

**B-Y WATER DISTRICT**  
31039 428<sup>th</sup> Street  
TABOR, SOUTH DAKOTA 57063

**AUDIT REPORT**

FOR THE YEAR ENDED DECEMBER 31, 2015

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

B-Y WATER DISTRICT  
Tabor, South Dakota

DISTRICT OFFICIALS  
December, 31 2015

<u>NAME OF BOARD OF DIRECTORS &amp; ADDRESS:</u>			<u>POSITION:</u>
Terry Hacecky	1005 East 15 <sup>th</sup> #7	Yankton, SD	Chairman
Stacy Frank	40779 293 <sup>rd</sup> St.	Tripp, SD	Vice-Chairman
Larry Schwarz	43332 308 <sup>th</sup> St.	Yankton, SD	Secretary/Treasurer
Dale Baltzer	41895 283 <sup>rd</sup> St.	Tripp, SD	Member
Joe Fillaus	310 Elm Street	Avon, SD	Member
Hugh Healy	29471 445 <sup>th</sup> Ave.	Irene, SD	Member
Lee Herrboldt	43779 290 <sup>th</sup> St.	Menno, SD	Member
Gary Kronaizl	30629 426 <sup>th</sup> Ave.	Tabor, SD	Member
Chuck Murtha	41723 277 <sup>th</sup> St.	Parkston, SD	Member
Mark Schaeffer	42804 US Hwy 18.	Menno, SD	Member
James Stark	PO Box 71	Utica, SD	Member
Roger Sykora	30107 423 <sup>rd</sup> Ave.	Tyndall, SD	Member
Michael Welch	3106 Peninah St.	Yankton	Member

MANAGER

Terry Wootton

*Schoenfish & Co., Inc.*

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

Board of Directors  
B-Y Water District  
Tabor, South Dakota

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 B-Y Water District of Tabor, South Dakota (District), as of December 31, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise B-Y Water District's basic financial statements, and have issued our report thereon dated February 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the B-Y Water 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A significant deficiency is a deficiency or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule for Current Audit Findings and Questioned Costs that we consider to be significant deficiencies. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2015-001 to be a significant deficiency.

### Compliance and Other Matters

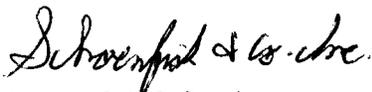
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect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

### District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

This 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 District'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 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  
February 15, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
B-Y Water District  
Tabor, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the B-Y Water District, Tabor, South Dakota (District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133; *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, B-Y Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

## Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliances with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2015-001 that we consider to be significant deficiencies.

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.



Schoenfish & Co., Inc.  
Certified Public Accountants  
February 15, 2016

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SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

PRIOR OTHER AUDIT FINDINGS:

Finding 2014-001 Segregation of Duties – Significant Deficiency

We found that the entity has a limited number of employees, which prevents a proper segregation of duties over the revenue accounting functions necessary to assure an ideal environment for internal controls. This comment has not been corrected and is restated as current audit finding number 2015-001.

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SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

Financial Statements

- a. An unmodified opinion was issued on the financial statements on each opinion unit.
- b. A significant deficiency was disclosed by our audit of the financial statements for a lack of segregation of duties for revenues as discussed in finding number 2015-001.
- c. Our audit did not disclose any noncompliance which was material to the financial statements.

Federal Awards

- d. A significant deficiency was disclosed for internal control over major federal programs for a lack of segregation of duties affecting the reporting compliance requirement category as discussed in finding number 2015-001.
- e. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- f. Our audit disclosed audit findings that are required to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510 (a). See finding number 2015-001.
- g. The federal awards tested as major programs were:
  - 1. Water and Waste Disposal Systems for Rural Communities                      CFDA No. 10.760
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
- i. B-Y Water District did not qualify as a low-risk auditee.

CURRENT FEDERAL AUDIT FINDINGS:

Finding Number 2015-001 Segregation of Duties – Significant Deficiency:

We found that the entity has a limited number of employees, which prevents a proper segregation of duties over the revenue accounting functions necessary to assure an ideal environment for internal controls. This finding affects the reporting requirement for Water and Waste Disposal Systems for Rural Communities, CFDA No. 10.760.

Criteria:

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

Condition:

Two members of the office staff process all cash receipts transactions, including receiving money, issuing receipts, recording and posting receipts in the accounting records, preparing bank deposits and reconciling bank statements.

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Effect:

At times there is an inadequate segregation of duties for these accounting functions. Although the staff attempts to divide the various tasks so that one person does not control a transaction from beginning to end, that is not always possible.

Recommendation:

The Manager, Terry Wootton, and the Board of Directors should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. The most effective controls lie in management's knowledge of the matters relating to the District's operations, establishing a procedure of rotation of duties and regular review of key areas such as bank reconciliations and strict enforcement of a vacation policy requiring all personnel to be absent from the District for specified times.

Corrective Action Plan:

The Manager, Terry Wootton, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the staff of the District, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Management has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for accounting functions. Management is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding accounting functions continues to exist.

CURRENT OTHER AUDIT FINDINGS:

There are no current other audit findings to report except for the segregation of duties significant deficiency reported in finding number 2015-001 above.

CLOSING CONFERENCE

The contents of this report were discussed with the Manager, Terry Wootton, and the Bookkeeper, Shirley Woods, during the course of the audit and at the conclusion of the audit.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
B-Y Water District  
Tabor, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of B-Y Water District of Tabor, South Dakota, (District) as of December 31, 2015 and for the year then ended, and the related notes of 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

The District's managements responsible for the preparation and fair presentation of theses financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 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 risk 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 District'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 District'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 opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of B-Y Water District as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Summarized Comparative Information

We have previously audited the B-Y Water District's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 19, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which is has been derived.

### Emphasis of Matter

#### *Adoption of New Accounting Standard.*

As described in Note 11 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 11 to the financial statements, the District has retroactively restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to this matter.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the District's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of the District Contributions on pages 11 through 14, page 35, and page 36, respectively, 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.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The Schedule of Expenditures of Federal Awards, which as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Schedule of Water Sales and

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Schedule of Operating Expenses, listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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* in considering the District's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.  
Certified Public Accountants  
February 15, 2016

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## **B-Y WATER DISTRICT**

PO Box 248  
Tabor, SD 57063

### **Management's Discussion and Analysis**

This section of the District's annual financial report presents an analysis of the District's financial performance during the fiscal year ending December 31, 2015. This information is presented in conjunction with the audited basic financial statements which follow this section.

#### **FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2015**

Net position decreased by \$22,520, or (0.1%), from \$28,428,535 as of December 31, 2014 to \$28,575,009 as of December 31, 2015.

Operating revenues increased by \$322,231, or 5.1%, from \$6,336,381 for the year ended December 31, 2014 to \$6,658,612 for the year ended December 31, 2015.

Operating expenses increased by \$24,029, or 0.4%, from \$5,972,590 for the year ended December 31, 2014 to \$5,948,561 for the year ended December 31, 2015.

Interest expense decreased by \$34,493, or (3.1%), from \$1,108,637 for the year ended December 31, 2014 to \$1,074,144 for the year ended December 31, 2015.

Capital contributions to the District increased by \$33,680, or 28.1% from \$120,014 for the year ended December 31, 2014 to \$153,694 for the year ended December 31, 2015.

The significant capital project finalized during the fiscal year ending December 31, 2015 was the finalizing of #2009-5 Segment #2 and the #2014-02 Lime Slaker Project. There was a short-term loan used for the financing of project #2009-5 Segment #2. This was refinanced during the year into a rural development loan. The ongoing significant capital projects were Intake #3, Project #2014-01 Preliminary Ground Storage, and Project #2009-05 Segment #3.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of the following two parts: Management's Discussion and Analysis and Financial Statements. The Financial Statements include notes which explain in detail some of the information included in the financial statements.

#### **REQUIRED FINANCIAL STATEMENTS**

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Position includes information on the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the District creditors (liabilities). The Statement of Revenues, Expenses and changes in Net Position identifies the District's revenues and expenses for the fiscal year ended December 31, 2015. This statement provides information on the District's operations over the past fiscal year and can be used to determine whether the District has recovered all of its actual and project costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments, and changes in cash resulting from operations, investment and financing activities. From the Statement of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash

balance for the fiscal year. The prior year summarized comparative information has been derived from the District's 2014 financial statements.

## FINANCIAL ANALYSIS OF THE DISTRICT

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of the District's financial condition. The District's net position equals the assets and deferred outflows of resources minus the liabilities and deferred inflows of resources.

## BALANCE SHEET

A summary of the District's Net Position is presented below:

Table 1  
Condensed Statement of Net Position

	2015	2014
Current and Other Assets	6,416,211	5,766,406
Noncurrent Assets	46,987,671	48,424,045
Total Assets	<u>53,403,882</u>	<u>54,190,451</u>
Pension Related Deferred Outflows	247,238	-
Long-Term Liabilities	24,806,502	24,612,058
Other Liabilities	75,318	1,149,858
Total Liabilities	<u>24,881,820</u>	<u>25,761,916</u>
Pension Related Deferred Inflows	194,291	-
Net Investment in Capital Assets	21,441,934	22,168,612
Restricted	2,132,952	1,952,196
Unrestricted	5,000,123	4,307,727
Total Net Position	<u>28,575,009</u>	<u>28,428,535</u>

As Table 1 indicates, total assets decreased by \$786,569 from \$54,190,451 as of December 31, 2014 to \$53,403,882 as of December 31, 2015. This is comprised of an increase of \$649,805 in current assets from 2014 to 2015 and a decrease of \$1,436,374 in noncurrent assets from 2014 to 2015. The increase in current assets is due primarily to an increase in cash and cash equivalents from 2014 to 2015. The decrease in noncurrent is mainly due to depreciation.

The long-term liabilities reflect an increase of \$194,444 from 2014 to 2015, and a decrease of \$1,074,540 in current liabilities from 2014 to 2015. These changes are due to refinancing the short-term loan (from project #2009-5) with a long term Rural Development loan. The District also refinanced four Rural Development loans with a long term loan from CoBank.

Table 1 also indicates that the total net position increased \$146,474 from 2014 to 2015. The main reason for the increase was due to the implementation of GASB 68 Accounting and Reporting for Pensions, which resulted in a prior period adjustment of \$168,994. The current period change in net position was (\$22,520).

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items which impact the change in net position.

Table A-2  
Condensed Statement of Revenues, Expenses and Changes in Net Position

	2015	2014
Operating Revenues	6,658,612	6,336,381
Nonoperating Revenues	187,879	196,566
Total Revenues	<u>6,846,491</u>	<u>6,532,947</u>
Depreciation Expense	2,146,724	2,117,081
Other Operating Expenses	3,801,837	3,855,509
Nonoperating Expenses	1,074,144	1,108,637
Total Expenses	<u>7,022,705</u>	<u>7,081,227</u>
Income Before Capital Contributions	<u>(176,214)</u>	<u>(548,280)</u>
Capital Contributions	<u>153,694</u>	<u>120,014</u>
Change in Net Position	<u>(22,520)</u>	<u>(428,266)</u>
Prior Period Adjustment -GASB 68	<u>168,994</u>	<u>-</u>
Ending Net Position	<u><u>28,575,009</u></u>	<u><u>28,428,535</u></u>

Table A-2 indicates that the District's total revenues increased by \$313,544, or 4.8% to \$6,846,491 for the year ended December 31, 2015 from \$6,532,947 for the year ended December 31, 2014.

Total expense decreased by \$58,522, or (0.8%) during 2015.

Capital Contributions increased by \$33,680, or 28.1% during 2015.

## CAPITAL ASSETS

As of December 31, 2015, the District's investment in capital assets, net of depreciation, totaled \$46,219,554, which is a decrease of \$1,606,685 or (3.4%) over the capital asset balance of \$47,826,239 at December 31, 2014. Capital assets include all of the District's major capital assets, including water treatment facilities, water mains, pipes and storage reservoirs, land, District headquarters and other structures, as well as vehicles and other equipment with a value of \$1,000 or more. A comparison of the District's capital assets is presented in Table 3.

Table 3  
Capital Assets, Net of Depreciation

	2015	2014
Land	342,853	142,853
Construction in Progress	70,391	1,178,824
Buildings and Improvements	45,669,713	46,325,699
Furniture and Equipment	136,597	178,863
Total Capital Assets	<u>46,219,554</u>	<u>47,826,239</u>

## LONG TERM LIABILITIES

As of December 31, 2015, the District's had \$24,806,502 in notes and compensated absences payable compared to \$24,612,058 as of December 31, 2014. Principal payments during the year totaled \$3,871,512 and compensated absences payable increased by \$956. Four Rural Development loans were refinanced into a loan with CoBank. The short-term loan was also refinanced into a Rural Development Loan. Additional information on the District's long-term liabilities is provided in the Notes to the Financial Statements.

Table 4  
Long-Term Liabilities

	2015	2014
Notes Payable	24,777,620	24,584,130
Compensated Absences	28,882	27,926
Total Expenses	<u>24,806,502</u>	<u>24,612,056</u>

## SHORT-TERM LIABILITIES

As of December 31, 2015, the District's had \$0 in short-term notes payable compared to \$1,073,495 as of December 31, 2014. During the year, an additional \$1,850 of short-term debt was issued; this short-term debt was refinanced into a long term liability in 2015.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Director's adopted the District's 2016 budget on December 9, 2015. The approval of the year's budget provides funding for the District's operating, capital and debt service costs for 2016.

## ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact B-Y Water District, PO Box 248, Tabor, SD 57063.

**B-Y WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**December 31, 2015**  
**With Comparative Totals for December 31, 2014**

	2015	2014
<b><u>ASSETS:</u></b>		
<b><u>Current Assets:</u></b>		
Cash and Cash Equivalents	4,573,891	3,884,578
Certificates of Deposit	1,032,691	1,027,964
Customer Receivables, (net of allowances for uncollectibles, if any)	472,583	464,816
Interest Receivable	1,460	871
Prepaid Expenses	57,418	55,307
Inventories	278,168	332,870
Total Current Assets	6,416,211	5,766,406
<b><u>Noncurrent Assets:</u></b>		
Capital Credits	627,066	589,143
Equity in Cobank	9,375	8,663
Net Pension Asset	131,676	-
<b>Capital Assets:</b>		
Capital Assets, Not Being Depreciated	413,244	1,321,677
Capital Assets, Being Depreciated, Net of Depreciation	45,806,310	46,504,562
Total Noncurrent Assets	46,987,671	48,424,045
<b>TOTAL ASSETS</b>	<b>53,403,882</b>	<b>54,190,451</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES:</u></b>		
Pension Related Deferred Outflows	247,238	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>247,238</b>	<b>-</b>
<b><u>LIABILITIES:</u></b>		
<b><u>Current Liabilities:</u></b>		
Sales Tax Payable	285	243
Accrued Wages and Payroll Taxes Payable	29,390	21,518
Accrued Interest Payable	37,616	46,262
Unearned Revenues	8,027	8,340
Short Term Notes Payable	-	1,073,495
Accrued Compensated Absences- Current Portion	24,000	24,000
Notes Payable-Current Portion	954,710	883,542
Total Current Liabilities	1,054,028	2,057,400
<b><u>Noncurrent Liabilities:</u></b>		
Accrued Compensated Absences	4,882	3,926
Notes Payable	23,822,910	23,700,590
Total Noncurrent Liabilities	23,827,792	23,704,516
<b>TOTAL LIABILITIES</b>	<b>24,881,820</b>	<b>25,761,916</b>

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

**B-Y WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**December 31, 2015**  
**With Comparative Totals for December 31, 2014**

	2015	2014
<u>DEFERRED INFLOWS OF RESOURCES:</u>		
Pension Related Deferred Inflows	194,291	-
TOTAL DEFERRED INFLOWS OF RESOURCES	194,291	-
<u>NET POSITION:</u>		
Net Investment in Capital Assets	21,441,934	22,168,612
Restricted for SDRS Pension Purposes	184,623	-
Restricted for Debt Service	1,948,329	1,952,196
Unrestricted Net Position	5,000,123	4,307,727
TOTAL NET POSITION	28,575,009	28,428,535

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

**B-Y WATER DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

**For the Year Ended December 31, 2015**

**With Comparative Totals for the Year Ended December 31, 2014**

	<u>2015</u>	<u>2014</u>
<u>OPERATING REVENUES:</u>		
Water Sales	6,576,239	6,263,995
Service Charges	63,628	65,559
Other Revenue	<u>18,745</u>	<u>6,827</u>
Total Operating Revenues	<u>6,658,612</u>	<u>6,336,381</u>
<u>OPERATING EXPENSES:</u>		
Administrative	743,996	753,932
Source of Supply	48,116	82,538
Pumping	697,751	727,848
Water Treatment	1,865,913	1,744,747
Transmission and Distribution	446,061	546,444
Depreciation and Amortization	<u>2,146,724</u>	<u>2,117,081</u>
Total Operating Expenses	<u>5,948,561</u>	<u>5,972,590</u>
OPERATING INCOME (LOSS)	<u>710,051</u>	<u>363,791</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest Income	6,396	4,935
Other Nonoperating Revenue	115,092	110,213
Patronage Dividends Earned	66,391	81,418
Interest Expense	<u>(1,074,144)</u>	<u>(1,108,637)</u>
Total Nonoperating Revenues (Expenses)	<u>(886,265)</u>	<u>(912,071)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	<u>(176,214)</u>	<u>(548,280)</u>
Capital Contributions - Nonfederal Grants and Members	<u>148,906</u>	<u>120,014</u>
Capital Contributions - Federal	<u>4,788</u>	<u>-</u>
CHANGE IN NET POSITION	<u>(22,520)</u>	<u>(428,266)</u>
TOTAL NET POSITION - BEGINNING	<u>28,428,535</u>	<u>28,856,801</u>
ADJUSTMENTS:		
Prior Period Adjustment for GASB 68-See Note 11	168,994	-
RESTATED NET POSITION-BEGINNING	<u>28,597,529</u>	<u>28,856,801</u>
TOTAL NET POSITION - ENDING	<u>28,575,009</u>	<u>28,428,535</u>

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

**B-Y WATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2015**  
**With Comparative Totals for the Year Ended December 31, 2014**

	2015	2014
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Receipts from Customers	6,568,159	6,265,379
Other Cash Payments Received	82,373	72,386
Payments to Employees	(838,464)	(852,345)
Payments to Suppliers	(2,917,541)	(3,030,591)
Net Cash Provided by Operating Activities	2,894,527	2,454,829
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>		
Capital Contributions - Nonfederal Grants and Members	148,906	120,014
Capital Contributions - Federal Grants	4,788	-
Rental Income	7,088	7,088
Gain on Sale of Capital Assets	9,028	4,148
Proceeds from issuance of Short-Term Debt	1,850	1,073,495
Payment of Short-Term Debt	(1,075,345)	-
Proceeds from Issuance of Long-Term Debt	4,065,000	-
Contract Fees	98,976	98,977
Acquisition of Capital Assets	(540,039)	(1,190,864)
Principal Paid on Long-Term Debt	(3,871,512)	(842,965)
Interest Paid on Debt	(1,082,790)	(1,109,231)
Net Cash (Used In) Capital and Related Financing Activities	(2,234,050)	(1,839,338)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Purchase of Certificates of Deposit	(4,727)	(3,941)
Cash Dividends from Capital Credits	27,756	14,643
Interest Income	5,807	4,830
Net Cash Provided by Investing Activities	28,836	15,532
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>689,313</b>	<b>631,023</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>3,884,578</b>	<b>3,253,555</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>4,573,891</b>	<b>3,884,578</b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u></b>		
Operating Income (Loss)	710,051	363,791
Adjustments to Reconcile Operating Income to Net Cash Provided:		
Depreciation Expense	2,146,724	2,117,081
Change in Assets and Liabilities:		
Accounts Receivable	(7,767)	1,054
Prepaid Expenses	(2,111)	673
Inventories	54,702	(20,002)
Accounts Payable	42	80
Accrued Wages and Payroll Taxes	7,872	(11,264)
Accrued Compensated Absences	956	3,086
Net Pension Expense	(15,629)	-
Unearned Revenue	(313)	330
Net Cash Provided (Used) by Operating Activities	2,894,527	2,454,829

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

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations**

B-Y Water District (the District) is organized under the authority of, and in compliance with, Chapter 46A-9 of the South Dakota Codified Laws, 1967. As amended as a water user district. A petition to the Board of Natural Resource Development proposing the organization of the District was signed by 25% of the landowners or entrymen within the proposed District, approved by the Board of Natural Resource Development on December 16, 1976, and filed with the Secretary of State on January 5, 1977. The petition and certificate of Approval for the formation of the District was filed by the Secretary of State with the County Auditors in Bon Homme, Yankton, Hutchinson and Turner Counties.

The purpose of the District, as stated in its petition of organization, is to construct or acquire a water system to conserve, control and distribute potable water from the Missouri River at various locations, to homes, pastures, feedlots and elsewhere as deemed feasible and to provide for an ample supply of good quality water to municipalities. The proposed works would consist of pumps, filtering and treatment plants, storage tanks, mains, pipelines, booster pumps and other waterworks deemed necessary to pump, filter, treat, store and distribute potable water.

The principal place of business of the District is Tabor, SD. The District is governed by an elected Board of Directors consisting of thirteen directors. The District is authorized to exercise the power of eminent domain and is a political subdivision of the State of SD. The District has no taxing powers and has no power to levy assessments.

**Basis of Presentation**

Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity’s cost of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service.)

**Measurement Focus and Basis of Accounting**

Measurement focus refers to what is being measure, basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the balance sheet and the operating statement present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

### **Comparative Financial Information**

The financial statements include certain prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2015.

### **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. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of 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 Law (SDCL) 4-5-6.

### **Cash and Cash Equivalents**

For the purpose of the Statement of Cash Flows, the District considers all highly liquid deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents. Certificates of deposit, regardless of maturity, are not considered to be cash and cash equivalents.

### **Inventories**

Inventories are stated at the lower of cost or market. The cost valuation method is first-in, first-out.

### **Capital Assets**

All acquisitions of property, plant and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized.

Capital assets are recorded at cost. Donated fixed assets are valued at their fair value on the date donated. Interest costs incurred during construction of fixed assets are capitalized along with the other fixed asset costs. Depreciation is computed principally by the straight line method over the following estimated useful lives:

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

	<u>Years</u>
Buildings	40
Transmission and Distribution Systems	8-40
Meters and Stations	20
Equipment	3-15
Vehicles	3-5

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

All long-term liabilities to be repaid from business-type resources are reported as liabilities in the statements. The long-term liabilities primarily consist of RECD loans.

The accounting for proprietary fund long-term debt is on the accrual basis.

#### **Compensated Absences**

The District allows employees to accumulate vacation leave. Upon termination, all accumulated vacation leave will be paid to the employee.

#### **Equity Classifications**

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

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

#### **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 position are available.

#### **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary of the entity. For the District, these revenues are charges for water sales. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the entity. Revenues and expenses not meeting these definitions are reported as non-operating. The primary non-operating revenue is contract fees with other water districts.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

### **Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for doubtful accounts.

### **Pensions**

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. District contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

## **2. DEPOSITS AND INVESTMENTS**

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. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 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 in

- (a) Securities of the United States and securities guaranteed by the United States Government either directly or indirectly including; or
- (b) repurchase agreements fully collateralized by securities described in (a) above; or
- (c) 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.

**Custodial Credit Risk-Deposits** —The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk. As of December 31, 2015 and 2014, the District's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

**Investments** – As of December 2015 and 2014, the District had no investments.

**Authorized Investments by the District** – The District does not have a formal investment policy that further limits investments beyond those imposed by statutes.

**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 has no investment policy that would further limit its investment choices. As of December 31, 2015 and 2013, the District had no investments.

**Concentration of Credit Risk** – The District places no limit on the amount that may be invested in any one issuer. As of December 31, 2015 and 2014, the District had no investments.

### 3. RECEIVABLES

Receivables are not aggregated in these financial statements. The District expects all receivables to be collected within one year. Allowance for uncollectible accounts receivable is calculated based on historical trend data. For the year ended December 2015 and 2014, the allowance for doubtful accounts totaled \$4,000 and \$4,000, respectively.

### 4. CAPITAL CREDITS AND COBANK EQUITY

The District is a member in several local cooperatives and acquired equity in CoBank and has earned and been paid cash patronage dividends and earned equity as follows:

	Patronage Dividends	CoBank Equity
Balance as of December 31, 2013	\$ 526,453	\$ 4,578
Purchased Equity		
2014 Dividends and Equity:		
Earned	77,333	4,085
Paid	<u>(14,643)</u>	<u>-</u>
Balance as of December 31, 2014	589,143	8,663
2015 Dividends and Equity:		
Earned	65,679	712
Paid	<u>(27,756)</u>	<u>-</u>
Balance as of December 31, 2015	<u>\$ 627,066</u>	<u>\$ 9,375</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2015, is as follows:

	Balance 01/01/2015	Increases	Decreases	Balance 12/31/2015
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	142,853	200,000		342,853
Construction Work in Progress	1,178,824	239,754	(1,348,187)	70,391
Total Capital Assets, Not Being Depreciated	<u>1,321,677</u>	<u>439,754</u>	<u>(1,348,187)</u>	<u>413,244</u>
Capital Assets, Being Depreciated:				
Building	1,198,883	6,916		1,205,799
Utility Plant	81,449,968	1,434,956		82,884,924
Machinery & Equipment	674,800	6,600		681,400
Total Capital Assets, Being Depreciated	<u>83,323,651</u>	<u>1,448,472</u>	<u>-</u>	<u>84,772,123</u>
Less Accumulated Depreciation for:				
Building	(326,364)	(33,603)		(359,967)
Utility Plant	(35,996,788)	(2,064,255)		(38,061,043)
Machinery & Equipment	(495,937)	(48,866)		(544,803)
Total Accumulated Depreciation	<u>(36,819,089)</u>	<u>(2,146,724)</u>	<u>-</u>	<u>(38,965,813)</u>
Total Business-Type Activity Capital Assets, Being Depreciated, Net	<u>46,504,562</u>	<u>(698,252)</u>	<u>-</u>	<u>45,806,310</u>
Total Business-Type Activity Capital Assets, Net	<u>47,826,239</u>	<u>(258,498)</u>	<u>(1,348,187)</u>	<u>46,219,554</u>

Construction Work in Progress at December 31, 2015 is composed of the following:

Project Name	Project Authorization	Expended Thru 12/31/2015	Committed	Required Future Financing
Intake No. 3 Project	9,165,000	14,841	-	9,150,159
Segment 3	1,927,735	28,697	-	1,899,038
Preliminary Ground Storage	3,200,000	26,853	-	3,173,147
Total Construction Work in Progress	<u>14,292,735</u>	<u>70,391</u>	<u>-</u>	<u>14,222,344</u>

During 2015 and 2014, \$7,896 and \$4,751, respectively, in construction loan interest was capitalized to the District's capital assets.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

6. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
Business-Type Activities:					
USDA Rural Development Notes Payable	24,584,132	1,075,000	(3,790,869)	21,868,263	461,357
CoBank Note Payable	-	2,990,000	(80,643)	2,909,357	493,353
Total Debt	<u>24,584,132</u>	<u>4,065,000</u>	<u>(3,871,512)</u>	<u>24,777,620</u>	<u>954,710</u>
Accrued Compensated Absences	27,926	28,940	(27,984)	28,882	24,000
Total Business-Type Activities	<u>24,612,058</u>	<u>4,093,940</u>	<u>(3,899,496)</u>	<u>24,806,502</u>	<u>978,710</u>
Total Primary Government	<u>24,612,058</u>	<u>4,093,940</u>	<u>(3,899,496)</u>	<u>24,806,502</u>	<u>978,710</u>

Debt payable at December 31, 2015 and 2014 is comprised of the following:

	<u>2015</u>	<u>2014</u>
Note Payable – USDA RD Note #1 For Phase I construction, monthly installments of \$11,957 including interest, 5% interest rate, due December 2019, Collateralized by a mortgage on substantially all assets of the District.	\$0	\$632,191
Note Payable – USDA RD Note #5 For Phase II construction, monthly installments of \$29,645 including interest, 5% interest rate, due December 2019, Collateralized by a mortgage on substantially all assets of the District.	\$0	\$1,578,270
Note Payable – USDA RD Note #8 For Phase III construction – Project 86-03 and 86-04, monthly installments of \$8,207 including interest, 6.125% interest rate, due June 2027, Collateralized by a mortgage on substantially all assets of the District.	\$0	\$856,275
Note Payable – USDA RD Note #13 For Douglas County Expansion Project – Project 91-06 and 91-07, monthly installments of \$2,128 including interest, 5.625% interest rate, due August 2032, Collateralized by a mortgage on substantially all assets of the District.	\$0	\$284,778

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

<p>Note Payable – USDA RD Note #15            For Master Plan Project, monthly installments of \$15,647 including interest, 5.125% interest rate, due June 2035, Collateralized by a mortgage on substantially all assets of the District.</p>	\$2,307,582	\$2,375,196
<p>Note Payable – USDA RD Note #17            For Intake Project, monthly installments of \$8,533 including interest, 5.125% interest rate, due October 2036, Collateralized by a mortgage on substantially all assets of the District.</p>	\$1,306,100	\$1,340,597
<p>Note Payable – USDA RD Note #19            For Project 97-01, monthly installments of \$3,563 including interest, 4.75% interest rate, due April 2038, Collateralized by a mortgage on substantially all assets of the District.</p>	\$586,105	\$600,645
<p>Note Payable – USDA RD Note #21            For Plant Improvement Project, monthly installments of \$2,090 including interest, 4.75% interest rate, due April 2038, Collateralized by a mortgage on substantially all assets of the District.</p>	\$344,154	\$352,667
<p>Note Payable – USDA RD Note #25            For Treatment Plant Expansion, monthly installments of \$38,799 including interest, 4.75% interest rate, due December 2043, Collateralized by a mortgage on substantially all assets of the District.</p>	\$7,193,166	\$7,313,961
<p>Note Payable – USDA RD Note #27            For Northwest Hutchinson Project, monthly installments of \$3,987 including interest, 4.25% interest rate, due May 2045, Collateralized by a mortgage on substantially all assets of the District.</p>	\$801,966	\$815,416
<p>Note Payable – USDA RD Note #29            For Southern Bon Homme Project, monthly installments of \$3,333 including interest, 4.125% interest rate, due April 2047, Collateralized by a mortgage on substantially all assets of the District.</p>	\$703,511	\$714,246
<p>Note Payable – USDA RD Note #31            For Southern Bon Homme Project, monthly installments of \$4,511 including interest, 4.125% interest rate, due May 2047, Collateralized by a mortgage on substantially all assets of the District.</p>	\$952,507	\$967,023

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

Note Payable – USDA RD Note #33 For the 2009-1 thru 2009-3 Projects, monthly installments of \$14,745 including interest, 4.125% interest rate, due December 2049, Collateralized by a mortgage on substantially all assets of the District.	\$2,322,419	\$2,401,780
Note Payable – USDA RD Note #34 For the Roof Replacement and Motor Control Projects, monthly installments of \$1,650 including interest, 3.375% interest rate, due December 2049, Collateralized by a mortgage on substantially all assets of the District.	\$399,376	\$405,583
Note Payable – USDA RD Note #36 For Douglas County Project/Segment 1, monthly installments of \$12,305 including interest, 2.75% interest rate, due May 2053, Collateralized by a mortgage on substantially all assets of the District.	\$3,443,760	\$3,495,938
Note Payable – USDA RD Note #38 For Douglas County Project/Segment 1, monthly installments of \$1,583 including interest, 2.75% interest rate, due April 2053, Collateralized by a mortgage on substantially all assets of the District.	\$442,847	\$449,566
Note Payable – USDA RD Note #39 For Segment 2, monthly installments of \$3,698 including interest, 2.75% interest rate, due April 2055, Collateralized by a mortgage on substantially all assets of the District.	\$1,064,770	\$0
Note Payable – CoBank For Refinancing of RD #1, #5, #8, #13, variable monthly installments, 3.05% interest rate, due June 2021, Collateralized by a mortgage on substantially all assets of the District.	\$2,909,357	\$0
Compensated Absences – Accrued Vacation Payable to District employees as of December 31	\$28,882	\$27,926
	\$24,806,502	\$24,612,058

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

The annual requirements to amortize all debt outstanding, except compensated absences, as of December 31, 2015, are as follows:

Annual Requirements to Maturity for Long-Term Debt  
December 31, 2015

Year Ending December 31,	Real Estate Mortgage Payable USDA		CoBank Note Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	461,357	911,972	493,353	81,873	954,710	993,845
2017	483,640	889,688	508,613	66,613	992,253	956,301
2018	505,042	868,286	524,344	50,882	1,029,386	919,168
2019	527,424	845,904	540,562	34,664	1,067,986	880,568
2020	549,099	824,229	557,282	17,944	1,106,381	842,173
2021-2025	3,144,741	3,721,899	285,203	2,410	3,429,944	3,724,309
2026-2030	3,911,902	2,954,738			3,911,902	2,954,738
2031-2035	4,579,158	1,999,108			4,579,158	1,999,108
2036-2040	3,284,527	1,140,851			3,284,527	1,140,851
2041-2045	2,752,809	464,784			2,752,809	464,784
2046-2050	1,109,754	148,353			1,109,754	148,353
2051-2055	558,810	26,016			558,810	26,016
Totals	<u>21,868,263</u>	<u>14,795,828</u>	<u>2,909,357</u>	<u>254,386</u>	<u>24,777,620</u>	<u>15,050,214</u>

#### 7. DEFERRED INFLOWS & OUTFLOWS

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

#### 8. RESTRICTED NET POSITION

The following table shows the net position restricted as shown on the Balance Sheet:

Description	Restricted by	2015	2014
USDA Rural Development	Debt Covenant	\$1,373,329	\$1,952,196
CoBank	Debt Covenant	\$ 575,000	\$ 0

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
 (Continued)

9. CONSTRUCTION AND LOAN COMMITMENTS

The District had entered into a short-term loan agreement with CoBank ACB to provide funding for construction projects. The following is the short-term loan activity for the year.

Beginning Balance	Additions	Deletions	Ending Balance
1,073,495	1,850	1,075,345	-

Three projects have contracts outstanding totaling \$14,292,735. Of this total, \$70,391 has been completed leaving \$14,222,344 To be funded through normal operations and future financing.

10. OPERATING LEASES

The District has entered into a non-cancelable operating lease for a copier calling for minimum monthly payments of \$366. The District also entered into an operating lease for a postage meter with minimum monthly payments of \$115.

The following are the minimum payments on this operating lease:

	<u>Copier</u>	<u>Postage Meter</u>
2016	\$4,392	\$1,380
2017	\$4,392	\$1,380
2018	\$4,392	\$1,380
2019		\$1,380

11. PRIOR PERIOD ADJUSTMENTS

The District implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of January 1, 2015 as follows:

Net Position January 1, 2015, as previously reported	\$28,428,535
Restatement for pension accounting:	
Net Pension Asset	261,463
Pension related Deferred Outflows of Resources	210,349
Pension related Deferred Inflows of Resources	(302,818)
Net Position January 1, 2015, as restated	\$28,597,529

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

## 12. PENSION PLAN

### Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

### Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1<sup>st</sup> is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
  - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
  - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

### Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014, and 2013 were \$34,928, \$35,010, and \$35,932, respectively, equal to the required contributions each year.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

**Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:**

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the District as of this measurement period and reported by the District as of December 31, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$3,345,715
Less proportionate share of total pension liability	<u>\$3,214,039</u>
Proportionate share of net pension liability (asset)	<u>\$( 131,676)</u>

At December 31, 2015, the District reported a liability (asset) of \$(131,676) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the District's proportion was .0310463%, which is a decrease of .0052448% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the District recognized pension expense (revenue) of \$(14,711). At December 31, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience.	\$26,961	
Changes in assumption.	\$104,411	
Net Difference between projected and actual earnings on pension plan investments.	\$80,439	
Changes in proportion and difference between District contributions and proportionate share of contributions.	\$16,957	\$194,291
District contributions subsequent to the measurement date.	<u>\$18,470</u>	
<b>TOTAL</b>	<u><u>\$247,238</u></u>	<u><u>\$194,291</u></u>

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

\$18,470 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended December 31:	
2016	\$ 6,239
2017	\$ 6,239
2018	\$(16,786)
2019	\$ 21,827
TOTAL	<u>\$17,519</u>

**Actuarial Assumptions:**

The total pension liability (asset) in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
 (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.8%
Total	<u>100%</u>	

**Discount Rate:**

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

**Sensitivity of liability (asset) to changes in the discount rate:**

The following presents the District's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's proportionate share of the net pension liability (asset)	\$331,427	\$(131,676)	\$(509,298)

**Pension Plan Fiduciary Net Position:**

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

**13. 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, 2015, the District managed its risks as follows:

**Employee Health Insurance**

The District purchases health insurance for its employees from a commercial insurance carrier.

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NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

**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.

**Workmen's Compensation**

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

**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.

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REQUIRED SUPPLEMENTARY INFORMATIONSCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

(Dollar amounts in thousands)

	<u>2015</u>
District's proportion of the net pension liability (asset)	0.0310463%
District's proportionate share of net pension liability (asset)	\$ (132)
District's covered-employee payroll	\$ 567
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	23.28%
Plan fiduciary net position as a percentage of the total pension liability (asset)	104%

The amounts presented were determined as of 06/30/2015.

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS  
P.O. Box 247  
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE DISTRICT CONTRIBUTIONS

South Dakota Retirement System

(Dollar amounts in thousands)

	<u>2015</u>
Contractually required contribution	\$ 35
Contributions in relation to the contractually required contribution	<u>\$ 35</u>
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 582
Contributions as a percentage of covered-employee payroll	6.0%

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS  
P.O. Box 247  
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

**B-Y WATER DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended December 31, 2015**

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures 2015</u>
Department of Agriculture: Direct Federal Funding: Water and Waste Disposal Systems for Rural Communities (Note 2)	10.760	1,075,000
Total Department of Agriculture		<u>1,075,000</u>
GRAND TOTAL		<u><u>1,075,000</u></u>

**Note 1:** This accompanying schedule of expenditures of federal awards includes the federal grant activity of the municipality and is presented on the modified cash basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2:** This represents a Major Federal Financial Assistance Program.

**Note 3:** The District had the following loan balances outstanding at December 31, 2015. The loan balances outstanding which have continuing compliance requirements are also included in the federal expenditures presented in the schedule.

<u>Cluster/Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>	<u>Included as Federal Expenditure on this Schedule for 2015</u>
Water and Waste Disposal Systems for Rural Communities	10.760	<u>0</u>	<u>1,075,000</u>

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105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

**B-Y WATER DISTRICT**  
**SUPPLEMENTARY FINANCIAL INFORMATION**  
**For the Year Ended December 31, 2015**  
**With Comparative Totals for the Year Ended December 31, 2014**

	2015	2014
<b>SCHEDULE OF WATER SALES</b>		
Residential	4,041,594	3,831,372
Town	2,076,850	1,994,123
Commercial	159,671	145,902
Public Authority	146,749	132,492
Pasture Taps	151,375	160,106
	<u>6,576,239</u>	<u>6,263,995</u>
<b>SCHEDULE OF OPERATING EXPENSES</b>		
Source of Supply		
Labor	19,578	18,965
Maintenance and Repair	28,538	57,623
Miscellaneous	-	5,950
	<u>48,116</u>	<u>82,538</u>
Pumping		
Purchased Power	358,487	352,641
Maintenance and Repair	278,877	331,800
Miscellaneous	40,809	24,442
Labor	19,578	18,965
	<u>697,751</u>	<u>727,848</u>
Water Treatment		
Utilities	730,247	742,397
Chemicals	695,215	610,660
Maintenance and Repair	234,217	163,959
Labor	192,787	199,543
Miscellaneous	13,447	28,188
	<u>1,865,913</u>	<u>1,744,747</u>
Transmission and Distribution		
Labor	199,987	198,604
Maintenance and Repair	238,347	342,834
Supplies and Materials	7,348	5,006
Miscellaneous	379	-
	<u>446,061</u>	<u>546,444</u>

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

**B-Y WATER DISTRICT****SUPPLEMENTARY FINANCIAL INFORMATION****For the Year Ended December 31, 2015****With Comparative Totals for the Year Ended December 31, 2014**

	<u>2015</u>	<u>2014</u>
General and Administrative		
Employee Fringe Benefits	183,615	211,705
Office Salaries	145,534	144,350
Vehicle Expense	59,978	76,386
Insurance	73,462	73,595
Payroll Taxes	50,739	50,227
Engineer Expense	59,738	32,050
Operational Salaries	645	133
Director Fees	19,200	20,640
Professional Services	37,639	20,610
Repairs and Maintenance	16,564	18,664
Telephone	12,944	16,313
Postage	17,273	13,530
Office Supplies	18,564	19,095
Miscellaneous	7,003	7,520
Equipment and Tools	2,638	4,545
Travel	7,108	9,290
Advertising	7,754	6,871
Water Samples	4,425	5,775
Dues and Subscriptions	10,785	8,027
One Call Expense	4,969	6,909
Utilities	3,419	7,697
	<u>743,996</u>	<u>753,932</u>

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