

BLACK HAWK WATER USER DISTRICT  
BLACK HAWK, SOUTH DAKOTA

Catherine Haveman  
Certified Public Accountant  
Rapid City, South Dakota

*Financial  
Statements and  
Independent  
Auditor's Report*

For the Two Years ended  
December 31, 2012

Black Hawk Water User District  
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## **CATHERINE HAVEMAN CPA**

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

Governing Board  
Black Hawk Water User District  
Black Hawk, South Dakota

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements Black Hawk Water User District, Black Hawk, South Dakota (District), as of December 31, 2012, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued my report thereon dated December 10, 2013.

#### **Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, I identified certain deficiencies in internal control that I consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items 2012-1 and 2012-2 to be material weaknesses.

### **Compliance and Other Matters**

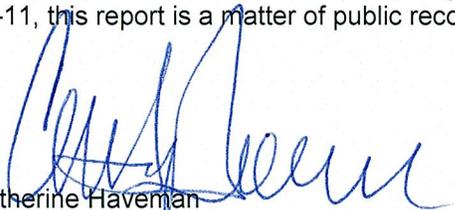
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Current Audit Findings as items 2012-3 and 2012-4.

### **District's Response to Findings**

The District's responses to the findings identified in my audit are described in the accompanying Schedule of Current Audit Findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

### **Purpose of this Report**

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



Catherine Haveman  
Certified Public Accountant

December 10, 2013

**BLACK HAWK WATER USER DISTRICT**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**

**Prior Audit Findings:**

Finding 2010-1 relating to a lack of segregation of duties is restated as current audit finding 2012-1.

Finding 2010-2 relating to certificate of deposits is restated as current audit finding 2012-3.

Finding 2010-3 relating to preparation of financial statements is restated as current audit finding 2012-2.

**BLACK HAWK WATER USER DISTRICT**  
**SCHEDULE OF CURRENT AUDIT FINDINGS**

**Current Audit Findings:**

***Internal Control-Related Findings - Material Weaknesses:***

**Finding # 2012-1 Segregation of Duties**

**Criteria:** A segregation of duties relating to financial recordkeeping is an integral part of a properly designed system of internal control.

**Condition Found:** There is a weakness in the internal controls in place at Black Hawk Water User District caused by a general lack of segregation of duties over the revenue, expenditure, and payroll functions.

**Cause:** Although some segregation exists, many of the duties relating to the performance of these functions are performed by one person.

**Effect:** This condition could result in errors in the accounting and record keeping function which may not be detected in a timely manner. This condition also increases the potential for fraud to occur.

**Recommendation:** I recommend that the Board be cognizant of this situation and take an active role in review of financial activities including monthly financial statements. Customer accounts should be reviewed for unusual adjustments and past due accounts should be reviewed and appropriate action taken. Bank reconciliations should be reviewed for propriety and agreed to the general ledger on a monthly basis by someone other than the reconciliation preparer. All expenditures should be reviewed and approved by the board.

**Management's Response:** This comment is a result of the size of the Water User District which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The District's management has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for accounting functions. The Board of Directors and Management are aware of this problem and are attempting to provide compensating controls wherever and whenever possible and practical, however this lack of segregation of duties regarding accounting functions continues to exist.

**BLACK HAWK WATER USER DISTRICT**  
**SCHEDULE OF CURRENT AUDIT FINDINGS (Continued)**

**Finding # 2012-2 Financial Statement Preparation**

**Criteria:** Management is responsible for preparation of the District's financial statements.

**Condition Found:** The District has requested that I prepare the financial statements as part of my auditing services. I have provided a draft of the financial statements and instructed management to review these financial statements in detail for their accuracy.

**Cause:** Procedures and controls have not been put into place to provide for the preparation of the District's financial statements.

**Effect:** This situation could result in errors and misstatements in the financial statements that would not be prevented or detected by management in the normal course of business.

**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 this condition.

**Management's Response:** The Board of Directors will continually review the process for preparation of the financial statements and accompanying notes. The Board is currently willing to accept any risk relating to the preparation of the financial statements.

***Compliance and Other Matters:***

**Finding # 2012-3 Certificates of Deposit**

**Criteria:** SDCL 4-5-6.1 requires that investment of public funds in certificates of deposit must meet certain conditions among which are the following:

- 1) The public funds shall initially be placed in a bank or savings and loan association located in the State of South Dakota.
- 2) The selected bank or savings and loan shall arrange for the deposit of the public funds in certificates of deposit in one or more bank or savings and loan association wherever located in the United States.

**Condition Found:** The Black Hawk Water Users District currently holds certificates of deposit which have been purchased for the District by an investment broker. This does not meet the requirements of State Statute.

**Effect:** The District is not in compliance with State Statute.

**Recommendation:** The Board should review and take appropriate action to conform the District deposit policies to statutory requirements, and take prudent and timely action to bring their deposits into compliance with statutory requirements.

**Management's Response:** The Board of Directors of Black Hawk Water User District will take prudent action to bring deposits into compliance with the requirements of State Law.

**BLACK HAWK WATER USER DISTRICT**  
**SCHEDULE OF CURRENT AUDIT FINDINGS (Concluded)**

***Finding # 2012-4 Annual Audit***

**Criteria:** SDCL 46A-9-68 states the following:

“The board of directors, at the close of each year’s business, shall cause an audit of the books, records, and financial affairs of the district...”

**Condition Found:** The District has not provided for an annual audit as required by State Statute.

**Effect:** The District is not in compliance with State Statute.

**Recommendation:** The Board of Directors should provide for an audit on a yearly basis in order to be in compliance with State Statute.

**Management’s Response:** The Board will provide for an audit as required.

## **CATHERINE HAVEMAN CPA**

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### **INDEPENDENT AUDITOR'S REPORT**

Governing Board  
Black Hawk Water User District  
Black Hawk, South Dakota

#### **Report on the Financial Statements**

I have audited the accompanying financial statements of Black Hawk Water User District, Black Hawk, South Dakota, (District) as of December 31, 2012 and for each of the years in the biennial period then ended, 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***

The District's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

#### ***Auditor's Responsibility***

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Black Hawk Water User District, Black Hawk, South Dakota as of December 31, 2012, and the respective changes in financial position and cash flows thereof for each of the years in the biennial period then ended in accordance with accounting principles generally accepted in the United States of America.

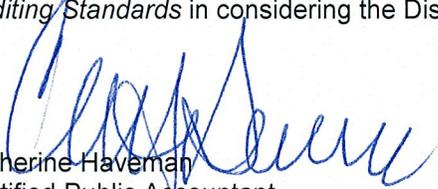
### **Other Matters**

#### *Required Supplementary Information*

The District has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated December 10, 2013 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Catherine Haveman  
Certified Public Accountant

December 10, 2013

**BLACK HAWK WATER USER DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**December 31, 2012**

**ASSETS:**

Current Assets:	
Cash and Cash Equivalents	\$ 142,559
Investments	768,977
Accounts Receivable, Net	16,752
Unbilled Accounts Receivable	38,394
Accrued Interest on Investments Purchased	1,706
Inventory of Supplies	1,613
Prepaid Expenses	5,724
<b>Total Current Assets</b>	<b>975,725</b>

Noncurrent Assets:

Capital Assets:	
Land	8,756
Buildings	28,342
Improvements Other Than Buildings	3,603,591
Machinery and Equipment	771,403
Less: Accumulated Depreciation	(1,570,141)

<b>Total Noncurrent Assets</b>	<b>2,841,951</b>
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<b>TOTAL ASSETS</b>	<b>\$ 3,817,676</b>
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**LIABILITIES:**

Current Liabilities:	
Accounts Payable	\$ 868
Accrued Interest Payable	11,040
Accrued Taxes Payable	1,745
Customer Deposits	284,922
Bonds Payable Current: Revenue	69,979
<b>Total Current Liabilities</b>	<b>368,554</b>

Noncurrent Liabilities:

Bonds Payable: Revenue	1,139,919
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<b>Total Noncurrent Liabilities</b>	<b>1,139,919</b>
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**NET POSITION:**

Net Investment in Capital Assets	1,632,053
Unrestricted	677,150

<b>Total Net Position</b>	<b>2,309,203</b>
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<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 3,817,676</b>
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The notes to the financial statements are an integral part of this statement.

**BLACK HAWK WATER USER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**For the Year Ended December 31, 2012**

<b>Operating Revenue:</b>	
Revenue Dedicated to Servicing Debt	\$ 632,963
Miscellaneous	3,360
Total Operating Revenue	636,323
<b>Operating Expenses:</b>	
Contract Labor	13,616
Directors Fees	6,416
Personal Services	123,025
Professional Fees	9,424
Insurance	10,377
Travel	2,639
Office Expense	21,141
Depreciation	153,970
Water System Maintenance	116,628
Total Operating Expenses	457,236
Operating Income (Loss)	179,087
<b>Nonoperating Revenue (Expense):</b>	
Investment Earnings	34,578
Interest Expense	(45,190)
Total Nonoperating Revenue (Expense)	(10,612)
Change in Net Position	168,475
Net Position - Beginning	2,140,728
<b>NET POSITION - ENDING</b>	<b>\$ 2,309,203</b>

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

**BLACK HAWK WATER USER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2012**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash Receipts from Customers	\$ 634,036
Other Operating Cash Receipts	<u>3,360</u>
Cash Payments to Employees for Services	<u>(123,025)</u>
Cash Payments to Suppliers of Goods and Services	<u>(180,866)</u>

Net Cash Provided (Used) by Operating Activities 333,505

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Purchase of Capital Assets	(400,540)
Principal Paid on Capital Debt	<u>(67,215)</u>
Interest Paid on Capital Debt	<u>(45,870)</u>

Net Cash Provided (Used) by capital and related financing Activities (513,625)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of Investment Securities	(455,642)
Proceeds from Sales and Maturities of Investments	<u>605,376</u>
Cash Received for Interest	<u>30,615</u>

Net Cash Provided (Used) by Investing Activities 180,349

Net Increase (Decrease) in Cash and Cash Equivalents 229

Balances - Beginning 142,330

Balances- Ending \$ 142,559

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating Income (Loss)	\$ 179,087
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	<u>153,970</u>
Change in Assets and Liabilities:	
Receivables	<u>(5,128)</u>
Accounts and Other Payables	<u>(625)</u>
Customer Deposits	<u>6,201</u>

Net Cash Provided (Used) by Operating Activities \$ 333,505

**Noncash Investing, Capital and Financing Activities:**

Unrealized Gain on Investments Not Affecting Operating Income	<u>\$ 1,403</u>
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The notes to the financial statements are an integral part of this statement.

**BLACK HAWK WATER USER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**For the Year Ended December 31, 2011**

<b>Operating Revenue:</b>	
Revenue Dedicated to Servicing Debt	\$ 509,220
Miscellaneous	<u>1,008</u>
Total Operating Revenue	<u>510,228</u>
<b>Operating Expenses:</b>	
Contract Labor	<u>30,838</u>
Directors Fees	<u>7,140</u>
Personal Services	<u>118,943</u>
Professional Fees	<u>2,357</u>
Insurance	<u>11,680</u>
Travel	<u>2,884</u>
Office Expense	<u>17,908</u>
Depreciation	<u>147,779</u>
Water System Maintenance	<u>150,004</u>
Total Operating Expenses	<u>489,533</u>
Operating Income (Loss)	<u>20,695</u>
<b>Nonoperating Revenue (Expense):</b>	
Investment Earnings	<u>61,717</u>
Interest Expense	<u>(64,374)</u>
Total Nonoperating Revenue (Expense)	<u>(2,657)</u>
Change in Net Position	<u>18,038</u>
Net Position - Beginning	<u>2,122,690</u>
<b>NET POSITION - ENDING</b>	<u><u>\$ 2,140,728</u></u>

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

**BLACK HAWK WATER USER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2011**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash Receipts from Customers	\$ 522,942
Other Operating Cash Receipts	<u>1,008</u>
Cash Payments to Employees for Services	<u>(118,943)</u>
Cash Payments to Suppliers of Goods and Services	<u>(226,897)</u>
Net Cash Provided (Used) by Operating Activities	<u>178,110</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Purchase of Capital Assets	<u>(100,104)</u>
Principal Paid on Capital Debt	<u>(297,985)</u>
Interest Paid on Capital Debt	<u>(64,234)</u>
Net Cash Provided (Used) by capital and related financing Activities	<u>(462,323)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of Investment Securities	<u>(253,626)</u>
Proceeds from Sales and Maturities of Investments	<u>534,955</u>
Cash Received for Interest	<u>39,963</u>
Net Cash Provided (Used) by Investing Activities	<u>321,292</u>

Net Increase (Decrease) in Cash and Cash Equivalents	<u>37,079</u>
Balances - Beginning	<u>105,251</u>
Balances- Ending	<u>\$ 142,330</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating Income (Loss)	\$ 20,695
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	<u>147,779</u>
Change in Assets and Liabilities:	
Receivables	<u>11,260</u>
Accounts and Other Payables	<u>(4,086)</u>
Customer Deposits	<u>2,462</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 178,110</u>
Noncash Investing, Capital and Financing Activities:	
Unrealized Loss on Investments Not Affecting Operating Income	<u>\$ (3,417)</u>

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

BLACK HAWK WATER USER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

Note 1. Summary of Significant Accounting Policies:

a. Financial Reporting Entity:

The Black Hawk Water User District (District) was formed under Chapter 46-16 of South Dakota codified Laws of 1967 and acts amendatory thereto. The basic operations of the District are financed by water service charges and hook-up fees. These operations are accounted for, and reported as, an enterprise fund.

The reporting entity of the Black Hawk Water User District includes all accounts of the District.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

The District is not a component unit of any other governmental reporting entity. Board members of the District are elected by the members of the District and have decision making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units which are required to be included in the District's reporting entity.

b. Basis of Presentation:

All activities of the District are accounted for within a single proprietary (enterprise) fund.

*Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.*

- a. *The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.*
- b. *Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.*
- c. *The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).*

c. Measurement Focus and Basis of Accounting:

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

BLACK HAWK WATER USER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

Note 1. Summary of Significant Accounting Policies (Continued):

c. Measurement Focus and Basis of Accounting (Continued):

*Measurement Focus:*

All activities of the district are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

*Basis of Accounting:*

All activities of the District are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6.

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Capital assets are recorded at historical cost. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

For capital assets used in business-type activities/proprietary fund's operations; construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an expense and accumulated depreciation is reported on the Statement of Net Position.

BLACK HAWK WATER USER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

Note 1. Summary of Significant Accounting Policies (Continued):

e. Capital Assets (Continued):

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land and Land Rights	\$ 1	-----N/A-----	----N/A-----
Improvements Other Than Buildings	\$ 500	Straight-line	5-20 yrs.
Buildings	\$ 500	Straight-line	39 yrs.
Machinery and Equipment	\$ 500	Straight-line	3-20 yrs.

Land is an inexhaustible capital asset and is not depreciated.

f. Long-Term Liabilities:

All long-term liabilities are accounted for on the accrual basis of accounting and reported as liabilities in the financial statements.

g. Revenue and Expense Classifications:

In the Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

h. Cash and Cash Equivalents:

For the purposes of the Statement of Cash Flows, the District considers all highly liquid investments or deposits with a term to maturity of three months or less, at date of acquisition, to be cash equivalents.

i. Equity Classifications:

Equity is classified as Net Position and is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation. The District has no restricted net position.
3. Unrestricted Net Position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

BLACK HAWK WATER USER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

Note 1. Summary of Significant Accounting Policies (Concluded):

j. Application of Net Position:

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

Note 2. Deposits and Investments, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk:

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

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.

At December 31, 2012, the District held certificates of deposit that do not meet the statutory requirements of state law.

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

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

As of December 31, 2012, the District had the following investments.

<u>Investment</u>	<u>Credit Rating</u>	<u>Maturities</u>	<u>Fair Value</u>
FNMA	AAA	More Than 5 Years	\$ 116,812
FHLMC	AAA	More Than 5 Years	259,757
TVA	AA	More Than 5 Years	1,165
Freddie Mac	AAA	More Than 5 Years	<u>42,399</u>
TOTAL INVESTMENTS			\$ 420,133 =====

**Custodial Credit Risk – Investments** – The risk that, in the event of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of December 31, 2012, all of the District's investments were held by its agent.

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Note 2. Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk  
(Continued):

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

**Interest Rate Risk** – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Note 3. Receivables and Payables:

Receivables and payables are not aggregated in these financial statements. The District expects all receivables to be collected within one year.

Note 4. Inventory:

Inventory consists of expendable supplies held for consumption and are recorded at cost.

Note 5. Changes In General Capital Assets:

A summary of changes in capital assets for the two years ended December 31, 2012 is as follows:

	<u>Balance</u> <u>1/1/2011</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>12/31/2012</u>
Capital Assets Not Being Depreciated:				
Land	\$ 8,756	\$ -	\$ -	\$ 8,756
Capital Assets Being Depreciated:				
Buildings	50,472	24,325	-	74,797
Machinery and Equipment	724,948	-	-	724,948
Improvements Other Than Buildings	3,127,272	476,319	-	3,603,591
Total	<u>3,902,692</u>	<u>500,644</u>	<u>-</u>	<u>4,403,336</u>
Less Accumulated Depreciation For:				
Buildings	(13,982)	(1,660)	-	(15,642)
Machinery and Equipment	(358,280)	(89,537)	-	(447,817)
Improvements Other Than Buildings	(896,130)	(210,552)	-	(1,106,682)
Total	<u>(1,268,392)</u>	<u>(301,749)</u>	<u>-</u>	<u>(1,570,141)</u>
Net Capital Assets	<u>\$ 2,643,056</u>	<u>\$ 198,895</u>	<u>\$ -</u>	<u>\$ 2,841,951</u>

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Note 6. Long-Term Liabilities:

A summary of changes in long-term liabilities follows:

	Beginning			Ending	
	Balance 1/1/2011	Additions	Deletions	Balance 12/31/2012	Due Within One year
Bonds Payable:					
SRF Revenue Bond	\$294,118	\$ -	\$52,154	\$241,964	\$28,190
DWSRF Revenue Bond	1,047,561	-	79,627	967,934	41,789
RD Revenue Bond	233,419	-	233,419	-	-
<b>Total Debt</b>	<b>\$1,575,098</b>	<b>\$ -</b>	<b>\$365,200</b>	<b>\$1,209,898</b>	<b>\$69,979</b>

Debt payable at December 31, 2012 is comprised of the following:

1999 Water Revenue Bond payable to State Revolving Fund bearing a fixed interest rate of 5.25%, payable in quarterly installments of \$10,086. Matures in January 2020, collateralized by all assets and revenue

\$ 241,964

Drinking Water – SRF Revenue Bond payable to State Revolving Fund bearing a fixed interest rate of 3.25%, payable in quarterly installments of \$18,185. Matures in April 2030, collateralized by all assets and revenue.

\$ 967,934

The annual requirements to amortize all debt outstanding as of December 31, 2012 are as follows:

Year Ending Dec 31,	DWSRF Revenue Bond		SRF Revenue Bond	
	Principal	Interest	Principal	Interest
2013	\$ 41,789	\$ 30,952	\$ 28,190	\$ 12,154
2014	43,164	29,577	29,699	10,645
2015	44,584	28,157	31,289	9,055
2016	46,050	26,691	32,964	7,380
2017	47,565	25,176	34,729	5,615
2018-2022	262,355	101,350	85,094	1,927
2023-2027	308,443	55,262	-	-
2028-2030	173,984	7,869	-	-
	<u>\$ 967,934</u>	<u>\$ 305,034</u>	<u>\$ 241,965</u>	<u>\$ 46,776</u>

The District has pledged future water revenues, net of specified operating expenses, to repay the water revenue bonds.

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Note 7. Retirement Plan:

All employees, except for part-time employees, 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 survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in 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, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2012, 2011, and 2010 were \$ 9,741, \$ 9,478 and \$ 5,092, respectively, equal to the required contributions each year.

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, 2012, the District managed its risks as follows:

Liability Insurance:

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

Worker's Compensation:

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

Unemployment Benefits:

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