

BUTTE-MEADE SANITARY WATER DISTRICT

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

DECEMBER 31, 2017

CASEY  PETERSON
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

Butte-Meade Sanitary Water District
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December 31, 2017

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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 the Financial
Statements Performed in Accordance with Government Auditing Standards.

Board of Directors
Butte-Meade Sanitary Water 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 Butte-Meade Sanitary Water District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Butte-Meade Sanitary Water District's basic financial statements and have issued our report thereon dated September 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Butte-Meade Sanitary Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Butte-Meade Sanitary Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Butte-Meade Sanitary Water 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Management's Responses as items 2017-001 through 2017-005, that we consider to be material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Butte-Meade Sanitary Water 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Audit Findings and Management's Responses as item 2017-005.

Butte-Meade Sanitary Water District's Response to Findings

Butte-Meade Sanitary Water District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Management's Responses. Butte-Meade Sanitary Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Casey Peterson, Ltd.

Rapid City, South Dakota

September 19, 2018

Butte-Meade Sanitary Water District
Schedule of Audit Findings and Management's Responses
December 31, 2017

FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weakness

Adequate Internal Controls and Segregation of Duties

2017-001 *Condition:* The lack of accounting training among the few staff members does not allow the District to separate incompatible accounting functions or processes or provide appropriate oversight of accounting functions that is necessary under a properly designed system of internal controls.

Criteria: The District should have safeguards in place to separate accounting functions which is fundamental in a good system of internal controls. An ideal segregation of duties would separate who authorizes, records, reconciles, and has custody of assets.

Cause: The Business Office has a small staff size and there is a limited number of people in the District's governance with an accounting background.

Effect: The Office Manager performs all accounting transactions with limited oversight. The possibility of fraud or errors occurring and not being detected or corrected is present. There is a potential that intentional or unintentional errors could be made and not be detected.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with Office Manager maintaining accounting records without proper oversight, because of cost or other considerations.

Management's Response: The District will have billing personnel reconcile the monthly bank statements. Will also have them do payroll various times throughout the year as well as prepare accounts payable at various times. The District will have an outside accountant review transactions on a quarterly or semi-annual basis.

Material Weakness

Internal Controls Related to Drafting Financial Statements

2017-002 *Condition:* The small size of the District limits the ability of the Business Office to maintain adequate segregation of duties to prepare the financial statements and related notes to the financial statements that is required under a properly designed system of internal controls.

Criteria: Establishing internal controls over the preparation and drafting of the financial statements are the responsibility of management. The District should have an internal control system designed to provide for drafting the financial statements being audited.

Cause: This condition exists due to small staff size within the finance function of the District. These issues are common in an organization of this size.

Effect: The District engages its auditor to draft the financial statements and the notes to the financial statements. The possibility of fraud or errors occurring and not being detected or corrected is present in regard to the drafting of the financial statements and the notes to the financial statements.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the District's auditor drafting the financial statements because of cost or other considerations. If the District chooses not to accept this risk, another accountant with appropriate knowledge, skill, and experience can be hired to either prepare or review the financial statements.

Butte-Meade Sanitary Water District
Schedule of Audit Findings and Management's Responses
December 31, 2017

Management's Response: The District will have an outside accountant prepare the financial statements and notes to the financial system at year-end for the annual audit.

Material Weakness
Significant Accounting Adjustments

2017-003 *Condition:* A number of material adjustments were needed in order for the financial statements to be reasonably presented.

Criteria: Maintaining accurate accounting records is the responsibility of management. The District should have an internal control system designed to provide a review process to mitigate the risk of material misstatements and provide assurance that the accounting records are accurate.

Cause: This condition exists due to small staff size, with minimal accounting training; a lack of segregation of duties; and a manual accounting system within the finance function of the District.

Effect: The possibility of fraud or errors occurring and not being detected or corrected is present in regard to the drafting of the financial statements and the notes to the financial statements.

Auditor's Recommendation: Training should be provided to those employees responsible for accounting records, a computerized accounting system should be implemented, and oversight of accounting functions should be performed by the Board.

Management's Response: The District will be changing accounting to an accrual accounting computerized system (QuickBooks), with office staff trained to operate the system. Oversight would be provided by the outside accountant either quarterly or semi-annually with a report to the Board.

Material Weakness
Manual Accounting Records

2017-004 *Condition:* The District does not maintain accounting records in computerized form. Rather, manual paper ledgers are maintained using billing collection information and checks written. We noted numerous issues with the ending balances due to the lack of availability of financial information in a readable and readily available format.

Criteria: Maintaining accurate accounting records in a readable format is essential.

Cause: This condition exists due to staff with minimal accounting training and a lack of a computerized system to maintain records.

Effect: The possibility of fraud or errors occurring and not being detected or corrected is present in regard to the manual accounting system that is in place.

Auditor's Recommendation: The District must convert manual accounting records to a computerized system and obtain training for all office staff on using the new system.

Management's Response: In addition to the previous response (2017-003), the District will implement the computerized accrual accounting system now instead of in five years.

Butte-Meade Sanitary Water District
Schedule of Audit Findings and Management's Responses
December 31, 2017

Material Weakness and Noncompliance
Payroll Processes

2017-005 *Condition:* The District does not comply with the U.S. Department of Labor's payroll requirements regarding the payment of overtime and wages to non-exempt staff.

Criteria: Every employer covered by the Fair Labor Standards Act must keep certain records for each covered, nonexempt worker. Payroll must be calculated in compliance with the U.S. Department of Labor's requirements.

Cause: Staff is being paid as if they are exempt from federal overtime rules.

Effect: Incorrect payroll payments are made to staff.

Auditor's Recommendation: Staff processing payroll review and recalculate hours to be paid to ensure payments to employees are proper. We also suggest that the payroll register be approved prior to the issuance of paychecks.

Management's Response: In addition to the previous response, the District will comply with all U.S. Department of Labor requirements and will implement the QuickBooks payroll system. Overtime will be recalculated using the Department of Labor's instructions to translate monthly salary to weekly wages to hourly wages.

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Independent Auditor's Report

Board of Directors
Butte-Meade Sanitary Water District
Newell, South Dakota

We have audited the accompanying financial statements of Butte-Meade Sanitary Water District, as of and for the year ended December 31, 2017, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Butte-Meade Sanitary Water District, as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Net Pension Liability (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.

Management has omitted 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing management's discussion and analysis.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 31, 2017 on our consideration of Butte-Meade Sanitary Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Butte-Meade Sanitary Water 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.



Casey Peterson, Ltd.

Rapid City, South Dakota
September 19, 2018

FINANCIAL STATEMENTS

Butte-Meade Sanitary Water District
Statement of Net Position
December 31, 2017

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 452,333
Accounts Receivable	73,232
Inventory	68,426
Prepaid Expenses	<u>20,230</u>

Total Current Assets 614,221

Noncurrent Assets:

Furniture and Equipment	97,805
Buildings and Structures	93,927
Collection and Distribution System	5,826,893
Land	14,262
Vehicles	60,862
Less: Accumulated Depreciation	<u>(3,256,606)</u>

Total Capital Assets, Net of Depreciation and Amortization 2,837,143

Capital Credits	49,783
Restricted for Debt Service	94,128
Restricted for Member Deposits	83,094
Restricted Pension Asset	<u>1,102</u>

Total Noncurrent Assets 3,065,250

TOTAL ASSETS

3,679,471

DEFERRED OUTFLOWS OF RESOURCES

Pension-related Deferred Outflows	<u>115,916</u>
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LIABILITIES

Accrued Expenses	11,342
Current Portion of Noncurrent Liabilities	72,227
Meter Deposits	<u>80,096</u>

Total Current Liabilities 163,665

Noncurrent Liabilities:

Long-term Debt, Net of Current Portion	<u>1,127,307</u>
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TOTAL LIABILITIES

1,290,972

DEFERRED INFLOWS OF RESOURCES

Pension-related Deferred Inflows	<u>21,201</u>
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The accompanying notes are an integral part of this financial statement.

NET POSITION

Net Investment in Capital Assets	1,637,609
Restricted:	
Restricted for Rural Development Reserve	94,128
Restricted for SDRS Pension Purposes	95,817
Unrestricted	<u>655,660</u>
TOTAL NET POSITION	<u>\$ 2,483,214</u>

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

Butte-Meade Sanitary Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2017

OPERATING REVENUE	
Water Sales	\$ 844,565
Other Sales	<u>29,537</u>
TOTAL OPERATING REVENUE	<u>874,102</u>
OPERATING EXPENSES	
Wages & Benefits	289,238
Depreciation	204,667
Maintenance and Supplies	145,878
Utilities	62,953
Office Expense	23,497
Insurance	21,607
Professional Fees	13,692
Directors' Fees	<u>3,785</u>
TOTAL OPERATING EXPENSES	<u>765,317</u>
OPERATING INCOME	<u>108,785</u>
NONOPERATING REVENUE (EXPENSE)	
Loss on Disposal of Equipment	(836)
Insurance Proceeds	42,763
Interest Income	540
Interest Expense	<u>(64,816)</u>
TOTAL NONOPERATING REVENUE (EXPENSE)	<u>(22,349)</u>
CHANGE IN NET POSITION	<u>86,436</u>
NET POSITION - BEGINNING	1,848,519
Prior Period Adjustment	<u>548,259</u>
NET POSITION - ENDING	<u><u>\$ 2,483,214</u></u>

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

Butte-Meade Sanitary Water District
Statement of Cash Flows
For the Year Ended December 31, 2017

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	
Cash Receipts From Customers	\$ 877,368
Cash Payments to Employees for Services	(326,691)
Cash Payments to Suppliers of Goods and Services	<u>(284,999)</u>
Net Cash Provided by Operating Activities	<u>265,678</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Deposits to Reserves	(244)
Interest Received	<u>540</u>
Net Cash Used by Investing Activities	<u>296</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Insurance Proceeds	<u>42,763</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(68,296)
Proceeds from Disposal of Capital Assets	3,160
Interest Paid on Capital Debt	(64,816)
Principal Paid on Capital Debt	<u>(71,491)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(201,443)</u>
NET INCREASE IN CASH	107,294
BALANCE - BEGINNING OF YEAR	<u>345,039</u>
BALANCE - END OF YEAR	<u><u>\$ 452,333</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 108,785
Adjustments to Reconcile Operating Income to Net Cash Provided	
by Operating Activities:	
Pension Activities	(37,453)
Depreciation Expense	204,667
Changes in Assets and Liabilities:	
Receivables	2,537
Inventory	(1,352)
Prepaid Expenses	(1,298)
Accounts and Other Payables	(10,937)
Customer Deposits	<u>729</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 265,678</u></u>

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

Butte-Meade Sanitary Water District
Notes to the Financial Statements
December 31, 2017

NOTE 1 - NATURE OF ACTIVITIES

The Butte-Meade Sanitary Water District (the District) is a government entity comprised of one enterprise fund. The financial statements are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue when earned and expenditures when a liability is incurred. The District is a subdivision of the government of the State of South Dakota.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The District is considered a single enterprise fund for financial reporting purposes. The District's financial statements have been prepared on the accrual basis of accounting, consistent with the governmental proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through user charges for services. The District applies all applicable Government Accounting Standards Board (GASB) pronouncements.

Operating income includes revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues are user fees for water services. Principal operating expenses are the costs of providing water and maintaining system assets. Other revenues and expenses are classified as non-operating in the financial statements.

B. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a charge to bad debt expense and as an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances outstanding over 90 days have service disconnected until the outstanding balance is paid.

C. Inventory

Inventory is valued at cost, as determined on the first-in, first-out method and consists mainly of maintenance supplies.

D. Property and Equipment

Capital assets, which include the collection and distribution system, buildings, and other equipment are reported in the basic financial statements. The District defines capital assets as those with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. 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 and Equipment	5 - 10 years
Buildings and Structures	10 - 40 years
Vehicles	5 - 10 years
Collection and Distribution System	5 - 85 years

E. Vacation and Sick Leave

Annual leave is earned by the full-time employees at a rate of two weeks after 1 year, three weeks from 10 to 19 years and four weeks after 20 years. Sick leave is earned by full-time employees at a rate of twelve (12) days per year. Upon termination the employees are not entitled to receive compensation for their annual leave or sick leave balances.

Butte-Meade Sanitary Water District
Notes to the Financial Statements
December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenue 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, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

G. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

H. Cash and Cash Equivalents

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

I. 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 investments pools, are also considered to be cash equivalents.

J. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period. The only deferred outflow of resources reported is a deferred amount arising from the District's pension plan for qualified retirees as discussed in Note 6.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. The only deferred inflow of resources reported is a deferred amount arising from the District's pension plan for qualified retirees as discussed in Note 6.

K. Equity Classifications

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

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.

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.

Butte-Meade Sanitary Water District
Notes to the Financial Statements
December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted Net Position - All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

L. Application of Net Position

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

M. Pensions

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

NOTE 3 - DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK

Deposits and Investments

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.

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 deposited in a safekeeping account with any banker trust company designated by the political subdivision as its fiscal agent. The District had no investments as of December 31, 2017.

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.

Butte-Meade Sanitary Water District
Notes to the Financial Statements
December 31, 2017

NOTE 4 - PROPERTY AND EQUIPMENT

A summary of changes in capital assets for the year ended December 31, 2017 is as follows:

	Balance <u>12/31/2016</u>	Increase	Decrease	Balance <u>12/31/2017</u>
Non-depreciable Capital Assets:				
Land	\$ 14,262	\$ -	\$ -	\$ 14,262
Depreciable Capital Assets:				
Furniture and Equipment	110,034	2,528	14,757	97,805
Buildings and Structures	94,937		1,010	93,927
Collection and Distribution System	5,901,033	34,758	108,898	5,826,893
Vehicles	53,200	29,562	21,900	60,862
Subtotal	<u>6,173,466</u>	<u>66,848</u>	<u>146,565</u>	<u>6,093,749</u>
Less: Accumulated Depreciation	<u>3,194,505</u>	<u>204,667</u>	<u>142,566</u>	<u>3,256,606</u>
Net Capital Assets	<u>\$ 2,978,961</u>	<u>\$ (137,819)</u>	<u>\$ 3,999</u>	<u>\$ 2,837,143</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following at December 31, 2017:

Loan due to First National Bank, payable in monthly installments of \$1,621 including interest of 5.25%, maturing July 2024. Interest expense was \$6,126 for the year ended December 31, 2017.	\$ 107,572
Revenue bond due to Rural Development, payable in monthly installments of \$5,236 including interest of 6.625%, maturing June 2032. Interest expense was \$38,984 for the year ended December 31, 2017.	575,426
Revenue bond due to Rural Development, payable in monthly installments of \$1,939 including interest of 4.125%, maturing July 2048. Interest expense was \$16,622 for the year ended December 31, 2017.	399,356
Loan due to National Rural Water System, payable in monthly installments of \$676 including interest of 3.00%, maturing August 2018. Interest expense was \$288 for the year ended December 31, 2017.	5,346
Loan due to South Dakota Department of Natural Resources in quarterly installments of \$5,661 including interest of 2.25%, maturing April 2023. Interest expense was \$2,796 for the year ended December 31, 2017.	<u>111,834</u>
	1,199,534
Less: Current Maturities	<u>(72,227)</u>
	<u>\$ 1,127,307</u>

Butte-Meade Sanitary Water District
Notes to the Financial Statements
December 31, 2017

NOTE 5 - LONG-TERM DEBT (CONTINUED)

A summary of requires principal and interest payments on the long-term debt is as follows:

For the Year Ending December 31,	Principal	Interest	Total
2018	\$ 72,227	\$ 61,371	\$ 133,598
2019	70,136	58,059	128,195
2020	73,572	54,623	128,195
2021	77,203	50,992	128,195
2022	81,038	47,157	128,195
2023-2027	283,513	182,337	465,850
2028-2032	283,127	92,436	375,563
2033-2037	69,842	46,498	116,340
2038-2042	85,810	30,530	116,340
2043-2047	103,066	10,361	113,427
	<u>\$ 1,199,534</u>	<u>\$ 634,364</u>	<u>\$ 1,833,898</u>

The terms of the revenue bonds require that the District maintain a debt service account. A sum equal to the minimum of 1/12 of the annual installment coming due on the next succeeding January 1, is to be deposited to this account each month. Principal and interest payments are to be made from this account. At December 31, 2017, the District was in complete compliance with these terms.

The terms of the revenue bonds also require that all the surplus net revenue, in excess of the amounts required in the maintenance of the debt service account noted above, be deposited in a reserve account. This account shall be used for major repairs, maintenance, and improvements on the water system. No funds were available for deposit to this account as of December 31, 2017.

A summary of the changes in long-term debt follows:

	Balance 12/31/2016	Increase	Decrease	Balance 12/31/2017	Amounts Due Within 1 Year
General Obligation Debt:					
Note Payable - First National					
Bank	\$ 120,897	\$ -	\$ 13,325	\$ 107,572	\$ 14,145
Revenue Bonds - RD	1,005,276	-	30,494	974,782	32,398
Note Payable - NRWS	13,170	-	7,824	5,346	5,346
Note Payable - SDDENR	<u>131,682</u>	-	<u>19,848</u>	<u>111,834</u>	<u>20,338</u>
Total Long-term Liabilities	<u>\$ 1,271,025</u>	<u>\$ -</u>	<u>\$ 71,491</u>	<u>\$ 1,199,534</u>	<u>\$ 72,227</u>

Butte-Meade Sanitary Water District
Notes to the Financial Statements
December 31, 2017

NOTE 6 - PENSION PLAN

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

Benefits Provided

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

The annual increase in the amount of the SDRS benefits payable on each July 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
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded - 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded - 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% - 2.1% COLA

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPA-W, no less than 0.5% and no greater than 3.5%
- If the fair of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities

Butte-Meade Sanitary Water District
Notes to the Financial Statements
December 31, 2017

NOTE 6 - PENSION PLAN (CONTINUED)

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, 2017, 2016, and 2015 were \$14,739, \$14,641, and \$14,081 respectively, equal to the required contributions each year.

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

At June 30, 2017, SDRS was 100.1% 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, 2017 and reported by the District as of December 31, 2017 are as follows:

Proportionate Share of Net Position Liability	\$ 1,413,764
Less: Proportionate Share of Net Position Restricted for Pension Benefits	<u>1,414,866</u>
Proportionate Share of Net Pension Liability (Asset)	<u>\$ (1,102)</u>

At December 31, 2017, the District reported a liability (asset) of (\$1,102) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the District's proportion was .01215100%, which is a decrease of 0.0002984% from its proportion measured as of June 30, 2016.

Butte-Meade Sanitary Water District
Notes to the Financial Statements
December 31, 2017

NOTE 6 - PENSION PLAN (CONTINUED)

For the year ended December 31, 2017, the District recognized pension expense (reduction of pension expense) of (\$22,706). At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 17,669	\$ -
Changes in Assumption	85,619	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		21,201
Changes in Proportion and Difference Between District Contributions and Proportionate Share of Contributions	5,345	
District Contributions Subsequent to the Measurement Date	7,283	-
Total	\$ 115,916	\$ 21,201

\$7,283 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended December 31,	
2018	24,452
2019	39,493
2020	28,412
2021	(4,925)
2022	-
Thereafter	-
Total	\$ 87,432

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%	
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00%	
Discount Rate	6.50% net of plan investment expense	

Butte-Meade Sanitary Water District
Notes to the Financial Statements
December 31, 2017

NOTE 6 - PENSION PLAN (CONTINUED)

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table projected generationally with Scale MP-2016.

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, 2017 (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	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Butte-Meade Sanitary Water District
Notes to the Financial Statements
December 31, 2017

NOTE 6 - PENSION PLAN (CONTINUED)

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

The following presents the District's proportionate share of net pension liability (asset) calculated using the discount rate 6.50 percent, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 201,962	\$ (1,102)	\$ (166,464)

Pension Plan Fiduciary Net Position

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

NOTE 7 - RURAL DEVELOPMENT RESERVES

Cash held in Rural Development reserve accounts consists of funds set aside for debt service, repairs, replacements, improvements, and additions as approved by Rural Development.

NOTE 8 - RISK MANAGEMENT

The District purchases insurance for risks related to torts, thefts, or damage to property; errors and omissions of public officials; general workmen's compensation; and property insurance from commercial insurance carriers. The policies provide for a \$2.9 million limit on property and \$4 million limit on liability with a \$1 million umbrella policy. In prior years, settled claims resulting from these risks have not exceeded the District's liability coverage.

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. In prior years, settled claims have not exceeded the District's coverage.

NOTE 9 - CORRECTION OF ERROR

Net assets as of the year have been adjusted to increase capital assets by \$500,000 for major improvements that were improperly capitalized in prior years and to record capital credits receivable in the amount of \$48,259 due from utility cooperatives that had not been previously recorded.

NOTE 10 - SUBSEQUENT EVENTS

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

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REQUIRED SUPPLEMENTARY INFORMATION

**Butte-Meade Sanitary Water District
Schedule of Net Pension Liability (Asset)
For the Years Ended December 31**

Year Ending	District's Proportion of Net Pension Liability/Asset	District's Proportionate Share of Net Pension Liability (Asset) (a)	District's Covered- employee Payroll (b)	District's Proportionate Share of Net Pension Liability (Asset) as a Percentage of its Covered- employee Payroll (a/b)	Plan Fiduciary Net Position a Percentage of the Total Pension Liability/Asset
6/30/2017	0.0121510%	\$ (1,102)	\$ 243,562	0.45%	100.10%
6/30/2016	0.0124494%	\$ 42,053	\$ 236,725	17.76%	96.89%
6/30/2015	0.0141086%	\$ (59,839)	\$ 257,580	23.23%	104.10%

*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension asset, which is June 30 of the previous year.

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

See independent auditor's report.

**Butte-Meade Sanitary Water District
Schedule of Pension Contributions
For the Years Ended December 31**

Year Ending	Contractually- required Contribution (a)	Contributions in Relation to the Contractually- required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered- employee Payroll (c)	Contributions as a Percentage of Covered- employee Payroll (b/c)
12/31/2017	\$ 14,739	\$ 14,739	\$ -	\$ 243,882	6.04%
12/31/2016	\$ 14,641	\$ 14,641	\$ -	\$ 244,016	6.00%
12/31/2015	\$ 14,081	\$ 14,081	\$ -	\$ 234,684	6.00%

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

See independent auditor's report.