

**BELLE FOURCHE
IRRIGATION DISTRICT**

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

DECEMBER 31, 2014



RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

**Belle Fourche Irrigation District
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December 31, 2014**

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Independent Auditor's Report on Internal Control Over Financial Reporting
And On Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Belle Fourche Irrigation District
Newell, South Dakota

We have audited, in accordance with the 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 governmental activities and the general fund of Belle Fourche Irrigation District, Newell, South Dakota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Belle Fourche Irrigation District's basic financial statements and have issued our report thereon dated June 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Belle Fourche Irrigation 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 Belle Fourche Irrigation District's internal control. Accordingly, we do not express an opinion on the effectiveness of Belle Fourche Irrigation District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 findings and management's responses as items 2014-001 and 2014-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Belle Fourche Irrigation District's financial statements are free from 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*.

Belle Fourche Irrigation District's Response to Findings

Belle Fourche Irrigation District's response to the findings identified in our audit is described in the accompanying schedule of findings and management's responses. Belle Fourche Irrigation 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

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



Casey Peterson & Associates, LTD

Rapid City, South Dakota

June 30, 2015

Belle Fourche Irrigation District
Schedule of Findings and Management's Responses
December 31, 2014

Material Weakness
Internal Control Over Financial Reporting
Segregation of Duties

2014-001 *Condition:* The District has a general lack of segregation of duties due to the limited staff size. We specifically noted a lack of review and approval related to receiving payments, recording transactions, reconciling receipts and receivables, and maintaining custody of the assets. This finding was reported in 2013.

Criteria: Internal controls are designed to safeguard assets and prevent or detect losses from employee dishonesty or error. Segregation of duties is a fundamental concept in a good system of internal controls. Although the number of employees may limit the ability to separate specific functions, proper review of reconciliations and monitoring of other activities is critical in a small government.

Cause: The number of office personnel prevents proper segregation of duties and limits the oversight or monitoring of key accounting functions.

Effect: There is a potential that intentional or unintentional errors could be made and not be detected.

Auditor's Recommendation: Management of the District should be aware of this condition, understanding that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control perspective. Under these conditions, the most effective controls lie in management's knowledge of matters relating to the operations of the District. We specifically recommend all reconciliations and subsidiary ledgers related to receipts of property assessment proceeds, receivables and the related deferred revenue and other significant balance sheet accounts be reviewed by someone other than the person primarily responsible for performing the reconciliations or maintaining the subsidiary ledger to ensure accuracy and agreement with the general ledger. Additionally, we recommend management develop a process of review and documentation of the review of the year-end work performed. These reviews should be documented by initialing the reconciliations and/or other supporting documentation.

Management's Response: Management agrees with the finding and related recommendations. The District accepts the risk associated with the Secretary / Treasurer performing incompatible duties due to cost considerations. Management will implement suggested controls wherever cost effective for the District.

Material Weakness
Internal Control Over Financial Reporting
Significant Audit Adjustments

2014-002 *Condition:* Numerous material journal entries were proposed by us during the audit. Additionally, a material journal entry was received late, while in fieldwork. These journal entries affected receivables, revenues, capital assets, expenses, and liabilities.

Criteria: The District should have an internal control system designed for monitoring of account balances throughout the year and at year-end to properly state account balances for financial reporting. Closing entries and reconciliations should be performed by the District's Management and reviewed on a regular basis.

Cause: This condition exists due to the small staff size within the business office function of the District. These issues are common in a district of this size.

Belle Fourche Irrigation District
Schedule of Findings and Management's Responses
December 31, 2014

Effect: The District's year-end account balances required significant adjustment.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the limited oversight of the year-end accounting close process, because of cost or other considerations. If the District chooses not to accept this risk, training should be provided to those employees responsible for preparing closing entries and balance reconciliations. We recommend that the District's books are adjusted and closed within a reasonable time frame after year end in order to ensure Management's and the Board of Directors' ability to make informed decisions in meeting their obligations to guide the District.

Management's Response: Management will implement additional training so that the procedure's are implemented and monitored. Management will review account balances as of year-end 2015 so they comply with accounting practices.



Independent Auditor's Report

Board of Directors
Belle Fourche Irrigation District
Newell, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Belle Fourche Irrigation District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

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

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

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 the general fund of Belle Fourche Irrigation District, as of December 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis 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 opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2015 on our consideration of Belle Fourche Irrigation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Belle Fourche Irrigation District's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Casey Peterson & Associates, LTD". The signature is written in a cursive, flowing style.

Casey Peterson & Associates, LTD

Rapid City, South Dakota
June 30, 2015

FINANCIAL STATEMENTS

Belle Fourche Irrigation District
Governmental Fund Balance Sheet/Statement of Net Position
December 31, 2014

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash and Cash Equivalents	\$ 722,716	\$ -	\$ 722,716
Certificates of Deposit	536,573	-	536,573
Accounts Receivable	29,059	-	29,059
Grants Receivable	123,560	-	123,560
Assessments Receivable	44,507	-	44,507
Capital Credits Receivable	29,994	-	29,994
Inventory	284,898	-	284,898
Prepaid Expenses	29,067	-	29,067
Restricted Certificates of Deposit - Bureau of Reclamation Reserve	150,000	-	150,000
Capital Assets:			
Land	-	1,700	1,700
SWRMS - Construction in Process	-	2,300,486	2,300,486
Building	-	183,431	183,431
Equipment	-	1,800,396	1,800,396
US Contract - Irrigation System	-	12,945,284	12,945,284
US Contract - Keyhole Dam	-	60,000	60,000
Less: Accumulated Depreciation and Amortization	-	<u>(14,647,973)</u>	<u>(14,647,973)</u>
Total Capital Assets, Net of Depreciation and Amortization	-	<u>2,643,324</u>	<u>2,643,324</u>
TOTAL ASSETS	<u>\$ 1,950,374</u>	<u>\$ 2,643,324</u>	<u>\$ 4,593,698</u>

The accompanying notes are an integral part of this financial statement.

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
LIABILITIES			
Accrued Expenses	\$ 199,802	\$ -	\$ 199,802
Long-term Debt			
Due in One Year	12,431	129,029	141,460
Due in More than One Year	<u>-</u>	<u>4,439,704</u>	<u>4,439,704</u>
TOTAL LIABILITIES	<u>212,233</u>	<u>4,568,733</u>	<u>4,780,966</u>
DEFERRED INFLOWS OF RESOURCES			
Assessments Not Collected Within Available Period	44,506	(44,506)	-
Grants Not Collected Within Available Period	100,000	(100,000)	-
Capital Credits Redeemable in Future Periods	<u>29,994</u>	<u>(29,994)</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>174,500</u>	<u>(174,500)</u>	<u>-</u>
FUND BALANCE/NET POSITION			
FUND BALANCE			
Nonspendable			
For Prepaid Expenses	29,067	(29,067)	-
For Inventory	284,898	(284,898)	-
Restricted			
For Bureau of Reclamation Reserve	150,000	(150,000)	-
Assigned			
For SWRMS Reserve	495,642	(495,642)	-
For Keyhole Water Reserve	40,931	(40,931)	-
Unassigned	<u>563,103</u>	<u>(563,103)</u>	<u>-</u>
TOTAL FUND BALANCE	<u>1,563,641</u>	<u>(1,563,641)</u>	<u>-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 1,950,374</u>		
NET POSITION			
Restricted for Bureau of Reclamation Reserve		150,000	150,000
Unrestricted		<u>(337,268)</u>	<u>(337,268)</u>
TOTAL NET POSITION		<u>(187,268)</u>	<u>(187,268)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		<u>\$ 4,206,965</u>	<u>\$ 4,593,698</u>

The accompanying notes are an integral part of this financial statement.

**Belle Fourche Irrigation District
Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
December 31, 2014**

Total Governmental Fund Balance	\$ 1,563,641
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	2,643,324
Assessments and grants receivable are not available to pay for current period expenses, and therefore, are deferred in the governmental funds.	144,506
Assets, including capital credits non-redeemable, that are not available to pay for current period expenditures, are deferred in the governmental funds.	29,994
Debt used in governmental activities is not a financial resource and therefore is not reported in the governmental funds.	<u>(4,568,733)</u>
Net Position of Governmental Activities	<u>\$ (187,268)</u>

The accompanying notes are an integral part of this financial statement.

Belle Fourche Irrigation District
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities
For the Year Ended December 31, 2014

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES			
Irrigation District Operating Expenses	\$ 1,006,387	\$ 118,527	\$ 1,124,914
Capital Outlay - Purchases of Property, Plant, and Equipment	1,533,295	(1,533,295)	-
Debt Service - Irrigation System Payment	121,508	(121,508)	-
Interest Expense on Long-term Debt	<u>1,677</u>	<u>-</u>	<u>1,677</u>
Total Expenditures/Expenses	<u>2,662,867</u>	<u>(1,536,276)</u>	<u>1,126,591</u>
PROGRAM REVENUES			
Operating Grants	-	100,000	100,000
Capital Grants	<u>730,842</u>	<u>-</u>	<u>730,842</u>
Total Program Revenues	<u>730,842</u>	<u>100,000</u>	<u>830,842</u>
Net Program Expenses	<u>1,932,025</u>	<u>(1,636,276)</u>	<u>295,749</u>
GENERAL REVENUES			
Loan Proceeds	747,664	(747,664)	-
Assessments	1,403,741	8,043	1,411,784
Custom Work and Materials Sales	46,131	-	46,131
Other Income	<u>29,017</u>	<u>-</u>	<u>29,017</u>
Total General Revenues	<u>2,226,553</u>	<u>(739,621)</u>	<u>1,486,932</u>
REVENUES IN EXCESS OF EXPENDITURES	294,528	(294,528)	-
CHANGE IN NET POSITION		1,191,183	1,191,183
FUND BALANCE/NET POSITION - BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	1,269,113	(2,725,572)	(1,456,459)
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>78,008</u>	<u>78,008</u>
FUND BALANCE/NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>1,269,113</u>	<u>(2,647,564)</u>	<u>(1,378,451)</u>
FUND BALANCE/NET POSITION, ENDING	<u>\$ 1,563,641</u>	<u>\$ (1,750,909)</u>	<u>\$ (187,268)</u>

The accompanying notes are an integral part of this financial statement.

**Belle Fourche Irrigation District
 Reconciliation of the Governmental Fund
 Statement of Revenues, Expenditures and
 Changes in Fund Balance to the Statement of Activities
 For the Year Ended December 31, 2014**

Total Governmental Fund Net Change in Fund Balances	\$ 294,528
Governmental funds report loan proceeds as revenues. However, in the Statement of Activities the proceeds are reported as long-term debt. This is the amount of the loan proceeds received.	(747,664)
The recognition of revenues in the governmental fund differs from the recognition in the governmental activities in the fact that revenue accruals in the fund financial statements require the amounts to be "available."	108,043
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 by which capital outlays exceeded depreciation in the current period.	1,414,768
Payment of long-term debt principal and interest is an expenditure in the governmental fund, but the repayments reduce long-term liabilities in the Statement of Net Position.	<u>121,508</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,191,183</u>

The accompanying notes are an integral part of this financial statement.

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities - Reporting Entity

Belle Fourche Irrigation District (the District) is a political subdivision of the State of South Dakota and is exempt from federal income taxes. The District was formed for the purpose of providing services and delivering irrigation water to members adjacent to the Belle Fourche River in western South Dakota.

In conformity with Governmental Accounting and Financial Reporting Standards, Belle Fourche Irrigation District is the reporting entity for financial reporting purposes. The District is governed by a board of seven members elected by registered voters of the District. The financial statements of the District include the general fund controlled by the Board. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has accountability for fiscal matters. There are no component units included within the reporting entity. The District does not have to prepare a budget that is subject to approval by the state of South Dakota, and the District can issue debt without the permission of the state of South Dakota.

B. Basis of Presentation

The Statement of Net Position is presented in combination with the Governmental Fund Balance Sheet. In addition, the Government-wide Statement of Activities is presented in combination with the Statement of Revenue, Expenditures and Changes in Fund Balance.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display various information about the District. These statements include the financial activities of the overall organization. Governmental activities are generally financed through assessments and other non-exchange transactions.

The Statement of Activities presents expenses and revenues of the District's governmental activities. Expenses are for the services that the District provides and are presented in the normal functional categories as defined by the adopted budget. Revenues primarily include property assessments and grants.

Fund Financial Statements: The fund financial statements provide information about the District's funds. The District has one fund, the General Fund, which is classified as a governmental fund and therefore does not present proprietary or fiduciary fund categories.

As previously mentioned, the District only has one fund. This fund is described below:

General Fund - The General Fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded in the financial statements. Basis of accounting refers to "when" revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements: Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period ("availability period"). Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due.

D. Use of Estimates

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

E. Cash and Cash Equivalents

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.

F. Inventory

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out for the governmental fund inventories.

Inventory in the governmental fund consists of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory item is used. Inventories reported in the fund financial statements are equally offset by a non-spendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. The non-spendable fund balance associated with inventory is reduced by the related amounts included in accounts payable, if applicable.

G. Property and Equipment

In the government wide statements, property and equipment are carried at historical cost less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. All reported capital assets except land, easements and construction in process are depreciated. Land and easements are inexhaustible assets and therefore are not depreciated. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful lives are as follows:

Furniture, Fixtures and Equipment	5-7 years
Buildings and Structures	31.5-39 years

Capital assets used in the government fund operations are accounted for as capital expenditures of the fund upon acquisition.

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District's policy is to capitalize those assets with a useful life greater than one year, and an initial acquisition cost of \$600 or more. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

H. Deferred Inflows of Resources

District revenues are recognized to the extent that they are used to finance each year's appropriations. In the fund financial statements, revenue may be limited by any amount not collected during the current fiscal period or within the "availability period" (60 days).

I. Long-term Liabilities

Long-term liabilities are reported as liabilities in the government-wide financial statements. Long-term liabilities consist of a loan and a contract payable and accrued vacation and sick leave. In the fund financial statements, debt proceeds are reported as revenues (general revenues), while payments of principal and interest are reported as expenditures when they become due.

Annual leave is earned by the full-time employees at a rate of 6 to 20 days per year based on the number of years of service. Upon termination, the employees are entitled to receive compensation for their accrued annual leave up to 80 hours. Sick leave is earned by employees at the rate of 3.68 hours per pay period. Upon termination, employees are entitled to compensation for one-half of the unused sick days. Accordingly, the accrued leave liability includes one-half of sick leave.

J. Accounts and Assessment Receivable

Accounts and assessments receivable are stated at unpaid balances expected to be collected from customers. No allowance for uncollectible assessments or receivables is maintained because assessments are secured by a tax lien on the property assessed and receivables are considered collectable by management.

K. Net Position, Fund Balance, and Use of Restricted Resources

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on use through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position represents all other components of net position that do not meet the previously described definitions of "restricted" or "net investment in capital assets."

Fund Balance:

Governmental fund equity is classified as fund balance, which is distinguished between the following classifications:

Nonspendable - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted - Constraints are placed on the use of resources by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts that are constrained by the District's intent to be used for specific purposes but are not restricted. Amounts can be assigned by the Board or management of the District.

Unassigned - Represents fund balance that has not been assigned to other funds and that has not been restricted or assigned.

L. Application of Net Position

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned amounts are available for use, it is the District's policy to use committed resources first, followed by assigned and then unassigned resources, as they are needed.

M. Program Revenues

Program revenues derive directly from the program itself. Program revenues are classified into categories as follows:

- a. Charges for Services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
- b. Operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are to be used for operations of the District.
- c. Capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in the operations of the District.

NOTE 2 - DEPOSITS AND INVESTMENTS, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK

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

Deposits - The District's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to 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.

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

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK (CONTINUED)

Custodial Credit Risk - Deposits - The risk that, in the event of depository failure, the District's deposits may not be returned. The District does not have a deposit for custodial credit risk

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 deposited with any one financial institution or invested with 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.

The District had no investments as of December 31, 2014.

NOTE 3 - PROPERTY AND EQUIPMENT

Summary of changes in capital assets for the year ended December 31, 2014 is as follows:

	Balance 12/31/2013	Increase	Decrease	Balance 12/31/2014
Non-depreciable Capital Assets:				
Land	\$ 1,700	\$ -	\$ -	\$ 1,700
SWRMS - Building in Process	888,802	1,411,684	-	2,300,486
Depreciable Capital Assets:				
Buildings and Structures	183,431	-	-	183,431
Equipment	954,665	17,609	-	972,274
Office Equipment	3,252	2,343	-	5,595
US Contract - Irrigation System	12,945,284	-	-	12,945,284
US Contract - Keyhole	60,000	-	-	60,000
Automation Systems	517,415	45,013	-	562,428
Vehicles	244,899	15,200	-	260,099
Subtotal	<u>15,799,448</u>	<u>1,491,849</u>	<u>-</u>	<u>17,291,297</u>
Less Accumulated Depreciation for:				
Buildings and Structures	140,502	3,312	-	143,814
Equipment	860,404	29,973	-	890,377
Office Equipment	2,396	450	-	2,846
US Contract - Irrigation System	12,945,284	-	-	12,945,284
US Contract - Keyhole	60,000	-	-	60,000
Automation Systems	367,228	46,687	-	413,915
Vehicles	153,632	38,105	-	191,737
Subtotal	<u>14,529,446</u>	<u>118,527</u>	<u>-</u>	<u>14,647,973</u>
Net Capital Assets	<u>\$ 1,270,002</u>	<u>\$ 1,373,322</u>	<u>\$ -</u>	<u>\$ 2,643,324</u>

**Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2014**

NOTE 4 - COMMITMENTS AND CONTINGENCIES

During the year ended December 31, 2014, the District continued repairing and upgrading its aging irrigation infrastructure. The total estimated project cost is \$5,000,000. As of December 31, 2014, the District had incurred costs of \$2,300,486. The project is expected to be completed during the year ended December 31, 2015. The project is being funded by the proceeds of the \$2,500,000 South Dakota Water Resources Management System (SWRMS) grant and the proceeds of the \$2,500,000 SWRMS loan.

NOTE 5 - LONG-TERM DEBT

The following is a summary of changes in long-term liabilities:

	Balance 12/31/2013	Increase	Decrease	Balance 12/31/2014	Amounts Due Within 1 Year
General Obligation Debt:					
Contract Payable - US BoR	\$ 3,498,176	\$ -	\$ 121,508	\$ 3,376,668	\$ 121,508
Contract Payable - SWRMS	444,401	705,842	-	1,150,243	-
Loan Payable - FNB	-	41,822	-	41,822	7,521
Subtotal	<u>3,942,577</u>	<u>747,664</u>	<u>121,508</u>	<u>4,568,733</u>	<u>129,029</u>
Other Liabilities:					
Accrued Sick Time	5,574	13,357	14,000	4,931	4,931
Accrued Vacation	<u>7,636</u>	<u>17,272</u>	<u>17,408</u>	<u>7,500</u>	<u>7,500</u>
Total Long-term Liabilities	<u>\$ 3,955,787</u>	<u>\$ 778,293</u>	<u>\$ 152,916</u>	<u>\$ 4,581,164</u>	<u>\$ 141,460</u>

Long-term debt at December 31, 2014 consisted of the following:

Contract Payable - United States Department of Interior-Bureau of Reclamation, payable in annual installments of \$121,508. No interest charged on this contract.	\$ 3,376,668
Contract Payable - SD State Water Resources Management System (SWRMS), first payment due upon completion of the SWRMS project, expected May 1, 2016, payable semiannually, with interest at 3%.	1,150,243
Equipment Loan Payable - First National Bank, payable in annual installments of \$9,747, with interest at 5.25%.	<u>41,822</u>
	4,568,733
Less: Current Maturities	<u>(129,029)</u>
	<u>\$ 4,439,704</u>

**Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2014**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The annual debt service requirements to maturity for long-term debt outstanding as of December 31, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 129,029	\$ 2,226	\$ 131,255
2016	161,416	19,218	180,634
2017	145,191	35,474	180,665
2018	146,101	34,580	180,681
2019	147,049	33,656	180,705
2020 - 2024	696,715	156,732	853,447
2025 - 2029	711,127	141,327	852,454
2030 - 2034	727,868	124,586	852,454
2035 - 2039	747,315	105,139	852,454
Thereafter	<u>956,922</u>	<u>165,770</u>	<u>1,122,692</u>
	<u>\$ 4,568,733</u>	<u>\$ 818,708</u>	<u>\$ 5,387,441</u>

NOTE 6 - PROPERTY ASSESSMENT

Property assessments are levied on or before January 31 for the previous calendar year, are payable in one installment on or before April 30, and attach as an enforceable lien on property as of the following November 10. The District assesses varying amounts per acre of irrigable property where the District's services are utilized.

NOTE 7 - RETIREMENT PLAN

All employees working more than 20 hours per week participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' 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 South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are Class A Members, as defined by the plan, and are required by state statute to contribute 6.0%. State statute also requires the employer to contribute an amount equal to the employee's contribution. The statute also requires the employer to make an additional contribution in the amount of 6.2% 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, 2014, 2013, and 2012 were \$23,306, \$27,190, and \$28,076, respectively, equal to the required contributions each year.

**Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2014**

NOTE 8 - 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, 2014, the District managed its risk as follows:

Employee Health Insurance - The District provides health insurance for its employees. The District purchases health insurance for its employees from a commercial insurance carrier.

Liability Insurance - The District purchases liability insurance for risks related to torts; theft of or damage to property; errors and omissions of directors and officers; and automobile accident or damage from a commercial insurance carrier. Claims resulting from these risks have not exceeded the District's liability coverage.

Worker's Compensation - The District purchased liability insurance for worker'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.

NOTE 9 - PRIOR PERIOD ADJUSTMENTS

A prior period error in the calculation of depreciation expense was corrected. Depreciation expense was inadvertently taken on assets with no remaining useful lives. The impact on net position as a result of this correction was an increase of \$48,014. General fund balance was not affected.

An asset was recorded to recognize capital credits receivable not previously recognized. The impact on net position as a result of the capital credits recognition was an increase of \$29,994. General fund balance was not affected.

Net Position as of December 31, 2013, as Previously Stated	\$ (1,456,459)
Prior Period Adjustment for Accumulated Depreciation	48,014
Prior Period Adjustment for Capital Credits Receivable	<u>29,994</u>
Net Position as of December 31, 2013, as Restated	<u>\$ (1,378,451)</u>

NOTE 10 - SUBSEQUENT EVENTS

Subsequent events were evaluated through the date of the independent auditor's report, which is the date the financial statements were available to be issued.