

WALL LAKE SANITARY DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2012 and 2011

EAST, VANDER WOUDE, GRANT & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS
707 WEST 11TH STREET
SIOUX FALLS, SD 57104

**WALL LAKE SANITARY DISTRICT
BOARD OF TRUSTEES
DECEMBER 31, 2012 and 2011**

		<u>TERM</u>
Willard (Bill) Huffman	President	August 20, 2009 – present (Term expires August 2015)
	Clerk	May 1, 2013 – present
Roger Russell	Vice-President	August 19, 2009 – April 30, 2013
	Clerk	August 1, 2006 – April 30, 2013 Vacant April 30, 2013 - present)
Bonnie Flood	Treasurer	February 11, 2010 – present (Term expires August 2013)

WALL LAKE SANITARY DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Wall Lake Sanitary District
Hartford, South Dakota 57033

Report on the Financial Statements

We have audited the accompanying financial statements of Wall Lake Sanitary District, Hartford, South Dakota, as of and for each of the years ended December 31, 2012 and 2011 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wall Lake Sanitary District as of December 31, 2012 and 2011, and the changes in its net position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

The Wall 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Wall Lake Sanitary District's financial statements. The schedules of operating expenses on page 24 and the introductory section are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules of operating expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated July 29, 2013 on our consideration of the Wall Lake Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wall Lake Sanitary District's internal control over financial reporting and compliance.

East, Vander Woude, Grant & Co, PC
Sioux Falls, South Dakota

July 29, 2013

**WALL LAKE SANITARY DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 and 2011**

	2012	2011
ASSETS		
Current Assets		
Cash	\$ 129,338	\$ 90,602
Accounts Receivable, net of allowance for doubtful accounts of \$-0- in 2012 and 2011	3,020	3,325
Taxes Receivable - Current	2,394	2,479
Taxes Receivable - Delinquent	38	145
Prepaid Insurance	2,300	2,149
Total Current Assets	137,090	98,700
Capital Assets, Net of Accumulated Depreciation	560,782	573,565
Total Assets	697,872	672,265
Liabilities		
Current Liabilities		
Accounts Payable	17,244	2,520
Accrued Interest Payable	972	1,043
Accrued Payroll & Payroll Taxes	1,017	412
Prepaid Services	330	710
Current Portion of Note Payable	8,434	8,145
Total Current Liabilities	27,997	12,830
Long-Term Liabilities		
Note Payable, Net of Current Portion	102,667	111,101
Total Liabilities	130,664	123,931
Net Position		
Net Investment in Capital Assets	449,681	454,319
Restricted Net Position		
Debt Service Fund	3,053	3,053
Unrestricted Net Position	114,474	90,962
Total Net Position	\$ 567,208	\$ 548,334

The accompanying notes are an integral part of these financial statements.

**WALL LAKE SANITARY DISTRICT
STATEMENTS OF REVENUE AND EXPENSES
AND CHANGES IN NET POSITIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Revenue from User Fees	\$ 82,980	\$ 82,390
Hook - up Fees	10,000	-
Finance Charges & Fees	<u>1,220</u>	<u>1,989</u>
Total Operating Revenues	<u>94,200</u>	<u>84,379</u>
Operating Expenses		
System Operation and Maintenance	29,361	26,679
Administrative	7,681	7,019
Professional Services	14,206	30,844
Depreciation	<u>32,632</u>	<u>32,409</u>
Total Operating Expenses	<u>83,880</u>	<u>96,951</u>
Operating Income (Loss)	<u>10,320</u>	<u>(12,572)</u>
Non-Operating Revenue (Expense)		
Property Taxes	12,438	12,551
Interest Income	112	97
Interest Expense	<u>(3,996)</u>	<u>(4,278)</u>
Total Non-Operating Revenue (Expense)	<u>8,554</u>	<u>8,370</u>
Change in Net Position	18,874	(4,202)
Net Position, Beginning	<u>548,334</u>	<u>552,536</u>
Net Position, Ending	<u>\$ 567,208</u>	<u>\$ 548,334</u>

The accompanying notes are an integral part of these financial statements.

**WALL LAKE SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 94,125	\$ 81,584
Cash Payments for Services and Goods	(30,151)	(60,064)
Cash Payments to Employees	(5,919)	(5,455)
Net Cash Provided (Used) by Operating Activities	58,055	16,065
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes	12,630	10,492
Net Cash Provided by Noncapital Financing Activities	12,630	10,492
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(19,849)	(8,900)
Principal Paid on Loans	(8,145)	(7,866)
Interest Paid	(4,067)	(4,347)
Net Cash (Used) by Capital and Related Financing Activities	(32,061)	(21,113)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income	112	97
Net Cash Provided by Investing Activities	112	97
Net Increase (Decrease) in Cash and Cash Equivalents During the Fiscal Year	38,736	5,541
Cash and Cash Equivalents at Beginning of Year	90,602	85,061
Cash and Cash Equivalents at End of Year	\$ 129,338	\$ 90,602
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ 10,320	\$ (12,572)
Adjustments to Reconcile Net Income from Operations to Net Cash Provided by Operating Activities		
(Increase) Decrease in Accounts Receivable	305	(2,245)
(Increase) Decrease in Prepaid Expenses	(151)	197
Increase (Decrease) in Prepaid Services	(380)	(550)
Increase (Decrease) in Accounts Payable	14,724	(1,586)
Increase (Decrease) in Accrued Payroll & PR taxes	605	412
Depreciation Expense	32,632	32,409
Net Cash Provided (Used) by Operating Activities	\$ 58,055	\$ 16,065

The accompanying notes are an integral part of these financial statements.

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Wall Lake Sanitary District (the "District") is organized under the authority of Chapter 34A-5 of the South Dakota Codified Laws as a sanitary district.

The District was organized to operate and maintain an adequate and efficient means of collecting, conveying, pumping, treating and disposing of domestic sewage within the District. The District provides services to users in an area around Wall Lake in Minnehaha County, South Dakota. The District is governed by an elected Board of Trustees consisting of three members elected from the voters residing in the District. The District is authorized to exercise the power of eminent domain, levy taxes and special assessments, borrow money and issue bonds. The District is a political subdivision of the State of South Dakota.

b. Financial Reporting Entity

The financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board and either (1) the ability to impose will by the primary government, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based on the above criteria, the District does not have any component units that require inclusion in the financial statements. Conversely, the District is not a component unit of another government.

c. Basis of Presentation

These financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units, with the exception of presenting Management's Discussion and Analysis. The Governmental Accounting Standards Board has determined Management's Discussion and Analysis is necessary to supplement, although not required to be a part of the basic financial statements. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

d. 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.

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

d. Measurement Focus and Basis of Accounting, continued

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 three major categories: governmental, proprietary, and fiduciary. Wall Lake Sanitary District only has the proprietary fund category and presents its accounts as one 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 (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.

The District prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting, which are similar to those for private business enterprises. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues consist principally of charges for services to customers. Expenses include the costs of operating the District, including expenses related to system operation and maintenance, administration, professional services, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses. Non-operating revenues and expenses include property tax levies, interest income and interest expense amounts.

In the Statement of Revenues, Expenses and Changes in Net Position, 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.

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

e. 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.

Certificates of deposit whose term to maturity at date of acquisition exceeds three months, and /or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6 are classified as investments.

f. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the District considers all highly liquid investments as deposits (including restricted assets, if any) with a term to maturity of three months or less, at date of acquisition, to be cash equivalents. Certificates of deposit, with original maturities of three months or less, are considered to be cash and cash equivalents.

g. Capital Assets

All capital assets are valued at historical cost or fair market value, if donated. As of December 31, 2012 and 2011 there were no costs determined by estimations of the original cost. The cost of the sanitary sewer system includes the primary construction and installation of the sewer lines, pumps, lift station, engineering services, legal expenditures directly related to construction, and other items necessary in the construction of the sanitary sewer infrastructure. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use.

The District's policy is to capitalize those assets with a useful life greater than one year. The District had generally capitalized assets with an initial acquisition cost of \$500 and effective March 8, 2010 established a capitalization policy of \$2,500. Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations.

Depreciation has been provided over the following estimated useful lives using the straight-line method over 33 years for the sanitary sewer system and 3 - 5 years for vehicles. The District's policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest of \$5,896 incurred in 2003 is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets.

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

h. Net Position Classifications

Equity is classified as net position and is displayed in three components as follows:

Net Investment in Capital Assets - 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.

Restricted Net Position - Consists of net positions 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. The District has restricted net position for debt service.

Unrestricted Net Position – Consists of all other net positions that do not meet the definition of “restricted” or “net investment in capital assets.” Unlike the restricted net position, the Board of Trustees has discretion in determining the use of any unrestricted net position. The Board may at any time change or eliminate amounts established for these purposes

i. Application of Net Position

It is the District’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

j. Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

k. Taxes Receivable and Revenue

A property tax levy was established to finance operations. 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 payable in two installments on or before April 30 and October 31 of the following year. The tax levy is recognized as revenue in the year the enforceable lien attaches on the property.

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

k. Taxes Receivable and Revenue, continued

The District is permitted by state statute to levy \$27 per \$1,000 of taxable valuation of the property in the district. The tax rate for taxes payable in the years ended December 31, 2012 and 2011 was \$0.768 and \$0.768, per \$1,000 of taxable valuation, respectively.

The District's property taxes and any delinquent customer charges are collected by the county and remitted to the District on a monthly basis. SDCL 34A-5-56 requires the District to complete a budget and to send one certified copy of the budget and adoption of special assessments not later than the first of September to the county auditor and to the state secretary of revenue.

l. Accumulated Unpaid Vacation and Sick Leave

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

2. DEPOSITS AND INVESTMENTS

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The District's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1 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 or at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or better or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

The actual bank balances at December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Insured (FDIC / NCUA)	\$129,338	\$ 92,735
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>
Total Deposits	<u>\$129,338</u>	<u>\$ 92,735</u>

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011**

2. DEPOSITS AND INVESTMENTS, continued

The carrying amounts of deposits at December 31, 2012 and 2011 are reflected on the statements of net position as follows:

	<u>2012</u>	<u>2011</u>
Cash	<u>\$129,338</u>	<u>\$ 90,602</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.

The District had no investments at December 31, 2012 and 2011.

Custodial Credit Risk – 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.

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.

Credit Risk – State law limits eligible investments for the District, as discussed above. The District does not have any additional policy.

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

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011**

3. CHANGES IN CAPITAL ASSETS

A summary of changes in the capital assets follows:

	Balance 12/31/10	Inc.	(Dec.)	Balance 12/31/2011	Inc.	(Dec.)	Balance 12/31/2012
Capital assets not depreciated:							
Land	\$ 19,778	\$ -	\$ -	\$ 19,778	\$ -	\$ -	\$ 19,778
Construction in Progress	\$ -	\$ -	\$ -	\$ -	\$ 19,849	\$ -	\$ 19,849
Capital assets being depreciated:							
Sewer Plant	\$ 1,065,324	\$ 8,900	\$ -	\$ 1,074,224		\$ -	\$ 1,074,224
Office Equip.	808	-	-	808	-	-	808
Total capital assets being depreciated	\$ 1,066,132	\$ 8,900	\$ -	\$ 1,075,032	\$ -	\$ -	\$ 1,075,032
Less accumulated depreciation for:							
Sewer Plant	\$ 488,560		\$ 32,328	\$ 520,888		\$ 32,551	\$ 553,439
Office Equip.	276		81	357		81	438
Total accumulated depreciation	488,836	-	32,409	521,245	-	32,632	553,877
Total capital assets being depreciated, net	577,296	8,900	(32,409)	553,787	-	(32,632)	521,155
Total capital assets, net	\$ 597,074	\$ 8,900	\$ (32,409)	\$ 573,565	\$ 19,849	\$ (32,632)	\$ 560,782

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011**

4. LONG-TERM DEBT

The Wall Lake Sanitary District obtained a loan dated October 1, 2003 from the South Dakota Conservancy District for \$175,126 at an interest rate of 3.5%. The South Dakota Conservancy District is administered by the State of South Dakota Department of Natural Resources (SD DENR). The loan is due in quarterly installments of principal and interest of \$3,053 beginning January, 2004 through October, 2023. Interest accrued as of December 31, 2012 and 2011 was \$972 and \$1,043, respectively.

The note is secured by all system revenues and receivables of the District and a statutory mortgage lien upon the system and all improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged.

Covenants under the note agreement require the District, among other things, to maintain a rate covenant defined as follows:

Net Wastewater Revenues Available for Debt Service in an amount at least equal to 1.10 times (110%) the amount of Annual Debt Service on the note, as defined. The District was in compliance with the above note covenant at December 31, 2012 and 2011. (259.8% in 2012 and 146.2% in 2011).

Following is a summary of changes in long-term debt:

Note Payable, 1/1/11	\$127,112
Proceeds	-
Retired	<u>(7,866)</u>
Note Payable, 12/31/11	119,246
Less current portion	<u>(8,145)</u>
Note Payable, net of current portion	<u><u>\$111,101</u></u>
Note Payable, 1/1/12	\$119,246
Proceeds	-
Retired	<u>(8,145)</u>
Note Payable, 12/31/12	111,101
Less current portion	<u>(8,434)</u>
Note Payable, net of current portion	<u><u>\$102,667</u></u>

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011**

4. LONG-TERM DEBT, continued

Annual Requirements

The annual requirements to amortize all long-term debt outstanding as of December 31, 2012 were as follows:

Year Ending 12/31	Revenue Bonds		Total Debt Service
	Principal	Interest	
2013	\$ 8,434	\$ 3,778	\$ 12,212
2014	8,732	3,480	12,212
2015	9,043	3,169	12,212
2016	9,363	2,849	12,212
2017	9,695	2,517	12,212
2018-2022	53,884	7,178	61,062
2023	11,950	262	12,212
Total	<u>\$111,101</u>	<u>\$23,233</u>	<u>\$134,334</u>

Wall Lake Sanitary District also obtained a Clean Water State Revolving Fund loan dated September 4, 2012 from the South Dakota Conservancy District for \$135,000 at an interest rate of 3.25% for 30 years. The South Dakota Conservancy District is administered by the State of South Dakota Department of Natural Resources (SD DENR). The loan, along with a grant (See Note 6) was approved by SD DENR to assist in rehabilitating the District's wastewater treatment facility and make other improvements. Wall Lake Sanitary District issued a borrower bond to the South Dakota Conservancy District to evidence the District's obligation to repay the principal of and pay interest on the loan from the South Dakota Conservancy District. The note is secured by all system revenues and receivables of the District and a statutory mortgage lien upon the system and all improvements. No loan proceeds were disbursed to the District in 2012.

5. 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; and natural disasters. During the period ended December 31, 2011 and 2012, the district managed its risks as follows:

Liability Insurance

The District purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier.

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011**

5. RISK MANAGEMENT, continued

The following policies are in effect:

	<u>Amount of Insurance</u>
Property Insurance	\$457,200
Liability Insurance	\$2,000,000 per occurrence; \$5,000,000 general aggregate
Auto Liability Insurance	\$1,000,000 combined single limit
Directors and Officers Liability	\$2,000,000 per claim; \$5,000,000 aggregate

Workers' Compensation

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

Employee Health Insurance

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

6. GRANT AWARD

Water Quality Grant

On March 30, 2012, the South Dakota Conservancy District, acting through the State of South Dakota Department of Environment and Natural Resources awarded the District a \$240,825 Water Quality grant to assist in rehabilitating the District's wastewater treatment facility and make other improvements. No draws were made on the grant in 2012. In addition, the South Dakota Conservancy District awarded a loan to the District. See Note 4.

7. SUBSEQUENT EVENT

Contract Award – Lagoon Expansion and Improvement Project

On March 25, 2013, the District awarded a contract in the amount of \$417,180 for the project which is expected to be completed in the fall of 2013. The majority of the project will be funded by the grant (Note 6) and loan (Note 4).

8. NEW ACCOUNTING PRONOUNCEMENTS

In March 2012, the Government Accounting Standards Board issued Statement No. 65, "Items Previously Reported as Assets and Liabilities" ("GASB 65"). The provisions of GASB 65 are effective for financial statements for periods beginning after December 15, 2012, with earlier application encouraged. The statement requires that debt issuance costs should be recognized as an expense in the period incurred.

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011**

8. NEW ACCOUNTING PRONOUNCEMENTS, continued

The District adopted GASB 65 effective January 1, 2012 as it was more efficient to early implement the standard to expense bond issuance costs incurred in 2012 instead of capitalizing them as previously required and then restating the financial statements in 2013 to implement GASB 65 for periods beginning after December 15, 2012.

In June 2011, the Government Accounting Standards Board issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" ("GASB 63"). The provisions of GASB 63 are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. This Statement amends the net asset reporting requirements in Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments", and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The District early adopted this statement effective January 1, 2011 in renaming "net assets" to "net position" in order to be consistent in the use of terminology for each of the years 2012 and 2011.

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**INDEPENDENT AUDITOR'S 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***

To the Board of Trustees
Wall Lake Sanitary District
Hartford, South Dakota 57033

We have audited, 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, the financial statements of the business-type activities of Wall Lake Sanitary District, as of December 31, 2012 and 2011 and for each of the years then ended, and the related notes to the financial statements, which collectively comprise Wall Lake Sanitary District's basic financial statements and have issued our report thereon dated July 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Wall Lake Sanitary District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wall Lake Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of Wall Lake Sanitary District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of Current Audit Findings – Internal Control Findings, we identified a deficiency in internal control over financial reporting that we considered 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of Current Audit Findings – Internal Control Findings as item 2012-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wall Lake Sanitary 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of Current Audit Findings – Compliance Findings as items 2012-02, 2012-03 and 2012-04.

Wall Lake Sanitary District's Response to Findings

Wall Lake Sanitary District's responses to the findings identified in our audit are described in the accompanying schedule of Current Audit Findings. The District's conclusions were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by SDCL 4-11-11, this report is a matter of public record and its distribution is not limited.

East, Vander Wende, Grant & Co, PC

Sioux Falls, South Dakota
July 29, 2013

**WALL LAKE SANITARY DISTRICT
CURRENT AUDIT FINDINGS - INTERNAL CONTROL FINDINGS
DECEMBER 31, 2012 and 2011**

Finding No. 2012-01

The auditor is performing the accounting period close and drafting of the financial statements and related footnote disclosures.

Finding Type

Internal control over financial reporting – material weakness

Condition

The District does not have an internal control system designed to provide for the preparation of the financial statements in accordance with generally accepted accounting principles. Ultimately, it is management's responsibility to provide for closing of the books and the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both at the same time in connection with our audit. This is not unusual for us to do this with a government entity of your size.

Criteria

A good system of internal control contemplates the ability on the part of management to prepare complete financial statements which includes all footnote disclosures in accordance with generally accepted accounting principles.

Cause / Effect

The inability of management to prepare the financial statements in accordance with generally accepted accounting principles may affect proper reporting of the District's net position, revenues, expenses and changes in net position. We have drafted the financial statements and accompanying notes to the financial statements. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy, have answered any questions they might have, and have encouraged research of any classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide the District with the completed financial statements.

Recommendation

While we recognize that management may not have the experience and expertise to prepare the financial statements, it is important that you are aware of this condition. It is the responsibility of those charged with governance to make the decision whether to accept the degree of risk associated with this deficiency because of cost or other considerations.

Views of Responsible Officials

We are aware of the risk associated with not preparing our financial statements and related footnotes, but believe our review of the financial statements and footnotes is adequate to reduce the risk.

**WALL LAKE SANITARY DISTRICT
CURRENT AUDIT FINDINGS -COMPLIANCE FINDINGS
DECEMBER 31, 2012 and 2011**

Finding No. 2012-02

For the years ended December 31, 2012 and 2011, the District was in compliance with the rate covenant required by the loan agreement with the South Dakota Conservancy District. However, the certification submitted for 2011 was incorrectly calculated and a certification for 2012 was not submitted to the South Dakota Department of Natural Resources.

Criteria

The rate covenant states that Net Wastewater Revenues (as defined in the loan agreement) will be at least 110% of Wall Lake Sanitary District's debt service for the applicable year. The Certificate of Compliance is required by Section 2.2 of the Loan Agreement with South Dakota Conservancy District.

Condition / Cause / Effect

The Certificate of Compliance for 2011 submitted by the District and received by the South Dakota Department of Natural Resources on July 16, 2012 reflected the Net Wastewater Revenues Available for Debt Service as 249% of Total Debt Service for the year. Recalculating the ratio using the criteria as defined in the document "Definitions Used in Certification of Compliance with Rate Covenant" results in a ratio of 146.2% for 2011.

The 2012 ratio is 259.8%. A certification had not been submitted as of the date of the audit report.

Recommendation

We understand the District has been working with the South Dakota Department of Natural Resources in monitoring compliance and determining actions to be taken.

Views of Responsible Officials

The Wall Lake Sanitary Board will continue to work with the South Dakota Department of Natural Resources on compliance and timely submission of certifications.

**WALL LAKE SANITARY DISTRICT
CURRENT AUDIT FINDINGS
COMPLIANCE FINDINGS
DECEMBER 31, 2012 and 2011**

Finding 2012-03

The District's Board of Trustee's did not establish in the net position section of the general ledger all of the restricted net position funds required by the loan agreement.

Criteria

Resolution 2001-02 incorporated as part of the loan agreement with the South Dakota Conservancy District requires the District to transfer funds from the District's sewer operations account to separate funds and accounts for the following purposes: System Debt Service, Depreciation and Operation and Maintenance.

The System Debt Service fund is to maintain a sum sufficient to provide for the payment of the next loan principal and interest payment. The amount set aside monthly shall not be less than one-third of the quarterly principal and interest payment.

The Depreciation Fund consists of an amount determined by the Board to be a proper and adequate amount for repair and depreciation of the system.

After the System Debt Service Fund and Depreciation Fund are maintained, a sum sufficient to provide for the payment of the next month's current expenses of administration and operation of the remainder of the system shall be set aside.

Condition / Cause / Effect

The Board has established a Debt Service Fund but has not established the Depreciation Fund and Operation and Maintenance Fund and accounts as described above. When established, such amounts would be reported as restricted net position in the Statement of Net Position.

Recommendation

Review resolution 2001-02 incorporated as part of the loan agreement and establish accounts as required. Authorize in the Board minutes the funding levels as prescribed by the loan agreement.

Views of Responsible Officials

The Board will work with the South Dakota Department of Natural Resources in determining net position designations and amounts required to the extent possible

**WALL LAKE SANITARY DISTRICT
CURRENT AUDIT FINDINGS
COMPLIANCE FINDINGS
DECEMBER 31, 2012 and 2011**

Finding No. 2012-04

For the years ended December 31, 2012 and 2011, the District submitted budgets by October 1st to the Minnehaha County auditor and the secretary of revenue instead of no later than September 1st as required by state law.

Criteria

South Dakota Codified Law (SDCL) 34A-5-56: Certified copy of budget to county auditors and secretary of revenue. Immediately after completion of a budget and adoption of special assessments by a sanitary district board of trustees, but not later than the first of September, the secretary of the district shall send one certified copy of such budget to the county auditors of the affected counties and to the state secretary of revenue.

Condition / Cause / Effect

The budget for 2011 was submitted October 1, 2010 and the budget for 2012 was submitted September 21, 2011. The Board of Trustees was not aware of the September 1st requirement. Thus the budgets were not timely submitted in accordance with state law.

Recommendation

Send a certified copy of the budget to the Minnehaha County auditor and the state secretary of revenue no later than September 1st as required by SDCL 34A-5-56.

Views of Responsible Officials

The Wall Lake Sanitary Board of trustees will submit future budgets no later than September 1st as required by state law.

**WALL LAKE SANITARY DISTRICT
PRIOR AUDIT FINDINGS
(FROM DECEMBER 31, 2010 AND 2009 AUDIT)
DECEMBER 31, 2012 and 2011**

INTERNAL CONTROL FINDINGS

Finding No. 2010-01

The auditor is performing the accounting period close and drafting of the financial statements and related footnote disclosures.

Current Status

The finding has not been resolved and it has been repeated as 2012-1

COMPLIANCE FINDINGS

Finding No. 2010-02

For the years ended December 31, 2010 and 2009, the District was in compliance with the rate covenant required by the loan agreement with the South Dakota Conservancy District. However, the certification submitted for 2009 had a decimal error in the percentage and a certification for 2010 was not submitted to the South Dakota Department of Natural Resources.

Current Status

The District was in compliance with the rate covenant in 2012 and 2011. Current year Finding 2012-2 is made regarding submission and calculation of the certifications.

Finding No. 2010-03

The District's Board of Trustee's did not establish in the net position section of the general ledger all of the funds required by the loan agreement.

Current Status

The finding has not been resolved and it has been repeated as 2012-3.

SUPPLEMENTARY INFORMATION

**WALL LAKE SANITARY DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating Expenses		
System Operation and Maintenance		
Repairs and Maintenance	\$ 12,293	\$ 12,346
Payroll and Payroll Taxes	4,865	3,828
Contractual Labor	2,695	966
Electricity	9,478	9,439
Equipment / Tools Expense & Rental	30	100
	<u>29,361</u>	<u>26,679</u>
Administrative		
Insurance	2,916	3,063
Advertising & Legal Notices	224	110
Board Compensation and Payroll Taxes	1,659	1,583
Board Stipends	400	-
Telephone	796	711
Postage, Delivery and Box Rental	88	128
Miscellaneous	-	100
Dues and subscriptions	53	46
Mileage / Travel	900	643
Office Supplies / Printing	365	385
License and Permits	280	250
	<u>7,681</u>	<u>7,019</u>
Professional Services		
Accounting / Bookkeeping	10,957	17,725
Legal	3,249	294
Engineering & Other	-	12,825
	<u>14,206</u>	<u>30,844</u>
Depreciation	<u>32,632</u>	<u>32,409</u>
Total Operating Expenses	<u>\$ 83,880</u>	<u>\$ 96,951</u>

The accompanying notes are an integral part of these financial statements.