions:

Transactions that constitute reimbursements to a fund or program for disbursements made from it, and that are properly applicable to another fund or program, are recorded as a disbursement in the reimbursing fund or program and as a reduction of a disbursement in the fund or program that is reimbursed. All other interfund or program transactions are reported as transfers.

j. Allowance for Doubtful Accounts:

Write-off of any unpaid rent is minimal. However, a small amount is shown to reflect actual experience.

k. Accounting Estimates:

The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from those estimates and assumptions. Following are some of the estimates made by management during the year:

- * Allowance for doubtful accounts -- estimated uncollectables
- * Depreciation -- estimated service lives

2. DEPOSITS, INVESTMENTS, RISK AND CASH FLOWS

Deposits - The Commission deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain, at all times, segregated from their other assets, eligible collateral with a value equal to at least 100 percent of the public deposit accounts that exceed deposit insurance such as 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 better, or a qualified public depository may furnish a corporate surety bond from a corporation authorized to do business in South Dakota.

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

Actual bank balances at June 30, 2011 were: Insured \$60,776 and Collateralized** \$0.00 for a total of \$60,776.

** Uninsured, collateral jointly held by state's/Commission's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits at June 30, 2011 (plus petty cash of \$100) was \$60,876.

Investments - In general, SDCL 11-7-31 permits Housing & Redevelopment Commission funds "...to invest any funds held in reserves or debt service funds, or any funds not required for immediate disbursement, in property or securities in which savings banks may legally invest funds subject to their control."

Additionally, SDCL 4-5-6 permits Housing & Redevelopment Commission 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 safe-keeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Because certificates of deposit are insured, they are considered to be deposits. The Commission had no investments during the year ending June 30, 2011.

Investment Risk - State law limits eligible investments for the Commission as discussed above. The Commission has no investment policy that would further limit its investment choices.

Interest Rate Risk - The Commission 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. All certificates of deposits are at fixed interest rates for a specified term.

Concentration of Credit Risk - The Commission places no limit on the amount that may be deposited or invested in any one institution. At June 30, 2011, all of the Commission's cash and certificates of deposit are deposited in BankWest.

Credit Risk - The Commission had no credit risks because the Commission had no investments during the year ending June 30, 2011.

Custodial Risk - The risk that, in the event of a depository failure, the Commission's deposits may not be returned to it. As of June 30, 2011, the Commission's deposits in financial institutions were not exposed to custodial credit risk.

Cash Flows - For the purposes of the statement of cash flows, the Commission considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents.

3. RECEIVABLES AND PREPAID EXPENSES

Receivables are not aggregated in these financial statements. The Commission expects to collect all receivables within one year.

Prepaid expenses of \$6,362.33 is for prepaid insurance.

4. PAYABLES, ACCRUED EXPENSES, SECURITY DEPOSITS, AND DEFERRED REVENUE

Payables are not aggregated in these financial statements. Payables are for amounts due to vendors and contractors of \$6,343.43.

Accrued expenses are for payment-in-lieu of taxes of \$2,084.53.

Tenant security deposits of \$2,506.00 is payable from restricted cash.

Deferred revenue of \$408.50 is for prepaid tenant rent.

5. CHANGES IN CAPITAL ASSETS (see schedule one, page 16)

A summary of the changes in capital assets for the one year ending June 30, 2011 is presented in schedule one at the end of these footnotes.

During the year ending June 30, 2011, \$89,881.74 was spent for paving repairs, curbs and gutters and landscaping. Also \$2,285.50 was spent on new appliances. Depreciation recorded against all capital assets was \$35,907.73.

Obsolete items removed from capital assets, including those not meeting the \$500 minimum cost standard, totaled \$9,896.04 with related accumulated depreciation of \$9,499.25. Consequently, net book value of \$396.79 was removed from capital assets.

6. CAPITAL FUNDING PROGRAM

Capital Funding Program (CFP) are HUD subsidies for improvements to buildings and structures and for operations. During the year ending June 30, 2011 the Commission received the following CFP's.

CFP 501-10 for operations	6,027.50
CFP 501-10 for building and structures	18,154.50

	24,182.00

7. LONG-TERM DEBT

The Commission had no debt during the year ending June 30, 2011.

8. PAYMENT IN LIEU OF TAXES

The Commission does not pay property taxes based tax levies against the real property owned by the Commission. Instead, the Commission makes a Payment in Lieu of Taxes (PILOT) based on a percentage of gross rents less utility costs.

PILOT for the FY11 year was determined as follows:

	Total
Rental income	59,580.00
Less: utility costs	(38,734.68)

Net shelter rent	20,845.32
	=====
PILOT percentage	10%
PILOT for FY11	2,084.53
	=====

9. MANAGEMENT FEE

The Commission contracts with the Town of Kennebec for management services from its finance officer, which totaled \$15,588 during the year ending June 30, 2011.

10. ECONOMIC DEPENDENCY AND HUD GRANTS

The Commission receives approximately 56% of its revenues from HUD. If the amount of revenues received from HUD falls, the Commissions operations would be adversely affected.

In the year ending June 30, 2011 the following grants were received from HUD under the Annual Contributions Contract.

Operating subsidy	55,047.00
Operating subsidy from CFP 501-10	6,027.50
Capital fund projects: CFP 501-10	18,154.50

	79,229.00

11. COMMITMENTS AND CONTINGENCIES

Litigation:

The Commission was not involved in any litigation at June 30, 2011.

Examination:

The Commission is subject to possible examination made by federal and state authorities who determine compliance with terms, conditions, laws and regulations governing grants given to the Commission in the current and prior years. There were no examinations during the year ending June 30, 2011.

Grant Disallowances:

Amounts received or receivable from HUD are subject to audit and adjustment by HUD. Any disallowed claims, including amounts already collected, may constitute a liability of the Commission. The amount of expenditures, if any, which may be disallowed by HUD cannot be determined at this time. The Commission would expect such amounts, if any, to be immaterial.

12. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; injuries to employees' and natural disasters. During the one year ending June 30, 2011, the Commission managed its risks as follows:

Health:

None.

Liability, Errors and Omissions, Property and Worker's Compensation:

The Commission maintains liability, errors and omissions, property damage and worker's compensation insurance through a commercial carrier. Settled claims have not exceeded this commercial coverage in any of the past 3 years.

Unemployment Benefits:

The Commission provides coverage for unemployment benefits by paying into the unemployment compensation fund established by state law and managed by the State of South Dakota.

13. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

During the year ending June 30, 2011 the Commission paid one board member \$6,375.78 for maintenance. The Commission advertised in the Lyman County Herald and posted public notices regarding this work. However, the only person available to do this work was this board member.

In July 2011 the Commission sold its pick-up truck for \$17,026.

KENNEBEC HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE TOWN OF KENNEBEC, SOUTH DAKOTA
KENNEBEC, SOUTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDING JUNE 30, 2011

	Beginning 6-30-1	Book Adjustments	Additions	(Deletions)	Ending 6-30-11	Accumulated Depreciation 6-30-10	Book Adjustments	(Additions)	Deletions	Ending 6-30-11	Remaining Cost 6-30-11
Land	7,527.50				7,527.50					-	7,527.50
Buildings and improvements	774,378.94		89,881.74		864,260.68	(592,626.41)		(29,728.01)		(622,354.42)	241,906.26
Equipment - dwellings	31,223.68		2,285.50	(6,002.53)	27,506.65	(29,259.33)		(823.16)	5,873.84	(24,208.65)	3,298.00
Equipment - administration	55,551.40			(3,893.51)	51,657.89	(37,939.24)		(5,356.56)	3,625.41	(39,670.39)	11,987.50
Construction-in-progress (1)	66,708.00			(66,708.00)	-					-	-
	<u>935,389.52</u>	<u>-</u>	<u>92,167.24</u>	<u>(76,604.04)</u>	<u>950,952.72</u>	<u>(659,824.98)</u>	<u>-</u>	<u>(35,907.73)</u>	<u>9,499.25</u>	<u>(686,233.46)</u>	<u>264,719.26</u>

(1) Curb and gutter work

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

Board of Commissioners
Kennebec Housing & Redevelopment Commission
Kennebec, South Dakota

I have audited the financial statements of the major fund of the Kennebec Housing & Redevelopment Commission (Commission), a component unit of the Town of Kennebec, South Dakota, as of and for the one year ending June 30, 2011, which collectively comprise the Commission's basic financial statements and have issued my unqualified report thereon dated January 23, 2012.

I conducted my 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 Controller General of the United States.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting:

In planning and performing my audit, I considered Kennebec Housing & Redevelopment Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Kennebec Housing & Redevelopment Commission's internal control over financial reporting.

A deficiency in internal control exist 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 Commission's financial statements will not be prevented, or detected and corrected, on a timely basis.

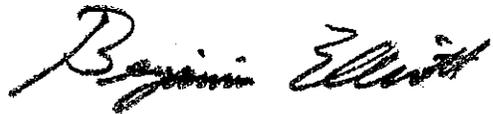
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

I did note a minor matter involving internal control over financial reporting that I reported to the governing body and management of Kennebec Housing & Redevelopment Commission in a separate Letter of Comments dated January 23, 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, the governing board and management of the Kennebec Housing & Redevelopment Commission and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDCL 4-11-11, this report is a matter of public record and its distribution is not limited.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

January 23, 2012



SCHEDULE OF PRIOR AUDIT FINDINGS

Finding 2010-01: Segregation of Duties: Withdrawn due to accounting services provided by an outside firm, two signatures required on all checks, and Commission oversight over all activities.

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

There are no current written audit findings.

KENNEBEC HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE TOWN OF KENNEBEC, SOUTH DAKOTA
KENNEBEC, SOUTH DAKOTA

Project Code: SD008

Annual Contribution Contract Number: C-793

Financial Data Schedule

Financial Data Schedule (FDS)

For the One Year Ending June 30, 2011

Required by the Dept. of Housing
and Urban Development (HUD)

Line Item #		Audit ----- Low Rent Public Housing 6-30-11	Reclass	Low Rent Public Housing CFDA # 14.850a 6-30-11	Public Housing Capital Fund Program CFDA # 14.885 6-30-11
ASSETS					
Current assets:					
111.000	Cash - unrestricted	13,285	2,506	10,779	
114.000	Cash - tenant security deposits	2,506		2,506	
122.000	Accounts rec - HUD	0		0	
126.000	Accounts rec - tenants	991		991	
126.100	Allowance for doubtful accounts - tenants	(32)		(32)	
129.000	Accrued interest receivable	25		25	
131.000	Investments - unrestricted	45,085	(2,506)	47,591	
142.000	Prepaid expenses and other assets	6,362		6,362	
150.000	Total current assets:	68,222	0	68,222	0
Noncurrent assets:					
161.000	Land	7,528		7,528	
162.000	Buildings	864,260	29,411	834,849	
163.000	Furniture, equipment - dwellings	27,506	(29,411)	56,917	
164.000	Furniture, equipment - administration	51,658		51,658	
166.000	Accumulated depreciation	(686,233)		(686,233)	
160.000	Total non-current assets:	264,719	0	264,719	0
190.000	Total assets	332,941	0	332,941	0
LIABILITIES					
Current liabilities:					
312.000	Accounts payable <= 90 days	6,343		6,343	
333.000	Accounts payable - other government	2,085		2,085	
341.000	Tenant security deposits	2,506		2,506	
342.000	Deferred revenue	408		408	
310.000	Total current liabilities	11,342	0	11,342	0
Noncurrent liabilities:					
354.000	None	0		0	
300.000	Total liabilities	11,342	0	11,342	0
NET ASSETS					
508.100	Invested in capital assets, net of debt	264,719		264,719	
512.100	Unrestricted net assets	56,880		56,880	
513.000	Total net assets	321,599	0	321,599	0
Total liabilities and net assets		332,941	0	332,941	0

KENNEBEC HOUSING AND REDEVELOPMENT COMMISSION
 A COMPONENT UNIT OF THE TOWN OF KENNEBEC, SOUTH DAKOTA
 KENNEBEC, SOUTH DAKOTA

Project Code: SD008
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Financial Data Schedule

Financial Data Schedule (FDS)

For the One Year Ending June 30, 2011
 Required by the Dept. of Housing
 and Urban Development

Line Item #		Audit Low Rent Public Housing 6-30-11	Reclass	Low Rent Public Housing CFDA # 14.850a 6-30-11	Public Housing Capital Fund Program CFDA # 14.885 6-30-11
REVENUE					
703.000	Net tenant rental revenue	59,580		59,580	
704.000	Tenant revenue - other	1,847	692	1,155	
706.000	HUD operating grant	0	(61,618)	55,047	6,571
706.100	HUD capital grant	0	(17,611)		17,611
711.000	Investment income - unrestricted	0	(234)	234	
715.000	Other revenue	0	(1,075)	1,075	
716.000	Gain/(loss) on sale of capital assets	0	397	(397)	
700.000	Total revenue	61,427	(79,449)	116,694	24,182
EXPENSES					
Expenses - administrative:					
912.000	Auditing fees	2,830		2,830	
913.000	Management fee	15,588		15,588	
916.000	Other operating expenses	5,426		5,426	
Expenses - tenant services:					
924.000	Other	0		0	
Expenses - utilities:					
931.000	Water	3,292		3,292	
932.000	Electricity	14,999		14,999	
933.000	Gas	18,844		18,844	
936.000	Sewer	1,600		1,600	
Expenses - ordinary maint. & operation:					
941.000	Labor	17,264		17,264	
942.000	Materials and other	4,961		4,417	544
943.000	Ordinary maint. & operations contracts	7,488		7,488	
945.000	Employee benefit contributions	1,374		1,374	
Expenses - general:					
961.100	Property insurance	1,611		1,611	
961.200	Liability insurance	4,175		4,175	
961.300	Workmen's compensation insurance	766		766	
961.400	All other insurance	1,174		1,174	
963.000	Payment in lieu of taxes	2,085		2,085	
964.000	Bad debt - tenants rents	302		302	
Other expenses:					
971.000	Extraordinary maintenance	3,778	(383)	4,161	
972.000	Casualty losses - non-capitalized	397	397		
974.000	Depreciation	35,908		33,302	2,606
900.000	Total expenses	143,862	14	140,698	3,150
Other financing sources (uses):					
706.000	HUD operating grant	61,074	61,074		
711.000	Investment income - unrestricted	234	234		
100.100	Operating transfer in	0	(6,027)	6,027	
100.200	Operating transfer out	0	6,027		(6,027)
10100.000	Total other financing sources (uses):	61,308	61,308	6,027	(6,027)
10000.000	Net income (loss) before contributions	(21,127)	(18,155)	(17,977)	15,005
706.100	HUD capital grant	18,155	18,155		
	Change in net assets	(2,972)	0	(17,977)	15,005
NET ASSETS					
1103.000	Beginning	324,571		324,571	0
1104.000	Beginning	0		15,005	(15,005)
	Ending	321,599	0	321,599	0