

**SOUTH CENTRAL WATER DEVELOPMENT DISTRICT  
ARMOUR, SOUTH DAKOTA 57313**

**AUDIT REPORT**

DECEMBER 31, 2011

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

**SOUTH CENTRAL WATER DEVELOPMENT DISTRICT  
Armour, South Dakota**

**DISTRICT OFFICIALS  
December 31, 2011**

**BOARD OF DIRECTORS:**

Gary La Compte, Chairman  
Tom Glover, Vice-Chairman  
William L. Soulek, Secretary  
Rex Winter, Treasurer  
Greg Powell  
Ken Artz  
Stanley Schuch

**MANAGER:**

Cheryle Van Zee

*Schoenfish & Co., Inc.*

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CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

Phone: 605-928-7241

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P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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

Board of Directors  
South Central Water Development District  
Armour, South Dakota

We have audited the financial statements of the governmental activities and each major fund of South Central Water Development District, Armour, South Dakota (District), as of December 31, 2011, and for the year then ended which collectively comprise the District's basic financial statements and have issued our report thereon dated May 2, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2011-01 to be a material weakness.

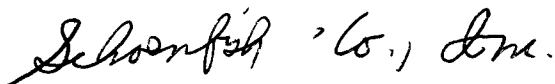
Compliance and Other Matters

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

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

South Central Water Development District's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the South Dakota Legislature and the governing board and management of the South Central Water Development District, Armour, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.  
Certified Public Accountants  
May 2, 2012

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SOUTH CENTRAL WATER DEVELOPMENT DISTRICT  
SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDINGS:

Finding 2010-01

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This finding has not been corrected and is restated as current audit finding number 2011-01.

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SOUTH CENTRAL WATER DEVELOPMENT DISTRICT  
SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT AUDIT FINDINGS:

Internal Control –Related Finding – Material Weakness:

Finding No. 2011-01:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is the eleventh consecutive audit that similar deficiencies have occurred.

Criteria:

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

Condition:

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

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

1. We recommend that the South Central Water Development District Officials be cognizant of the lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The South Central Water Development District Chairman, Gary LaCompte, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the South Central Water Development District, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

CLOSING CONFERENCE

The audit was discussed with several board members and the manager on May 8, 2012.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
South Central Water Development District  
Armour, South Dakota

We have audited the accompanying financial statements of the governmental activities and each major fund of South Central Water Development District of Armour, South Dakota, as of December 31, 2011, and for the year then ended, as listed in the Table of Contents. These financial statements are the responsibility of South Central Water Development District's management. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of South Central Water Development District as of December 31, 2011, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2012, on our consideration of the South Central Water Development District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules on page 19 be presented to supplement the basic financial statements. Such 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of



inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.



Schoenfish & Co., Inc.  
Certified Public Accountants  
May 2, 2012

*Schoenfish & Co., Inc.*

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P.O. Box 247

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**SOUTH CENTRAL WATER DEVELOPMENT DISTRICT**  
**STATEMENT OF NET ASSETS**  
**December 31, 2011**

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>	
<b>ASSETS:</b>		
Cash and Cash Equivalents	<u>170,791.20</u>	
Capital Assets:		
Other Capital Assets, Net of Depreciation	<u>1,019.96</u>	
<b>TOTAL ASSETS</b>	<u><u>171,811.16</u></u>	
<b>LIABILITIES :</b>		
<b>TOTAL LIABILITIES</b>	<table border="1" style="display: inline-table;"><tr><td style="text-align: center;">0.00</td></tr></table>	0.00
0.00		
<b>NET ASSETS:</b>		
Invested in Capital Assets	<u>1,019.96</u>	
Unrestricted	<u>170,791.20</u>	
<b>TOTAL NET ASSETS</b>	<table border="1" style="display: inline-table;"><tr><td style="text-align: center;">171,811.16</td></tr></table>	171,811.16
171,811.16		
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>171,811.16</u></u>	

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

**SOUTH CENTRAL WATER DEVELOPMENT DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in Net Assets</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Primary Government</u>
					<u>Governmental</u>
					<u>Activities</u>
Primary Government:					
Governmental Activities:					
Board of Directors	13,759.44				(13,759.44)
Administration & Technical Assistance	18,305.03				(18,305.03)
Legal & Consultant	2,685.00				(2,685.00)
Project Assistance	74,295.65				(74,295.65)
Total Governmental Activities	109,045.12	0.00	0.00	0.00	(109,045.12)
Total Primary Government	109,045.12	0.00	0.00	0.00	(109,045.12)
<b>General Revenues:</b>					
Property Taxes					136,598.83
Investment Earnings					111.26
Total General Revenues					136,710.09
Change in Net Assets					27,664.97
Net Assets - Beginning					144,146.19
NET ASSETS - ENDING					171,811.16

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

**SOUTH CENTRAL WATER DEVELOPMENT DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2011**

	<b>Governmental Fund Types</b>
	<b>General Fund</b>
<b>ASSETS:</b>	
Cash and Cash Equivalents	170,741.20
Petty Cash	50.00
TOTAL ASSETS	170,791.20
<b>LIABILITIES :</b>	
TOTAL LIABILITIES	0.00
<b>FUND EQUITY:</b>	
Assigned for Next Year's Budget	28,750.00
Unassigned	142,041.20
TOTAL FUND EQUITY	170,791.20
TOTAL LIABILITIES AND NET ASSETS	170,791.20

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

**SOUTH CENTRAL WATER DEVELOPMENT DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**  
**December 31, 2011**

Total Fund Balances - Governmental Funds	<u>170,791.20</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>1,019.96</u>
Net Assets - Governmental Activities	<u><u>171,811.16</u></u>

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

**SOUTH CENTRAL WATER DEVELOPMENT DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
December 31, 2011**

	<b>Governmental Fund Types</b>
	<b>General Fund</b>
<b>REVENUE:</b>	
Taxes	136,598.83
Miscellaneous Revenue	111.26
<b>TOTAL REVENUE</b>	<b>136,710.09</b>
<b>EXPENDITURES:</b>	
Board of Directors	13,759.44
Administrative and Technical Assistance	18,100.68
Legal and Consultant	2,685.00
Capital Outlay	1,199.95
Project Assistance	74,295.65
<b>TOTAL EXPENDITURES</b>	<b>110,040.72</b>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<b>26,669.37</b>
<b>FUND BALANCE, JANUARY 1, 2011</b>	<b>144,121.83</b>
<b>FUND BALANCE, DECEMBER 31, 2011</b>	<b>170,791.20</b>

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

**SOUTH CENTRAL WATER DEVELOPMENT DISTRICT**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance to the Government-wide Statement of Activities**  
**For the Year Ended December 31, 2011**

Net Change in Fund Balances - Total Governmental Funds	<u>26,669.37</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital outlay in excess of depreciation in the current period.	<u>995.60</u>
Change in Net Assets of Governmental Activities	<u><u>27,664.97</u></u>

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

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NOTES TO THE FINANCIAL STATEMENTS1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESa. Financial Reporting Entity:

The reporting entity of South Central Water Development District (District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds, may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

## Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

## Fund Financial Statements:

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

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



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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

The funds of the District financial reporting entity are described below:

**Governmental Funds:**

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

c. Measurement Focus and Basis of Accounting:

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

**Measurement Focus:**

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

**Basis of Accounting:**

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay all the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the South Central Water Development District, the length of that cycle is 30 days.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

d. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements:

Capital assets are recorded at historical cost. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, except for that portion related to common use assets for which allocation would be unduly complex, and which is reported as Unallocated Depreciation, with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Machinery & Equipment	\$ 900.00	Straight-Line	5 yrs.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the appropriate governmental fund upon acquisition.

e. Equity Classifications:

Government-wide Statements:

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

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

2. Restricted net assets – Consists of net assets with constraints places on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned" and "Unassigned" components.

f. Application of Net Assets:

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

g. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

Deposits - The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 7-20-1, 7-20-1.1 and 7-20-1.2, and may be in the form of demand or time deposits. Qualified depositories are required

See Independent Auditor's Report.

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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

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

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

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.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from deposits and investments to the fund making the investment.

### 3. PROPERTY TAXES

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 District is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the District.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2011 is as follows:

	<u>Balance</u> <u>01/01/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2011</u>
Governmental Activities:				
Capital Assets, being depreciated:				
Machinery & Equipment	4,128.18	1,199.95	(1,807.20)	3,520.93
Total, being depreciated	<u>4,128.18</u>	<u>1,199.95</u>	<u>(1,807.20)</u>	<u>3,520.93</u>
Less Accumulated Depreciation for:				
Machinery & Equipment	(4,103.82)	(204.35)	1,807.20	(2,500.97)
Total Accumulated Depreciation	<u>(4,103.82)</u>	<u>(204.35)</u>	<u>1,807.20</u>	<u>(2,500.97)</u>
Governmental Activity Capital Assets, Net	<u>24.36</u>	<u>995.60</u>	<u>0.00</u>	<u>1,019.96</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Administration and Technical Assistance	204.35
Total Depreciation Expense - Governmental Activities	<u>204.35</u>

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; injuries to employees; and natural disasters. During the period ended December 31, 2011, 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. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

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

Unemployment Benefits

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

During the year ended December 31, 2011, no claims were filed for unemployment benefits. At December 31, 2011, no claims had been filed or were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SOUTH CENTRAL WATER DEVELOPMENT DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2011**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes:				
General Property Taxes	138,750.00	138,750.00	136,598.83	(2,151.17)
Miscellaneous Revenue:				
Interest Earned	100.00	100.00	111.26	11.26
Total Revenue	<u>138,850.00</u>	<u>138,850.00</u>	<u>136,710.09</u>	<u>(2,139.91)</u>
<b>Expenditures:</b>				
Board of Directors	24,300.00	24,300.00	13,759.44	10,540.56
Administrative and Technical Assistance	25,550.00	25,550.00	18,056.69	7,493.31
Legal and Consultant	4,500.00	4,500.00	2,685.00	1,815.00
Project Assistance	108,100.00	108,100.00	74,295.65	33,804.35
Minor Office Expenditures & Capital Outlay	500.00	1,699.95	1,243.94	456.01
Contingency (Amount Transferred)	5,000.00	(1,199.95)		3,800.05
Total Expenditures	<u>167,950.00</u>	<u>167,950.00</u>	<u>110,040.72</u>	<u>57,909.28</u>
Net Change in Fund Balances	<u>(29,100.00)</u>	<u>(29,100.00)</u>	<u>26,669.37</u>	<u>55,769.37</u>
Fund Balance - January 1, 2011	144,121.83	144,121.83	144,121.83	0.00
FUND BALANCE - DECEMBER 31, 2011	<u>115,021.83</u>	<u>115,021.83</u>	<u>170,791.20</u>	<u>55,769.37</u>

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2011

Note 1. Budgets and Budgetary Accounting:

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A notice of budget hearing is published once each week for two successive weeks, and the budget is published with the first notice.
2. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund.
4. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Note 2. GAAP/Budgetary Accounting Differences:

The GAAP financial statements report capital outlays separately from current expenditures, while in the budgetary financial statements, capital outlays are reported together with current expenditures in the budgetary category to which they relate.