

WALL LAKE SANITARY DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2014 and 2013

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

CERTIFIED PUBLIC ACCOUNTANTS

707 WEST 11TH STREET

SIOUX FALLS, SD 57104

**WALL LAKE SANITARY DISTRICT
BOARD OF TRUSTEES
DECEMBER 31, 2014 and 2013**

		<u>TERM</u>
Willard (Bill) Huffman	President	August 20, 2009 - present (Term expires August 2015)
	Clerk	May 1, 2013 – present
Bonnie Flood	Treasurer	February 11, 2010 - present (Term expires August 2016)
Darby Parsons	Board Member	November 10, 2014 - present (Term expires August 2017)
Roger Russell	Vice-President	August 19, 2009 – April 30, 2013
	Clerk	August 1, 2006 – April 30, 2013

WALL LAKE SANITARY DISTRICT

TABLE OF CONTENTS
DECEMBER 31, 2014 and 2013

INDEPENDENT AUDITOR'S REPORT	1 - 2
BASIC FINANCIAL STATEMENTS	
Statements of Net Position.....	3
Statements of Revenues, Expenses and Changes in Net Position	4
Statements of Cash Flows.....	5
NOTES TO THE FINANCIAL STATEMENTS	6 - 15
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	16 - 17
SCHEDULES OF CURRENT AUDIT FINDINGS	
Internal Control Findings	18 - 19
Compliance Findings	20
SCHEDULES OF PRIOR AUDIT FINDINGS	21 - 22
SUPPLEMENTARY INFORMATION:	
Schedules of Operating Expenses.....	23

EAST, VANDER WOUDE & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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 the business-type activities of Wall Lake Sanitary District, Hartford, South Dakota, (the District) as of and for each of the years ended December 31, 2014 and 2013 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 audits. We conducted our audits 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 audits 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 business-type activities of the Wall Lake Sanitary District as of December 31, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The 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 23 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 August 5, 2015 on our consideration of the 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

East, Vander Wande & Co, PC

Sioux Falls, South Dakota

August 5, 2015

WALL LAKE SANITARY DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash	\$ 143,462	\$ 149,036
Accounts Receivable, net of allowance for doubtful accounts of \$-0- in 2014 and 2013	1,500	5,465
Grant Receivable	-	6,566
Taxes Receivable - Current	187	2,272
Taxes Receivable - Delinquent	473	582
Prepaid Insurance	<u>2,198</u>	<u>2,536</u>
Total Current Assets	<u>147,820</u>	<u>166,457</u>
Capital Assets, Net of Accumulated Depreciation	<u>883,081</u>	<u>785,944</u>
Total Assets	<u>1,030,901</u>	<u>952,401</u>
Liabilities		
Current Liabilities		
Accounts Payable	2,836	2,607
Accrued Interest Payable	1,735	898
Accrued Payroll & Payroll Taxes	28	335
Prepaid Services	2,765	630
Current Portion of Note Payable	<u>11,772</u>	<u>8,733</u>
Total Current Liabilities	<u>19,136</u>	<u>13,203</u>
Long-Term Liabilities		
Notes Payable, Net of Current Portion	<u>216,520</u>	<u>213,063</u>
Total Liabilities	<u>235,656</u>	<u>226,266</u>
Net Position		
Net Investment in Capital Assets	654,789	564,148
Restricted Net Position		
Debt Service Fund	4,819	3,053
Unrestricted Net Position	<u>135,637</u>	<u>158,934</u>
Total Net Position	<u>\$ 795,245</u>	<u>\$ 726,135</u>

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

WALL LAKE SANITARY DISTRICT
STATEMENTS OF REVENUES AND EXPENSES
AND CHANGES IN NET POSITIONS
FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Revenue from User Fees	\$ 84,050	\$ 83,150
Finance Charges & Fees	<u>1,990</u>	<u>1,910</u>
Total Operating Revenues	<u>86,040</u>	<u>85,060</u>
Operating Expenses		
System Operation and Maintenance	35,223	35,366
Administrative	8,321	8,432
Professional Services	13,655	21,626
Depreciation	<u>37,515</u>	<u>32,758</u>
Total Operating Expenses	<u>94,714</u>	<u>98,182</u>
Operating Income (Loss)	<u>(8,674)</u>	<u>(13,122)</u>
Non-Operating Revenue (Expense)		
Property Taxes	13,715	13,550
Grant	69,308	157,059
Interest Income	170	145
Interest Expense	<u>(5,409)</u>	<u>(3,705)</u>
Total Non-Operating Revenue (Expense)	<u>77,784</u>	<u>167,049</u>
Net income (loss)	69,110	153,927
Capital Contributions		
Sewer lines contributed	<u>-</u>	<u>5,000</u>
Change in Net Position	69,110	158,927
Net Position, Beginning	<u>726,135</u>	<u>567,208</u>
Net Position, Ending	<u><u>\$ 795,245</u></u>	<u><u>\$ 726,135</u></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, 2014 and 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 92,140	\$ 82,915
Cash Payments for Services and Goods	(43,314)	(72,091)
Cash Payments to Employees	(13,625)	(8,888)
Net Cash Provided (Used) by Operating Activities	<u>35,201</u>	<u>1,936</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes	<u>15,909</u>	<u>13,128</u>
Net Cash Provided by Noncapital Financing Activities	<u>15,909</u>	<u>13,128</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(134,652)	(252,919)
Grant	75,874	150,493
Proceeds from Loan	15,872	119,128
Principal Paid on Loans	(9,376)	(8,434)
Interest Paid	(4,572)	(3,779)
Net Cash (Used) by Capital and Related Financing Activities	<u>(56,854)</u>	<u>4,489</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income	<u>170</u>	<u>145</u>
Net Cash Provided by Investing Activities	<u>170</u>	<u>145</u>
Net Increase (Decrease) in Cash and Cash Equivalents During the Fiscal Year	(5,574)	19,698
Cash and Cash Equivalents at Beginning of Year	<u>149,036</u>	<u>129,338</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 143,462</u></u>	<u><u>\$ 149,036</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (8,674)	\$ (13,122)
Adjustments to Reconcile Net Income from Operations to Net Cash Provided by Operating Activities		
(Increase) Decrease in Accounts Receivable	3,965	(2,445)
(Increase) Decrease in Prepaid Expenses	338	(236)
Increase (Decrease) in Prepaid Services	2,135	300
Increase (Decrease) in Accounts Payable	229	(14,637)
Increase (Decrease) in Accrued Payroll & PR taxes	(307)	(682)
Depreciation Expense	<u>37,515</u>	<u>32,758</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 35,201</u></u>	<u><u>\$ 1,936</u></u>

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

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

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 is a political subdivision of the State of South Dakota.

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.

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 accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), 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 GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

c. Basis of Presentation, continued

The District is considered a special-purpose government engaged only in Business-Type (Enterprise) activities. Basic financial statements for an enterprise fund are as follows:

- a. Management Discussion and Analysis (MD & A) (Which the District has elected not to present.)
- b. Enterprise Fund Financial Statements
 - 1. Statement of Net Position
 - 2. Statement of Revenues, Expenses, and Changes in Net Positions
 - 3. Statement of Cash Flows
- c. Notes to the Financial Statement

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. Wall Lake Sanitary District accounts for its activities within a single proprietary (enterprise) fund as described below.

Proprietary Funds:

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

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

The fund financial statements are presented using the economic resources measurement focus, applied on the accrual basis of accounting, which are similar to those for private business enterprises.

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

d. Measurement Focus and Basis of Accounting, continued

Under the accrual basis of accounting, revenues and related assets are recognized in the period in which they are earned (usually when the right to receive cash vests); and expenses and related liabilities are recognized in the period in which an obligation is incurred (usually when the obligation to pay cash in the future vests.)

e. Classification of Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from those revenues and expenses that are non-operating. 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.

f. 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.

g. 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.

h. Long-Term Liabilities

All long-term liabilities to be repaid from business-type resources are reported as liabilities in the fund financial statements. Long-term liabilities consist of loans obtained for the acquisition, construction and improvement of the sewer system.

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

i. Capital Assets

All capital assets are valued at historical cost or fair market value, if donated. As of December 31, 2014 and 2013 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 10 years for replacement pumps and office equipment.

For capital assets used in proprietary fund's operations, interest cost incurred during the construction period is capitalized in accordance with accounting principles generally accepted in the United States of America.

j. 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.

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

k. 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.

l. 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.

m. Accumulated Unpaid Vacation and Sick Leave

Vacation and sick leave are not earned by employees of the District as they are part-time.

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.

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) above. 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 has all of its deposits in demand deposits. The District has no investments.

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

2. DEPOSITS AND INVESTMENTS, continued

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. As of December 31, 2014 and 2013, the District maintained their deposits in an in-state financial institution which were properly collateralized in accordance with SDCL 4-6 A-3.

The actual bank balances at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Insured (FDIC / NCUA)	\$144,730	\$149,578
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>\$144,730</u>	<u>\$149,578</u>

The carrying amounts of deposits at December 31, 2014 and 2013 are reflected on the statements of net position as follows:

	<u>2014</u>	<u>2013</u>
Cash	<u>\$143,462</u>	<u>\$149,036</u>

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.

3. 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.

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, 2014 and 2013 was \$0.791 and \$0.810, per \$1,000 of taxable valuation, respectively.

WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

3. TAXES RECEIVABLE AND REVENUE, continued

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.

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.

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). 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 notes are 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.

Interest accrued on both loans totaled \$1,735 and \$898 as of December 31, 2014 and 2013 respectively.

Interest charged to expense totaled \$5,409 and \$3,705 as of December 31, 2014 and 2013 respectively. Interest incurred during the construction period and capitalized at December 31, 2014 and 2013 was \$3,923 and \$ -0-, respectively.

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, 2014 and 2013. (150.3% in 2014 and 145.2% in 2013).

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

4. LONG-TERM DEBT, continued

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

	2014	2013
Note Payable, January 1	\$ 221,796	\$ 111,101
Proceeds	15,872	119,128
Retired	(9,376)	(8,433)
Notes Payable, December 31	228,292	221,796
Less current portion	(11,772)	(8,733)
Notes Payable, net of current portion	<u>\$ 216,520</u>	<u>\$ 213,063</u>

Annual Requirements

The annual requirements to amortize all long-term debt outstanding as of December 31, 2014 were as follows:

Year Ending 12/31	Revenue Bonds		Total Debt Service
	Principal	Interest	
2015	\$ 11,772	\$ 7,503	\$ 19,275
2016	12,182	7,093	19,275
2017	12,607	6,668	19,275
2018	13,047	6,228	19,275
2019	13,501	5,774	19,275
2020-2024	62,535	21,630	84,165
2025-2029	20,146	15,169	35,315
2030-2034	23,685	11,630	35,315
2035-2039	27,846	7,469	35,315
2040-2044	30,971	2,579	33,550
Total	<u>\$228,292</u>	<u>\$91,743</u>	<u>\$320,035</u>

5. INSURANCE PROCEEDS

In 2014, the District received insurance proceeds from a third party's insurer totaling \$12,598 for full repair of damages to District property caused in 2014 by the third party. The insurance proceeds were credited against repairs and maintenance expense.

WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

6. CHANGES IN CAPITAL ASSETS

A summary of changes in the capital assets follows:

	Balance 12/31/2012	Inc.	Dec.	Balance 12/31/2013	Inc.	Dec.	Balance 12/31/2014
Capital Assets							
Not							
Depreciated:							
Land	\$ 19,778	\$ -	\$ -	\$ 19,778	\$ -	\$ -	\$ 19,778
Construction in Progress	\$ 19,849	\$ 249,234	\$ -	\$ 269,083	\$ 121,747	\$ (390,830)	\$ -
Capital Assets Being							
Depreciated:							
Sewer System	\$ 1,074,224	\$ 8,686	\$ -	\$ 1,082,910	\$ 403,735	\$ -	\$ 1,486,645
Office Equip.	808	-	-	808	-	-	808
Total Capital Assets Being Depreciated	\$ 1,075,032	\$ 8,686	\$ -	\$ 1,083,718	\$ 403,735	\$ -	\$ 1,487,453
Less							
Accumulated Depreciation							
For:							
Sewer System	\$ 553,439	\$ 32,677	\$ -	\$ 586,116	\$ 37,434	\$ -	\$ 623,550
Office Equip.	438	81	-	519	81	-	600
Total Accumulated Depreciation	553,877	32,758	-	586,635	37,515	-	624,150
Total capital assets being depreciated, net	521,155	(24,072)	-	497,083	366,220	-	863,303
Total Capital Assets, net	\$ 560,782	\$ 225,162	\$ -	\$ 785,944	\$ 487,967	\$ (390,830)	\$ 883,081

**WALL LAKE SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

7. 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, 2013 and 2014, the district managed its risks as follows:

Liability Insurance

The District purchases property and liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workers' Compensation

The District purchases liability insurance for worker's compensation from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

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

Employee Health Insurance

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

EAST, VANDER WOUDE & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Paul T. East, CPA

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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, 2014 and 2013 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 August 5, 2015.

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 certain deficiencies in internal control over financial reporting that we considered 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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Internal Control Over Financial Reporting, continued

We consider the deficiencies described in the accompanying schedule of Current Audit Findings – Internal Control Findings as item 2014-01 and 2014-02 to be material weaknesses.

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 item 2014-03.

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 & Co, PC

Sioux Falls, South Dakota
August 5, 2015

**WALL LAKE SANITARY DISTRICT
CURRENT AUDIT FINDINGS - INTERNAL CONTROL FINDINGS
DECEMBER 31, 2014 and 2013**

Finding No. 2014-01

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 - INTERNAL CONTROL FINDINGS
DECEMBER 31, 2014 and 2013**

Finding No. 2014-02

Quickbooks financial reports and general ledger detail were not being reviewed and monitored by the Trustees since October 2014.

Finding Type

Internal control over financial reporting – material weakness

Condition

The outside accountant provides a Quickbooks backup to the Treasurer to restore on the District's computer. The Quickbooks backup hasn't worked since October 2014 and the Treasurer did not return the thumb drive to the outside accountant to obtain an updated working backup. As an alternative to restoring the backup and reviewing reports on the computer, printed copies of the financial statements and general ledger detail were not requested from the outside accountant.

Criteria

One of the components of internal control is monitoring. Monitoring is implemented to help ensure that internal control established by management continues to operate effectively.

Cause / Effect

Material misstatements could be made in the financial statements and not be detected. We noted for instance, that in 2014, miscodes of utility expenses totaling \$6,279 were not detected.

Recommendation

Financial statement general ledger detail should be reviewed to ascertain that all transactions are being recorded accurately in the financial statements.

Views of Responsible Officials

In June 2015, a working Quickbooks backup was obtained and restored to the District's computer. Also, the Trustee's will now obtain printed copies of monthly financial statements and reports from the District's outside accountant.

**WALL LAKE SANITARY DISTRICT
CURRENT AUDIT FINDINGS
COMPLIANCE FINDINGS
DECEMBER 31, 2014 and 2013**

Finding No. 2014-03

For the years ended December 31, 2014 and 2013, 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 2014 was submitted September 30, 2013 and the budget for 2015 was submitted October 1st 2014. The Board of Trustees was made aware of the September 1st requirement in the 2012/2011 audit findings. Thus the budgets are still not being 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

While state law requires submission of the budget by September 1st, the board was advised by the county auditor that they may submit the budget no later than October 1st.

**WALL LAKE SANITARY DISTRICT
PRIOR AUDIT FINDINGS
(FROM DECEMBER 31, 2012 AND 2011 AUDIT)
DECEMBER 31, 2014 and 2013**

INTERNAL CONTROL FINDINGS

Finding No. 2012-01

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 2014-01

COMPLIANCE FINDINGS

Finding No. 2012-02

In 2012 and 2011, the District was in compliance with the rate covenant required by the loan agreement with the South Dakota Conservancy District. Finding 2012-02 was made regarding calculation and submission of the certifications.

Current Status

The District submitted the required certifications for 2014 and 2013, which showed the District to be in compliance with the rate covenant. In April, 2015, the South Dakota Department of Environment and Natural Resources (SD DENR) communicated to the District the proper calculation of the net revenues available for debt service. The resultant revised debt coverage ratio for 2014 also showed the District to be in compliance.

The finding will not be repeated since the District submitted the certifications and was in compliance with the rate covenant. In addition, the SD DENR has made the District aware of the proper computation of the ratio.

Finding No. 2012-03

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 Wall Lake Sanitary District accounts for its sewer operations in a single enterprise fund. Since the enterprise fund accounts for fees and expenses related to its sole source of revenue, the remaining unrestricted net position represents net position that would be available for any future repair, replacement, and operation of the sewer operations. Thus the establishment of a separate depreciation and operation and maintenance fund within the net position section of the financial statements is not considered necessary.

**WALL LAKE SANITARY DISTRICT
PRIOR AUDIT FINDINGS
(FROM DECEMBER 31, 2012 AND 2011 AUDIT)
DECEMBER 31, 2014 and 2013**

COMPLIANCE FINDINGS, continued

Finding No. 2012-04

The District did not submit 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.

Current Status

The finding is not resolved and is repeated as 2014-03

SUPPLEMENTARY INFORMATION

WALL LAKE SANITARY DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Expenses		
System Operation and Maintenance		
Utilities	\$ 12,145	\$ 11,330
Payroll and Payroll Taxes	12,127	6,940
Repairs and Maintenance	<u>10,951</u>	<u>17,096</u>
Total System Operation and Maintenance	<u>35,223</u>	<u>35,366</u>
Administrative		
Insurance	3,725	3,145
Board Compensation and Payroll Taxes	1,191	1,266
Telephone	963	1,003
Advertising & Legal Notices	737	1,081
Mileage / Travel	727	608
Dues and subscriptions	297	61
Office Supplies / Printing	285	850
License and Permits	250	-
Postage, Delivery and Box Rental	146	233
Miscellaneous	<u>-</u>	<u>185</u>
Total Administrative	<u>8,321</u>	<u>8,432</u>
Professional Services		
Accounting / Bookkeeping	12,420	21,142
Legal	<u>1,235</u>	<u>484</u>
Total Professional Services	<u>13,655</u>	<u>21,626</u>
Depreciation	<u>37,515</u>	<u>32,758</u>
Total Operating Expenses	<u><u>\$ 94,714</u></u>	<u><u>\$ 98,182</u></u>

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

