

BELLE FOURCHE IRRIGATION DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015



RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

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December 31, 2015**

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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, 2015, 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 January 20, 2017.

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.

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

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and management's responses that we consider to be a material weakness as item 2015-001.

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.

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

Casey Peterson, Ltd.

Rapid City, South Dakota
January 20, 2017

Belle Fourche Irrigation District
Schedule of Findings and Management's Responses
December 31, 2015

Material Weakness
Internal Control Over Financial Reporting
Segregation of Duties

2015-001 *Condition:* The District has a 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 2014.

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 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.

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, 2015, 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, 2015, 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.

Emphasis of Matter

Adoption of New Accounting Standard

As described in Note 7 to the financial Statements, the District adopted the provisions of Governmental Accounting Standards Board 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 9 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

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.

Accounting principles generally accepted in the United States of America require that the schedule of net pension asset and schedule of pension contributions on pages 26 and 27 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2017 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. 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, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota

January 20, 2017

FINANCIAL STATEMENTS

Belle Fourche Irrigation District
Governmental Fund Balance Sheet/Statement of Net Position
December 31, 2015

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash and Cash Equivalents	\$ 761,376	\$ -	\$ 761,376
Certificates of Deposit	678,002	-	678,002
Accounts Receivable	3,550	-	3,550
Grants Receivable	87,314	-	87,314
Assessments Receivable	54,378	-	54,378
Capital Credits Receivable	34,332	-	34,332
Inventory	385,783	-	385,783
Prepaid Expenses	30,828	-	30,828
Restricted Assets:			
Certificates of Deposit -			
Bureau of Reclamation Reserve	150,222	-	150,222
Restricted Pension Asset	-	94,797	94,797
Total Restricted Assets	150,222	94,797	245,019
Capital Assets:			
Land	-	1,700	1,700
SWRMS - Construction in Process	-	3,092,532	3,092,532
Building	-	183,431	183,431
Equipment	-	1,878,946	1,878,946
US Contract - Irrigation System	-	12,945,284	12,945,284
US Contract - Keyhole Dam	-	60,000	60,000
Less: Accumulated Depreciation and Amortization	-	(14,746,375)	(14,746,375)
Total Capital Assets, Net of Depreciation and Amortization	-	3,415,518	3,415,518
TOTAL ASSETS	2,185,785	3,510,315	5,696,100
DEFERRED OUTFLOWS OF RESOURCES			
Pension-related Deferred Outflows	-	169,149	169,149
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	169,149	169,149
LIABILITIES			
Accrued Expenses	154,580	-	154,580
Long-term Debt			
Due in One Year	19,878	129,425	149,303
Due in More than One Year	-	4,706,357	4,706,357
TOTAL LIABILITIES	174,458	4,835,782	5,010,240

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

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
DEFERRED INFLOWS OF RESOURCES			
Assessments Not Collected Within			
Available Period	54,378	(54,378)	-
Grants Not Collected Within Available Period	38,246	(38,246)	-
Pension-related Deferred Inflows	-	139,875	139,875
Capital Credits Redeemable in Future Periods	<u>34,332</u>	<u>(34,332)</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>126,956</u>	<u>12,919</u>	<u>139,875</u>
FUND BALANCE/NET POSITION			
FUND BALANCE			
Nonspendable:			
For Prepaid Expenses	30,828	(30,828)	-
For Inventory	385,783	(385,783)	-
Restricted:			
For Bureau of Reclamation Reserve	150,222	(150,222)	-
Assigned:			
For SWRMS Reserve	637,010	(637,010)	-
For Keyhole Water Reserve	40,992	(40,992)	-
Unassigned	<u>639,536</u>	<u>(639,536)</u>	<u>-</u>
TOTAL FUND BALANCE	<u>1,884,371</u>	<u>(1,884,371)</u>	<u>-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 2,185,785</u>		
NET POSITION			
Restricted:			
Bureau of Reclamation Reserve		150,222	150,222
Proportionate Share of Net Pension Asset		124,071	124,071
Unrestricted		<u>440,841</u>	<u>440,841</u>
TOTAL NET POSITION		<u>715,134</u>	<u>715,134</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		<u>\$ 5,563,835</u>	<u>\$ 5,865,249</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, 2015**

Total Governmental Fund Balance	\$ 1,884,371
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.	3,415,518
Assessments and grants receivable are not available to pay for current period expenses, and therefore, are deferred in the governmental funds.	92,624
Assets, including capital credits non-redeemable, that are not available to pay for current period expenditures, are deferred in the governmental funds.	34,332
Pension-related balances reported in the governmental activities are not available financial resources and therefore are not reported in the funds.	
Net Pension Asset	94,797
Pension-related Deferred Outflows	169,149
Pension-related Deferred Inflows	(139,875)
Debt used in governmental activities is not a financial resource and therefore is not reported in the governmental funds.	<u>(4,835,782)</u>
Net Position of Governmental Activities	<u>\$ 715,134</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
December 31, 2015

	General Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES			
Irrigation District Operating Expenses	\$ 1,057,250	\$ 111,495	\$ 1,168,745
Capital Outlay - Purchases of Property, Plant, and Equipment	895,146	(895,146)	-
Debt Service - Irrigation System Payment	128,974	(128,974)	-
Interest Expense on Long-term Debt	604	-	604
Total Expenditures/Expenses	<u>2,081,974</u>	<u>(912,625)</u>	<u>1,169,349</u>
PROGRAM REVENUES			
Operating Grants	99,999	(61,754)	38,245
Capital Grants	<u>396,023</u>	<u>-</u>	<u>396,023</u>
Total Program Revenues	<u>496,022</u>	<u>(61,754)</u>	<u>434,268</u>
Net Program Expenses	<u>1,585,952</u>	<u>(850,871)</u>	<u>735,081</u>
GENERAL REVENUES			
Loan Proceeds	396,023	(396,023)	-
Assessments	1,417,403	9,872	1,427,275
Custom Work and Materials Sales	7,950	-	7,950
Gain on Sale of Assets	9,888	(2,259)	7,629
Other Income	<u>75,418</u>	<u>-</u>	<u>75,418</u>
Total General Revenues	<u>1,906,682</u>	<u>(388,410)</u>	<u>1,518,272</u>
REVENUES IN EXCESS OF EXPENDITURES	320,730	(320,730)	-
CHANGE IN NET POSITION		783,191	783,191
FUND BALANCE/NET POSITION - BEGINNING	<u>1,563,641</u>	<u>(1,631,698)</u>	<u>(68,057)</u>
FUND BALANCE/NET POSITION, ENDING	<u>\$ 1,884,371</u>	<u>\$ (1,169,237)</u>	<u>\$ 715,134</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, 2015

Total Governmental Fund Net Change in Fund Balances	\$ 320,730
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.	(396,023)
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."	(51,882)
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.	778,791
Pension revenues in the statement of activities do not provide current financial resources and are not reported as revenues in the funds.	4,860
Government funds report proceeds on sale of property for the full amount of consideration received. However, in the Statement of Activities proceeds from sale of property is reported net of remaining basis. This is the amount of basis remaining at the time of sale of the asset.	(2,259)
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>128,974</u>
Change in Net Assets of Governmental Activities	<u>\$ 783,191</u>

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

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2015

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, 2015

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, 2015

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, 2015**

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, 2015**

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, 2015.

NOTE 3 - PROPERTY AND EQUIPMENT

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

	Balance 12/31/2014	Increase	Decrease	Balance 12/31/2015
Non-depreciable Capital Assets:				
Land	\$ 1,700	\$ -	\$ -	\$ 1,700
SWRMS - Building in Process	2,300,486	792,046	-	3,092,532
Depreciable Capital Assets:				
Buildings and Structures	183,431	-	-	183,431
Equipment	972,274	-	-	972,274
Office Equipment	5,595	-	-	5,595
US Contract - Irrigation System	12,945,284	-	-	12,945,284
US Contract - Keyhole	60,000	-	-	60,000
Automation Systems	562,428	25,000	-	587,428
Vehicles	260,099	78,100	24,550	313,649
Subtotal	<u>17,291,297</u>	<u>895,146</u>	<u>24,550</u>	<u>18,161,893</u>
Less Accumulated Depreciation for:				
Buildings and Structures	143,814	3,312	-	147,126
Equipment	890,377	18,456	-	908,833
Office Equipment	2,846	685	-	3,531
US Contract - Irrigation System	12,945,284	-	-	12,945,284
US Contract - Keyhole	60,000	-	-	60,000
Automation Systems	413,915	55,690	-	469,605
Vehicles	191,737	38,212	17,953	211,996
Subtotal	<u>14,647,973</u>	<u>116,355</u>	<u>17,953</u>	<u>14,746,375</u>
Net Capital Assets	<u>\$ 2,643,324</u>	<u>\$ 778,791</u>	<u>\$ 6,597</u>	<u>\$ 3,415,518</u>

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2015

NOTE 4 - COMMITMENTS AND CONTINGENCIES

During the year ended December 31, 2015, the District continued repairing and upgrading its aging irrigation infrastructure. The total estimated project cost is \$5,000,000. As of December 31, 2015, the District had incurred costs of \$3,092,532. The project is expected to be completed during the year ended December 31, 2017. 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.

During the year ended December 31, 2015, the District entered into a water conservation agreement with the Bureau of Reclamation to repair and improve water conservation for the Herman and Antelope laterals. The total estimated project cost is \$217,386. As of December 31, 2015, the District had incurred costs of \$38,246. The project is expected to be completed during the year ended December 31, 2016. The project is being funded by a \$99,794 grant from the Bureau of Reclamation and District reserves in the amount of \$117,592.

NOTE 5 - LONG-TERM DEBT

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

	Balance 12/31/2014	Increase	Decrease	Balance 12/31/2015	Amounts Due Within 1 Year
General Obligation Debt:					
Contract Payable - US BoR	\$ 3,376,668	\$ -	\$ 121,508	\$ 3,255,160	\$ 121,508
Contract Payable - SWRMS	1,150,243	396,023	-	1,546,266	-
Loan Payable - FNB	41,822	-	7,466	34,356	7,917
Subtotal	<u>4,568,733</u>	<u>396,023</u>	<u>128,974</u>	<u>4,835,782</u>	<u>129,425</u>
Other Liabilities:					
Accrued Sick Time	4,931	25,782	18,843	11,870	11,870
Accrued Vacation	<u>7,500</u>	<u>24,701</u>	<u>24,193</u>	<u>8,008</u>	<u>8,008</u>
Total Long-term Liabilities	<u>\$ 4,581,164</u>	<u>\$ 446,506</u>	<u>\$ 172,010</u>	<u>\$ 4,855,660</u>	<u>\$ 149,303</u>

Long-term debt at December 31, 2015 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.	\$ 3,255,160
Contract Payable - SD State Water Resources Management System (SWRMS), first payment due upon completion of the SWRMS project, expected June 30, 2018, payable semiannually, with interest at 3%.	1,546,266
Equipment Loan Payable - First National Bank, payable in annual installments of \$9,747, with interest at 5.25%.	<u>34,356</u>
	4,835,782
Less: Current Maturities	<u>(129,425)</u>
	<u>\$ 4,706,357</u>

**Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2015**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The annual debt service requirements to maturity for long-term debt outstanding as of December 31, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 129,425	\$ 1,831	\$ 131,256
2017	129,851	1,404	131,255
2018	130,295	960	131,255
2019	130,817	993	131,810
2020	121,508	-	121,508
2021-2025	607,540	-	607,540
2026-2030	607,540	-	607,540
2031-2035	607,540	-	607,540
2036-2040	607,540	-	607,540
Thereafter	<u>217,460</u>	<u>-</u>	<u>217,460</u>
	<u>\$ 3,289,516</u>	<u>\$ 5,188</u>	<u>\$ 3,294,704</u>

The contract payable to South Dakota Water Resources Management System has not been finalized as completion of the project is not expected until June 30, 2018. Payment terms have not been agreed upon at this time, and as such, no maturity schedule of debt repayments is available as of the date of the independent auditor's report.

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 - 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 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 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.

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

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 1st 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
 - 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
 - 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 years ended December 31, 2015, 2014, and 2013 were \$27,392, \$23,382, and \$27,190, respectively, equal to the required contributions each year

**Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2015**

NOTE 7 - PENSION PLAN (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 the measurement period ending June 30, 2015 and reported by the District as of December 31, 2015 are as follows:

Proportionate Share of Net Position Restricted for Pension Benefits	\$ 2,408,663
Less Proportionate Share of Total Pension Liability	<u>2,313,866</u>
Proportionate Share of Net Pension Liability (Asset)	<u>\$ (94,797)</u>

At December 31, 2015, the District reported an asset of \$94,797 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension 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 0.0223% which is a decrease of 0.0003815% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the District recognized pension expense of \$10,567. 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	\$ 19,410	\$ -
Changes in Assumption	75,168	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	57,910	139,875
Changes in Proportion and Difference Between District Contributions and Proportionate Share of Contributions	1,233	-
District Contributions Subsequent to the Measurement Date	<u>15,428</u>	<u>-</u>
Total	<u>\$ 169,149</u>	<u>\$ 139,875</u>

**Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2015**

NOTE 7 - PENSION PLAN (CONTINUED)

\$15,428 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 June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ended December 31,	
2016	\$ 5,744
2017	5,744
2018	(10,832)
2019	16,265
2020	-
Thereafter	-
Total	<u>\$ 16,921</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 2017 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.

**Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2015**

NOTE 7 - PENSION PLAN (CONTINUED)

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:

<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	<u>2.0%</u>	0.8%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension asset was 7.25% through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee 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 asset.

Sensitivity of Liability (Asset) to Changes in the Discount Rate

The following presents the District's proportionate share of net pension asset calculated using the discount rate of 7.25% through 2017 and 7.50% thereafter, as well as what the District's proportionate share of the net pension 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)	<u>\$ 238,603</u>	<u>\$ (94,797)</u>	<u>\$ (366,656)</u>

Pension Plan Fiduciary Net Position

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

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2015

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, 2015, 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

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, 2014, as Previously Reported	\$ (187,268)
Restatement for Pension Accounting	<u>119,211</u>
Net Position January 1, 2014, as Restated	<u>\$ (68,057)</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.

REQUIRED SUPPLEMENTARY INFORMATION

**Belle Fourche Irrigation District
Schedule of Net Pension Asset
For the Year Ended June 30, 2015**

District's Proportion of the Net Pension Asset	0.0223510%
District's Proportionate Share of the Net Pension Asset	\$ 94,797
District's Covered-employee Payroll	\$ 257,128
District's Proportionate Share of the Net Pension Asset as a Percentage of its Covered-employee Payroll	36.87%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	104.10%

See independent auditor's report.

**Belle Fourche Irrigation District
Schedule of Pension Contributions
For the Year Ended June 30, 2015**

Contractually-required Contribution	\$ 15,428
Contributions in Relation to the Contractually-required Contribution	<u>15,428</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
District's Covered-employee Payroll	\$ 257,128
Contributions as a Percentage of Covered-employee Payroll	6.0%

See independent auditor's report.