



Financial Statements
December 31, 2011 and 2010
Pickerel Lake Sanitary District

Pickereel Lake Sanitary District

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December 31, 2011 and 2010

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Independent Auditor's Report

The Board of Trustees
Pickerel Lake Sanitary District
Grenville, South Dakota

We have audited the accompanying statements of net assets of the Pickerel Lake Sanitary District as of December 31, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pickerel Lake Sanitary District as of December 31, 2011 and 2010 and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Pickerel Lake Sanitary District has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 23, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This 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 audits.

Eide Sallee LLP

Aberdeen, South Dakota
July 23, 2012

Pickereel Lake Sanitary District
 Statements of Net Assets – Proprietary Fund
 December 31, 2011 and 2010

	Enterprise Fund	
	2011	2010
Assets		
Current Assets		
Cash	\$ 51,793	\$ 106,163
Restricted cash	27,785	23,854
Investments	-	53,947
Accounts receivable	6,948	6,423
Notes receivable - current portion	40,617	49,758
Prepaid expenses	1,048	1,059
Accrued interest receivable	3,565	3,984
Investment interest receivable	-	133
Inventories	3,572	3,572
Total current assets	135,328	248,893
Noncurrent Assets		
Capital assets:		
Land	17,157	17,157
Improvements other than buildings	2,662,262	2,653,442
Equipment	25,103	25,103
	2,704,522	2,695,702
Accumulated depreciation	(854,565)	(783,778)
	1,849,957	1,911,924
Notes receivable - noncurrent portion	194,600	235,218
Unamortized bond cost	945	3,208
Total noncurrent assets	2,045,502	2,150,350
	\$ 2,180,830	\$ 2,399,243

Pickereel Lake Sanitary District
 Statements of Net Assets – Proprietary Fund
 December 31, 2011 and 2010

	Enterprise Fund	
	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ 14,882	\$ 29,756
Accounts payable	-	20,750
Accrued interest payable	1,406	3,353
Accrued wages	649	3,267
	16,937	57,126
Total current liabilities		
Noncurrent Liabilities		
Bonds payable	92,235	225,745
	109,172	282,871
Total liabilities		
Net Assets		
Invested in capital assets, net of related debt	1,742,840	1,656,423
Restricted	35,473	57,596
Unrestricted	293,345	402,353
	2,071,658	2,116,372
Total net assets		
	\$ 2,180,830	\$ 2,399,243

Pickereel Lake Sanitary District
 Statements of Revenues, Expenses and Changes in Net Assets – Proprietary Fund
 Years Ended December 31, 2011 and 2010

	Enterprise Fund	
	2011	2010
Operating Revenues		
User fees	\$ 77,026	\$ 71,223
Application and connection fees	500	500
Total operating revenues	77,526	71,723
Operating Expenses		
Depreciation	70,787	69,314
Dues and subscriptions	-	35
Insurance	3,898	5,543
Payroll taxes	3,209	3,144
Professional fees: legal fees	644	20,750
Rent	3,250	2,750
Repairs and maintenance	32,953	23,810
Trustee fees	2,400	2,400
Utilities expense	8,023	6,868
Wages expense	44,646	43,800
Legal notices	405	435
Office expenses	2,968	2,913
Misc. expense	65	97
Amortization	2,263	422
Total operating expenses	175,511	182,281
Operating Loss	(97,985)	(110,558)
Nonoperating Revenues (Expenses)		
Interest income	13,904	17,515
Interest expense	(8,998)	(14,343)
Finance charges	508	966
Property taxes	27,647	26,156
Miscellaneous income	106	101
Total nonoperating revenues (expenses)	33,167	30,395
Loss before Contributions	(64,818)	(80,163)
Capital Contributions - Special Assessments	20,104	20,961
Changes in Net Assets	(44,714)	(59,202)
Net Assets, Beginning of Year	2,116,372	2,175,574
Net Assets, End of Year	\$ 2,071,658	\$ 2,116,372

Pickereel Lake Sanitary District
 Statements of Cash Flows – Proprietary Fund
 Years Ended December 31, 2011 and 2010

	Enterprise Fund	
	2011	2010
Operating Activities		
Receipts from customers	\$ 77,001	\$ 80,117
Payments to employee	(52,873)	(46,664)
Payments to suppliers	(72,945)	(38,100)
Net Cash used for Operating Activities	(48,817)	(4,647)
Noncapital Financing Activities		
Taxes received	27,647	26,156
Finance charges	508	966
Miscellaneous income	106	101
Net Cash from Noncapital Financing Activities	28,261	27,223
Capital and Related Financing Activities		
Purchase of fixed assets	(8,820)	-
Payments received on special assessments	69,863	80,825
Principal payments on debt	(148,384)	(40,568)
Interest paid	(10,945)	(10,990)
Net Cash from (used for) Capital and Related Financing Activities	(98,286)	29,267
Investing Activities		
Interest received	14,456	19,549
Proceeds from sale of investments	53,947	-
Purchase of investments	-	(20,409)
Net Cash from (used for) Investing Activities	68,403	(860)
Net Change in Cash	(50,439)	50,983
Cash at Beginning of Year	130,017	79,034
Cash at End of Year	\$ 79,578	\$ 130,017
Supplemental Disclosures of Cash Flow Information		
Cash	\$ 51,793	\$ 106,163
Restricted cash	27,785	23,854
	\$ 79,578	\$ 130,017

Pickereel Lake Sanitary District
 Statements of Cash Flows – Proprietary Fund
 Years Ended December 31, 2011 and 2010

	Enterprise Fund	
	2011	2010
Reconciliation of Operating Income to Net Cash used for		
Operating Activities		
Operating loss	\$ (97,985)	\$ (110,558)
Charges and credits to operating loss not affecting cash:		
Depreciation expense	70,787	69,314
Amortization expense	2,263	422
Changes in assets and liabilities:		
Accounts receivable	(525)	8,394
Prepaid expenses	11	4,486
Accounts payable	(20,750)	20,615
Accrued wages	(2,618)	2,680
	\$ (48,817)	\$ (4,647)
Net Cash used for Operating Activities	\$ (48,817)	\$ (4,647)

Note 1 - Significant Accounting Policies

The accounting policies of the Pickerel Lake Sanitary District conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of the significant policies:

Reporting Entity

Pickerel Lake Sanitary District (the District) was incorporated under the laws of South Dakota on November 30, 1992 as a political subdivision and is governed by an elected three-member Board of Trustees. The reporting entity of the District consists of the primary government and those organizations which 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 District's financial statements to be misleading or incomplete.

The reporting entity is comprised of the primary government, the Pickerel Lake Sanitary District; and the District does not have any component units.

Basis of Presentation

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and reporting.

The statements of net assets and revenues, expenses and changes in net assets present the business-type activities of the District, which are all of the financial activities and represent the government-wide and fund financial statements.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering items in connection with a proprietary fund's principal ongoing operations. The District records all revenues derived from fees as operating revenues since these revenues are generated from the District's daily operations needed to carry out its purpose. Operating expenses include administrative, depreciation, operating and maintenance expenses related to operation of the District's sanitary system.

Enterprise Fund: 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 of providing the services to the general public on a continuing basis be financed or recovered primarily through user charges; of (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for the capital maintenance, public policy, management control, accountability or other purposes.

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

The District has one enterprise fund, which is reported as a major fund, to record the transactions related to operating a sanitary sewer system through fees and charges to users of the system.

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 enterprise fund is presented used the economic resources measurement focus and the accrual basis of accounting.

Capital Assets

All capital assets are valued at historical cost. Interest costs incurred during construction of fixed assets are capitalized along with other fixed asset costs. The District’s capitalization policy is \$500. Depreciation of all exhaustible fixed assets used by the proprietary funds is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund statements of net assets. Depreciation has been provided over estimated useful lives using the straight-line method as follows:

Land	N/A
Improvements other than buildings	10-40 years
Equipment	5 years

Accumulated Unpaid Vacation and Sick Leave

Vacation and sick leave are not earned by employees of the District.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Statements of Cash Flows

The District considers all amounts held in checking and savings accounts to be cash for purposes of the statements of cash flows.

Accounts Receivable

Accounts are charged-off as they are deemed uncollectible based on a periodic review of the accounts. There were no amounts charged as bad debt in 2011 and 2010. At December 31, 2011 and 2010, no allowance for uncollectible accounts was considered necessary, as uncollectible amounts, if any, are not material.

Inventory

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO).

User Fees

The reserve and replacement fee and operating and maintenance fee are a semi-annual charge for all users. These funds are then used to fund the reserve and replacement account and the normal operations and maintenance expenses.

Bond Costs

The amortization of bonding costs is provided by using the straight-line method over the life of the loan which is twenty years.

Property Funds Revenue and Expense Classification

In the proprietary fund's statements of revenues, expenses and changes in net assets, revenues and expenses are classified in a manner consistent with how they are classified in the statements 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.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as taxes, special assessments and investment earnings, result from nonexchange transactions or ancillary activities.

Net Assets

Equity is classified as net assets and is displayed in three components:

1. Invested in Capital Assets, Net of Related Debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted Net Assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Application of Net Assets

It is the District'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.

Rounding

Computer generated rounding variances exist in the financial statements. The variances result from values being entered with cents rather than as whole numbers.

Note 2 - Deposits Ad Investments, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk

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

Deposits

The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota. As of December 31, 2011 and 2010, the financial institution that holds the District's deposits was properly collateralized.

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

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2011 and 2010, all deposits and investments were covered by FDIC insurance or other collateral.

The actual bank balances at December 31, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Insured (FDIC/NCUA)	\$ 81,895	\$ 183,988
Uninsured, collateral jointly held by state's/District's agent in the name of the state and the pledging financial institution	<u>-</u>	<u>-</u>
	<u>\$ 81,895</u>	<u>\$ 183,988</u>
Carrying amounts of deposits	<u>\$ 51,793</u>	<u>\$ 160,110</u>

Investments

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

As of December 31, 2011 and 2010, all investments held were certificates of deposit.

Custodial Credit Risk Investments: The risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have an investment policy for custodial risk.

Interest Rate Risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All certificates of deposits held have a maturity of six months.

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

Concentration of Credit Risk: The District places no limit on the amount that the District may invest in any one issuer. One hundred percent of the District's investments are in certificates of deposit with CorTrust Bank.

State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The District's only fund is the enterprise fund.

Note 3 - Property Tax

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and are payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the District's taxes and remits them to the District. The District's property tax revenues are recognized in accordance with the accrual basis of accounting. The District is permitted by state statute to levy taxes. The District has elected to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the District.

	<u>2011</u>	<u>2010</u>
General Fund		
Agricultural property	\$ 0.735	\$ 0.595
Owner occupied	0.735	0.595
Nonagricultural property	0.735	0.595

Note 4 - Notes Receivable

The District has notes receivable from property owners within the District for debt service assessments relating to construction of the system. The notes accrue interest at 5.25% and are due at varying dates in the future depending on the repayment terms selected by the property owners. The notes are presented in the financial statements as follows:

	<u>2011</u>	<u>2010</u>
Current portion	\$ 40,617	\$ 49,758
Noncurrent portion	194,600	235,218
	<u>\$ 235,217</u>	<u>\$ 284,976</u>

Note 5 - Changes in Fixed Assets

A summary of changes in fixed assets for the years ended December 31, 2011 and 2010 are as follows:

<u>Proprietary Fund</u>	<u>Balance 01/01/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/11</u>
Capital assets, not being depreciated:				
Land	\$ 17,157	\$ -	\$ -	\$ 17,157
Total capital assets not being depreciated	<u>17,157</u>	<u>-</u>	<u>-</u>	<u>17,157</u>
Capital assets being depreciated:				
Improvements other than buildings	2,653,442	8,820	-	2,662,262
Equipment	25,103	-	-	25,103
Total capital assets being depreciated	<u>2,678,545</u>	<u>8,820</u>	<u>-</u>	<u>2,687,365</u>
Less accumulated depreciation for:				
Improvements other than buildings	772,931	68,987	-	841,918
Equipment	10,847	1,800	-	12,647
	<u>783,778</u>	<u>70,787</u>	<u>-</u>	<u>854,565</u>
Total fixed assets being depreciated, net	<u>1,894,767</u>	<u>(61,967)</u>	<u>-</u>	<u>1,832,800</u>
Proprietary fund activities capital assets, net	<u>\$ 1,911,924</u>	<u>\$ (61,967)</u>	<u>\$ -</u>	<u>\$ 1,849,957</u>
Total depreciation expense - proprietary fund activities				<u>\$ 70,787</u>
<u>Proprietary Fund</u>	<u>Balance 01/01/10</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/10</u>
Capital assets, not being depreciated:				
Land	\$ 17,157	\$ -	\$ -	\$ 17,157
Total capital assets not being depreciated	<u>17,157</u>	<u>-</u>	<u>-</u>	<u>17,157</u>
Capital assets being depreciated:				
Improvements other than buildings	2,653,442	-	-	2,653,442
Equipment	25,103	-	-	25,103
Total capital assets being depreciated	<u>2,678,545</u>	<u>-</u>	<u>-</u>	<u>2,678,545</u>
Less accumulated depreciation for:				
Improvements other than buildings	705,742	67,189	-	772,931
Equipment	8,722	2,125	-	10,847
	<u>714,464</u>	<u>69,314</u>	<u>-</u>	<u>783,778</u>
Total fixed assets being depreciated, net	<u>1,964,081</u>	<u>(69,314)</u>	<u>-</u>	<u>1,894,767</u>
Proprietary fund activities capital assets, net	<u>\$ 1,981,238</u>	<u>\$ (69,314)</u>	<u>\$ -</u>	<u>\$ 1,911,924</u>
Total depreciation expense - proprietary fund activities				<u>\$ 69,314</u>

Note 6 - Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Series 1996</u>	<u>Series 1997</u>
Debt Payable, January 1, 2010	\$ 153,087	\$ 142,982
Retired	<u>(21,392)</u>	<u>(19,175)</u>
Debt Payable, December 31, 2010	131,695	123,807
Retired	<u>(24,578)</u>	<u>(123,807)</u>
Debt Payable, December 31, 2011	<u>\$ 107,117</u>	<u>\$ -</u>
Due within one year	<u>\$ 14,882</u>	<u>\$ -</u>

Debt payable at December 31, 2011 and 2010 is comprised of the following:

	<u>2011</u>	<u>2010</u>
South Dakota Department of Environment and Natural Resources, quarterly payments of 5,054, including interest, 5.25% interest rate, final payment due January 1, 2018	\$ 107,117	\$ 131,695
South Dakota Department of Environment and Natural Resources, quarterly payments of \$4,546 including interest, 5.25% interest rate, paid off in 2011	<u>-</u>	<u>123,806</u>
	<u>\$ 107,117</u>	<u>\$ 255,501</u>

The annual requirements to amortize the above debt are as follows:

<u>Year Ending December 31,</u>	<u>General Obligation</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 14,882	\$ 5,334
2013	15,679	4,537
2014	16,518	3,698
2015	17,403	2,813
2016	18,335	1,882
2017-2018	<u>24,300</u>	<u>965</u>
	<u>\$ 107,117</u>	<u>\$ 19,229</u>

The District has pledged all fixtures, equipment, supplies, inventory, contract rights and improvements, all gross income and receipts, accounts receivable and general intangibles now in existence or which may come into existence including the proceeds thereof derived from or pertaining to all activities of the District as collateral for the loan from South Dakota Department of Environment and Natural Resources.

The loan agreements for Series 1996 revenue bonds and Series 1997 revenue bonds stipulate that the District shall ensure that its annual net revenues available for debt service shall equal at least 110% of its debt service requirements. For 2011 and 2010, the net revenues available for debt service were above 110% of its debt service requirement.

As required by SDCL 34A-5-37 and the bond agreements, the District maintains a separate account for debt service. When the balance of that account exceeds the amount needed for quarterly payments to retire debt, additional payments are made to reduce principal instead of accumulating funds for payments in the future. As of December 31, 2011 and 2010, the balance of the debt service account was \$35,473 and \$57,596 respectively, and is included in cash and cash equivalents.

Note 7 - Wastewater Facilities Replacement Account

The District's Ordinance No. 7 requires that a replacement fund be established and that \$7,500 shall be deposited into the fund each year for maintenance of the system. This fund can be used to provide funds to be expended for obtaining and installing equipment and other accessories during the useful life of the wastewater collection facilities necessary to maintain the capacity and performance for which facilities are designed and constructed. The funds are reported as restricted cash on the statements of net assets.

Note 8 - Restricted Net Assets

The following table shows net assets restricted for other purposes as shown in the statements of net assets:

<u>Debt Service</u>	2011	2010
Statutory	\$ 35,473	\$ 57,596

Note 9 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2011 and 2010, the District managed its risks as follows:

Employee Health Insurance

The District does not provide health insurance benefits to its employees.

Liability Insurance

The District purchases liability insurance for risks related to torts; theft of or damage to property; automobile liability; and errors and omissions of public officials from a commercial insurance carrier. Settled claims from these risks have never exceeded the liability coverage.

Worker's Compensation

The District purchases liability insurance for worker's compensation from a commercial carrier.

Unemployment Benefits

The District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The District elected not to designate equity for the payment of future unemployment benefits. During the years ended December 31, 2011 and 2010, no claims for unemployment benefits were paid. At December 31, 2011 and 2010, no claims had been filed for unemployment benefits and none are anticipated in the next year.

Prior Audit Findings:

Finding 2009-1 Lack of Segregation of Duties

A material weakness was reported for a lack of segregation of duties over the revenue, expenditure and payroll functions.

Status - The finding has not been corrected and has been restated as current audit finding 2011-1.

Finding 2009-2 Preparation of Financial Statements and Footnotes and Significant Journal Entries

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Status – The finding has not been corrected and has been restated as current audit finding 2011-2.

Current Audit Findings and Recommendations:

Finding 2011-1 Lack of Segregation of Duties

Material Weakness

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

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

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

Effect: This condition increases the risk that fraud or errors might occur in the financial reporting process.

Recommendation: Although it is recognized that number of office staff may not be large enough to permit an adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the Trustees exercise adequate oversight of the accounting function.

Management's Response: Management accepts the risk associated with lack of segregation of duties in the District.

Finding 2011-2 Preparation of Financial Statements and Footnotes and Significant Journal Entries

Material Weakness

Condition: Pickarel Lake Sanitary District requested the external auditors to assist in the preparation of the financial statements and related footnotes. As part of the financial statement preparation process, we proposed a material audit adjustment that was not identified as a result of the District's existing internal controls and; therefore, could result in a misstatement of the District's financial statements.

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

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

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

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response: Management accepts the risk associated with preparation of the final audited financial statements by the independent auditor.



CPAs & BUSINESS ADVISORS

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Pickrel Lake Sanitary District
Grenville, South Dakota

We have audited the financial statements of the Pickrel Lake Sanitary District as of and for the year ended December 31, 2011 and 2010 and have issued our report thereon dated July 23, 2012. These financial statements are the responsibility of the District's management. We conducted our audits 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

Management of the District is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified certain deficiencies in internal control over financial reporting, described in the auditor's comments that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the auditor's comments as items 2011-1 and 2011-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's responses to the findings identified in our audit are described in the auditor's comments. We did not audit the District's responses and, accordingly, we express no opinion on them.

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 Pickerel Lake Sanitary District, South Dakota and is not intended to be, and should not be, used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is matter of public record and its distribution is not limited.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
July 23, 2012