



COLONIAL PINE HILLS SANITARY DISTRICT

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2015 AND 2014



Ketel Thorstenson, LLP
Certified Public Accountants/Business & Personal Consultants

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COLONIAL PINE HILLS SANITARY DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Colonial Pine Hills Sanitary District
Rapid City, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of **COLONIAL PINE HILLS SANITARY DISTRICT** (the District), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **COLONIAL PINE HILLS SANITARY DISTRICT** as of December 31, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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 June 21, 2016 on our consideration of the 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 and compliance and the results of that testing, and not to provide an opinion on 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.



KETEL THORSTENSON, LLP
Certified Public Accountants

June 21, 2016

COLONIAL PINE HILLS SANITARY DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015 AND 2014**

This section of Colonial Pine Hills Sanitary District’s (the District) annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal years ended on December 31, 2015 and 2014. Please read it in conjunction with the District’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District’s net position increased in 2015 by \$41,084 over 2014 after increasing by \$33,288 from 2013. The increase in both years was primarily due to property tax revenue and water revenues exceeding operations costs and property improvements, net of related debt. Current assets decreased \$21,850, or 3.65 percent from 2014 to 2015 as operating expenses decreased \$31,509 for the same period.
- Operating revenue increased by \$29,387 from 2014 to 2015 and decreased \$36,591 from 2013 to 2014. The increase for 2015 was, in part, due to increased water sales due to warmer and dryer weather in the last half of 2015. The decrease for 2014 was due, primarily, to cooler and wetter weather. Variations in water sales is directly proportional to the type of weather; if it is dry we sell more water, if wet we sell less. Most other revenue is constant.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management’s discussion and analysis (this section) and the basic financial statements, including related notes. The basic financial statements offer short- and long-term financial information about the District’s activities.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The District operates similar to a private business. The required financial statements include balance sheets, statements of revenue, expenses, and changes in net position, and the statements of cash flows. The District applies the accrual basis of accounting and an economic resources measurement focus. Inflows and outflows include all revenues and expenses during the year, regardless of when cash is received or paid. (The Financial Analysis section of the management’s discussion and analysis explains the structure and contents of the statements.)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Balance Sheet

The District’s net position changed as follows:

	2015	2014	2013
Current Assets	\$ 576,489	\$ 598,339	\$ 489,961
Capital Assets	3,701,895	2,518,021	2,570,818
Total Assets	\$ 4,278,384	\$ 3,116,360	\$ 3,060,779
Long-Term Debt Outstanding	\$ 1,986,278	\$ 1,036,254	\$ 1,015,306
Other Liabilities	221,585	50,669	49,324
Total Liabilities	\$ 2,207,863	\$ 1,086,923	\$ 1,064,630
Net Position:			
Net Investment in Capital Assets	\$ 1,715,617	\$ 1,481,767	\$ 1,555,512
Unrestricted	354,904	547,670	440,637
Total Net Position	\$ 2,070,521	\$ 2,029,437	\$ 1,996,149
Beginning Net Position	\$ 2,029,437	\$ 1,996,149	\$ 1,878,150
Change in Net Position	41,084	33,288	117,999
Percentage of Change in Net Position	2.02%	1.67%	6.28%

COLONIAL PINE HILLS SANITARY DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The balance sheet reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District have been reported in this manner on the Balance Sheet. The difference between the District's assets and liabilities is its net position.

Statement of Revenues, Expenses, and Changes in Net Position

	2015	2014	2013
Operating Revenues	\$ 330,242	\$ 300,855	\$ 337,446
Non-Operating Revenue	122,920	132,166	120,893
Total Revenue	453,162	433,021	458,339
Operating Expenses	(335,372)	(366,881)	(306,928)
Non-Operating Expense	(76,706)	(32,852)	(33,412)
Total Expenses	(412,078)	(399,733)	(340,340)
Change in Net Position	\$ 41,084	\$ 33,288	\$ 117,999
Net Position -- End of Year	\$ 2,070,521	\$ 2,029,437	\$ 1,996,149

Operating revenue from 2014 to 2015 increased \$29,387 and decreased \$36,591 from 2013 to 2014. The changes in water sales was based primarily on changes in weather conditions. Variations in water sales is directly proportional to the type of weather; if it's dry we sell more water, if wet we sell less. Most other revenue is constant. Operating expenses decreased \$31,509 from 2014 to 2015 and increased \$59,953 from 2013 to 2014 due primarily to maintenance expenses requirements. The District increased more repairs in 2014 for faulty equipment and leaks as well as repairs for hail damages. In 2015, the District experienced fewer repairs. During 2014 and 2015, the District also had significant bond expenses associated with obtaining financing for capital asset projects.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

CAPITAL ASSET ADMINISTRATION

During 2014-2015, the District made several capital improvements. All together capital investments totaled \$1,431,962 for the period.

	2015	2014	2013
<i>Capital Assets Being Depreciated</i>			
Buildings	\$ 53,641	\$ 53,641	\$ 49,356
Machinery and Equipment	219,516	177,318	175,733
Well Systems	4,686,092	3,338,443	3,338,443
	4,959,249	3,569,402	3,563,532
<i>Less Accumulated Depreciation</i>	1,404,762	1,339,411	1,208,798
Net Capital Assets Being Depreciated	\$ 3,554,487	\$ 2,229,991	\$ 2,354,734

COLONIAL PINE HILLS SANITARY DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

CAPITAL ASSET ADMINISTRATION (CONTINUED)

Capital Assets Not Being Depreciated

Land	\$ 111,982	\$ 111,982	\$ 111,982
Construction in Progress	35,426	176,048	104,102
Total Capital Assets Not Being Depreciated	\$ 147,408	\$ 288,030	\$ 216,084

The 2014-2015 major capital asset additions included:

- Microfiltration system for the Croyle II Well
- Pinewood Drive Pipeline

In fiscal year 2010, framework was laid for a new micro-filtration treatment plant housed at the Croyle II well. This project not only included the water treatment equipment, but also a raw water line from the Nonanna well to the treatment plant to filter the Nonanna water. Also included was a new eight inch pipeline down Pinewood Drive with 20 upgraded residential services. The total cost of this project was \$1,477,855. Two State Revolving Fund (SRF) loans were obtained; one, for \$705,000 secured by property tax assessment; and two, for \$400,000 secured by a monthly surcharge added to the monthly billing statement. The remaining \$372,585 was paid from existing cash on hand. The treatment plant was placed in service in December 2015.

LONG-TERM DEBT

During 2015 and 2014, the District added new debt of \$85,659 in 2014 and \$1,019,341 in 2015 with the State Revolving Fund for construction projects, of which \$453,440 of the principal was paid by the Clean Water State Revolving Fund Capitalization Grant funds. Other activity included scheduled repayments of principal and interest on State Revolving Fund loans that had been obtained in prior years for various construction projects. The following is a summary of the changes in long-term debt:

Balance -- December 31, 2013	\$ 1,015,306
Principal Borrowings	85,659
Principal Repayments	(64,711)
Balance -- December 31, 2014	1,036,254
Principal Borrowings	1,019,341
Principal Repayments	(69,317)
Balance -- December 31, 2015	\$ 1,986,278

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position is good and is expected to improve in 2016 and 2017. As of December 31, 2015, the District had cash reserves of \$548,282. \$94,964 is set aside by the board for repayment of two SRF loans. The District collects a \$6 surcharge applied monthly to every water billing statement for the repayment of a third SRF. The District also collects approximately \$120,000 annually from property taxes, which is first dedicated to repayment a fourth SRF loan with excess property taxes collected being used for any funding purpose the board of directors desires. Additional cash is held for emergency equipment repairs and/or maintenance.

Our Long Range Strategic Plan contains several projects that will be of great benefit to the District and its customers. This includes pipeline looping, GPS mapping of our distribution assets, additional isolation valves within the distribution system and an office building to house all employees, administrative equipment and files. These future projects will be prioritized as funds become available.

COLONIAL PINE HILLS SANITARY DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2015 AND 2014**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Colonial Pine Hills Sanitary District, 8251 Dunsmore Road, Rapid City, SD 57702.

COLONIAL PINE HILLS SANITARY DISTRICT

**BALANCE SHEETS
DECEMBER 31, 2015 AND 2014**

ASSETS	2015	2014
Current Assets		
Cash and Cash Equivalents	\$ 548,282	\$ 571,514
Accounts Receivable and Unbilled Receivables	26,560	25,178
Well Supplies	1,647	1,647
Total Current Assets	576,489	598,339
Capital Assets Being Depreciated (Note 3)		
Buildings	53,641	53,641
Machinery and Equipment	219,516	177,318
Well Systems	4,686,092	3,338,443
	4,959,249	3,569,402
Less Accumulated Depreciation	1,404,762	1,339,411
Net Capital Assets Being Depreciated	3,554,487	2,229,991
Capital Assets Not Being Depreciated (Note 3)		
Land	111,982	111,982
Construction in Progress	35,426	176,048
Total Capital Assets Not Being Depreciated	147,408	288,030
TOTAL ASSETS	\$ 4,278,384	\$ 3,116,360
LIABILITIES AND NET POSITION		
Current Liabilities		
Current Maturities of Long-Term Debt (Note 4)	\$ 106,919	\$ 65,216
Accounts Payable	16,750	7,740
Construction Payables	162,037	2,327
Accrued Expenses	7,426	6,465
Meter Deposits	35,372	34,137
Total Current Liabilities	328,504	115,885
Long-Term Debt, Net of Current Maturities (Note 4)	1,879,359	971,038
Commitment (Note 4)		
Net Investment in Capital Assets	1,715,617	1,481,767
Unrestricted	354,904	547,670
	2,070,521	2,029,437
TOTAL LIABILITIES AND NET POSITION	\$ 4,278,384	\$ 3,116,360

The accompanying notes are an integral part of these statements.

COLONIAL PINE HILLS SANITARY DISTRICT

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Revenue		
Water Sales (Note 4)	\$ 296,022	\$ 281,523
State Revolving Fund IV Surcharge	25,867	-
Septic Sales	2,892	15,150
Other Income	5,461	4,182
Total Revenue	330,242	300,855
Operating Expenses		
Depreciation	119,302	130,613
Salaries	72,387	70,662
Electric Charges	45,869	37,774
Repairs and Maintenance	27,380	48,545
Professional Fees	14,446	20,367
Insurance	10,434	10,698
Telephone	9,748	9,094
Chemicals	8,391	8,817
Office Expenses	5,833	8,534
Payroll Taxes	5,773	5,666
Trustee Fees	3,600	3,100
Water Testing	3,518	1,151
Tools and Equipment	2,883	4,029
Printing and Publications	2,489	2,865
Travel and Transportation	2,068	3,877
Dues and Subscriptions	943	734
Miscellaneous	308	355
Total Operating Expenses	335,372	366,881
Operating Loss	(5,130)	(66,026)
Non-Operating Revenue (Expense)		
Property Taxes (Note 5)	120,955	119,895
Interest Income	1,965	1,474
Compensation for Loss or Damage to Capital Assets	-	10,797
Interest Expense	(26,236)	(32,852)
Loss on Disposal of Capital Assets	(50,470)	-
	46,214	99,314
Change in Net Position	41,084	33,288
Net Position -- Beginning of Year	2,029,437	1,996,149
Net Position -- End of Year	\$ 2,070,521	\$ 2,029,437

The accompanying notes are an integral part of these statements.

COLONIAL PINE HILLS SANITARY DISTRICT

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Cash Flows From Operating Activities		
Receipts from Customers	\$ 330,095	\$ 306,412
Payments to Suppliers	(133,712)	(167,047)
Payments to Employees	(72,387)	(70,662)
Net Cash Flows Provided by Operating Activities	123,996	68,703
Cash Flows Provided by Noncapital Financing Activities		
Property Taxes	120,955	119,895
Compensation for Loss or Damage to Capital Assets	-	10,797
Net Cash Flows Provided by Noncapital Financing Activities	120,955	130,692
Cash Flows From Capital and Related Financing Activities		
Purchases of Capital Assets	(1,193,936)	(75,418)
Borrowings on Long-Term Debt	1,019,341	85,659
Repayments on Long-Term Debt	(69,317)	(64,711)
Interest Expense	(26,236)	(32,852)
Net Cash Flows Used in Capital and Related Financing Activities	(270,148)	(87,322)
Cash Flows From Investing Activities		
Interest Received	1,965	1,474
Net Increase (Decrease) in Cash and Cash Equivalents	(23,232)	113,547
Cash and Cash Equivalents -- Beginning of Year	571,514	457,967
Cash and Cash Equivalents -- End of Year	\$ 548,282	\$ 571,514
Reconciliation of Operating Loss to Net Cash Flows Provided by Operating Activities		
Operating Loss	\$ (5,130)	\$ (66,026)
<i>Adjustments to Reconcile Operating Loss to Net Cash Flows Provided by Operating Activities:</i>		
Depreciation	119,302	130,613
<i>Changes to Working Capital Increasing (Decreasing) Cash:</i>		
Accounts Receivable and Unbilled Receivables	(1,382)	5,169
Accounts Payable	9,010	(2,206)
Accrued Expenses	961	765
Meter Deposits	1,235	388
Net Cash Flows Provided by Operating Activities	\$ 123,996	\$ 68,703
Supplemental Disclosures of Non Cash Activities		
Capital Asset Purchases Included in Accounts Payable	\$ 162,037	\$ 2,327

The accompanying notes are an integral part of these statements.

COLONIAL PINE HILLS SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

(1) Nature of Activities and Summary of Significant Accounting Policies

Operations

Colonial Pine Hills Sanitary District (the District) provides water to the residents of the Countryside South (CSS) and Whispering Pines (WP) subdivisions in Rapid City, South Dakota. The District collects monthly water payments and maintains the water systems. The District also charges a monthly septic administration fee for maintenance of the sewer system.

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 amounts and disclosures reported in the financial statements. Actual results could differ from those estimates.

Method of Accounting

The District uses the accrual method 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). The accounting policies of the District conform to generally accepted accounting principles applicable to enterprise funds of a government entity. In the Statements 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 reported as components of operating revenues or expenses.

Capital Assets

Capital assets are stated at cost. Donated property and equipment (Countryside South Water System) is stated at the estimated fair market value at the date of the donation. The District capitalizes assets purchased over \$500 and expenses all others. Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Buildings	20-28 Years
Machinery and Equipment	5-15 Years
Well Systems	8-75 Years

Federal Income Tax

Under South Dakota Codified Law, the District is considered to be a sanitary district form of local government, and therefore is not obligated to pay federal income tax.

Cash and Cash Equivalents

The District considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. As of December 31, 2015 and 2014, the District's cash and cash equivalents consisted only of checking, savings, certificates of deposit and money market accounts.

Deposits and Investments

All of the District's accounts are insured or collateralized in the District's name. The District does not have an investment policy that would limit credit risk, custodial credit risk, and interest rate risk. Investments consist of certificates of deposit and are classified as cash and cash equivalents on the balance sheet. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

COLONIAL PINE HILLS SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015 AND 2014

(1) Nature of Activities and Summary of Significant Accounting Policies (Continued)

Deposits and Investments (Continued)

Deposits - The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In General, SDCL 4-5-6 permits District funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; 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 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.

Accounts Receivable

Accounts receivable are recorded at the time revenue is earned and are billed monthly. No interest is accrued on accounts receivable. Receivables older than 30 days are considered delinquent. Management considers all receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is recorded at December 31, 2015 or 2014.

Well Supplies

Well supplies consist of sleeves, pipe, extensions, and wire. The well supplies are stated at the lower of cost or net realizable value.

Equity Classifications

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

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of restricted or invested in capital assets, net of related debt.

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.

COLONIAL PINE HILLS SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

(2) 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. The District managed its risks by purchasing from a commercial insurance carrier liability and property insurance for risks related to torts; theft, damage, or destruction of property; and errors and omissions of public officials, as well as liability insurance for workmen's compensation. 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.

(3) Changes in Capital Assets

Changes in capital assets were as follows during the year ended December 31, 2015:

	Balance December 31, 2013	Additions	Transfers/ Disposals	Balance December 31, 2014
<i>Capital Assets Being Depreciated</i>				
Buildings	\$ 49,356	\$ 4,285	\$ -	\$ 53,641
Machinery and Equipment	175,733	1,585	-	177,318
Well Systems	3,338,443	-	-	3,338,443
	<u>3,563,532</u>	<u>5,870</u>	<u>-</u>	<u>3,569,402</u>
<i>Less Accumulated Depreciation</i>	<u>1,208,798</u>	<u>130,613</u>	<u>-</u>	<u>1,339,411</u>
Net Capital Assets Being Depreciated	\$ 2,354,734	\$ (124,743)	\$ -	\$ 2,229,991
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 111,982	\$ -	\$ -	\$ 111,982
Construction in Progress	104,102	71,946	-	176,048
Total Capital Assets Not Being Depreciated	\$ 216,084	\$ 71,946	\$ -	\$ 288,030

Changes in capital assets were as follows during the year ended December 31, 2015:

	Balance December 31, 2014	Additions	Transfers/ Disposals	Balance December 31, 2015
<i>Capital Assets Being Depreciated</i>				
Buildings	\$ 53,641	\$ -	\$ -	\$ 53,641
Machinery and Equipment	177,318	-	42,198	219,516
Well Systems	3,338,443	-	1,347,649	4,686,092
	<u>3,569,402</u>	<u>-</u>	<u>1,389,847</u>	<u>4,959,249</u>
<i>Less Accumulated Depreciation</i>	<u>1,339,411</u>	<u>119,302</u>	<u>(53,951)</u>	<u>1,404,762</u>
Net Capital Assets Being Depreciated	\$ 2,229,991	\$ (119,302)	\$ 1,443,798	\$ 3,554,487
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 111,982	\$ -	\$ -	\$ 111,982
Construction in Progress	176,048	1,353,646	(1,494,268)	35,426
Total Capital Assets Not Being Depreciated	\$ 288,030	\$ 1,353,646	\$ (1,494,268)	\$ 147,408

COLONIAL PINE HILLS SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

(3) Changes in Capital Assets (Continued)

At December 31, 2014 construction in progress included primarily preliminary costs for equipment and engineering fees related to a new filtration system and pipeline. The District incurred significant expenditures on these projects during 2015 and completed the projects during the year ended December 31, 2015. At December 31, 2015, construction in progress includes engineering fees relating to a pipeline loop project. The District will be evaluating this project for feasibility of completion during future years.

(4) Long-Term Debt

The following is a summary of the changes in long term debt:

Balance -- December 31, 2013	\$ 1,015,306
Principal Borrowings	85,659
Principal Repayments	(64,711)
Balance -- December 31, 2014	1,036,254
Principal Borrowings	1,019,341
Principal Repayments	(69,317)
Balance -- December 31, 2015	\$ 1,986,278

Long-term debt consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
State Revolving Fund Loan, due in quarterly installments of \$11,071 including interest accruing at 3.5 percent, maturing in 2022, secured by a pledge of net water revenue.	\$ 273,874	\$ 307,826
State Revolving Fund Loan, due in quarterly installments of \$12,561 including interest accruing at 3.0 percent, maturing in 2031, secured by a pledge of net water revenue.	613,083	644,348
State Revolving Fund Loan, due in semi annual installments of \$24,766 including interest accruing at 3.0 percent, maturing in 2034, secured by a pledge of property tax revenue.	699,321	84,080
State Revolving Fund Loan, due in quarterly installments of \$6,667 including interest accruing at 3.0 percent, maturing in 2036, secured by a monthly surcharge.	400,000	-
	1,986,278	1,036,254
Less: Current Portion	106,919	65,216
	\$ 1,879,359	\$ 971,038

The annual requirements to amortize all debt outstanding are as follows:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 106,919	\$ 57,143
2017	114,097	56,633
2018	117,748	52,982
2019	121,516	49,214
2020	125,406	45,324
2021-2025	550,351	170,322
2026-2030	540,126	92,106
2031-2035	303,498	21,111
2036	6,617	49
	\$ 1,986,278	\$ 544,884

COLONIAL PINE HILLS SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2015 AND 2014**

(4) Long-Term Debt (Continued)

The District has pledged future revenues associated with its debt agreements. The debt funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Pledged revenues associated with the debt issue have been pledged through the maturity dates listed above. The 2015 principal and interest on the debt was **\$94,512** while the pledged revenue totaled **\$321,889**. The debt agreements require certain financial ratios to be met. At December 31, 2015, the District was in compliance with these debt covenants.

(5) Property Tax

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and are payable in two installments on or before April 30 and October 31 of the following year. The County bills and collects the District's taxes and remits them to the District. State statute allows the tax rates to be raised by special election of the voters.

Property taxes are recorded as receivables in the year that the enforceable legal claim to property taxes arises or when the resources are received, whichever occurs first. Property tax revenue is recognized in the year for which the taxes are levied. Accordingly, taxes levied in October 2014 and October 2015, have not been recorded as a receivable or revenue in the accompanying Balance Sheets and Statements of Revenue, Expenses and Changes in Net Position as the legal claim to the assets and resources were not received until the 2015 and 2016 fiscal years, respectively.

OTHER REPORTS AND SCHEDULES



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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
Colonial Pine Hills Sanitary District
Rapid City, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Colonial Pine Hills Sanitary District** (the District) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 21, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we 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 a 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. We consider the deficiencies described in the accompanying Schedule of Findings as findings #2015-001, #2015-002, and #2015-003 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 resulted in no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

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

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 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by SD Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

June 21, 2016

COLONIAL PINE HILLS SANITARY DISTRICT

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

Material Weaknesses:

2015-001. Financial Statement Preparation

Condition and Cause: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size.

Criteria and Effect: This deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the District's management.

Recommendation: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy. We have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's statements. We are satisfied that the appropriate steps have been taken to provide the District with the completed financial statements. 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 because of cost or other considerations.

Views of Responsible Officials: At this time, the District will accept the degree of risk that is associated with this condition. For future audits, we will continue to monitor the financial statement preparation and determine if any modification can be done to the procedure. The District Manager is responsible for the corrective action plan for this finding.

2015-002. Internal Control over Significant Accounts

Condition and Cause: During the course of our engagement, we proposed material audit adjustments that resulted in a \$185,465 and \$152,165 decrease in reported net income for 2015 and 2014, respectively. Adjustments included recording accrued payroll, accounts payable, accrued interest, capital asset activity, and recording receivables and sales in the correct period.

Criteria and Effect: These adjustments were not identified as a result of the District's existing internal controls, and therefore, could have resulted in a material misstatement of the District's financial statements.

Recommendation: We recommend changes in operations be continually reviewed for potential changes in accounting so that the appropriate entries can be made throughout the year.

Views of Responsible Officials: At this time, the District will accept the degree of risk that is associated with this condition. The District Manager is responsible for the corrective action plan for this finding.

COLONIAL PINE HILLS SANITARY DISTRICT

**SCHEDULE OF FINDINGS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

Material Weaknesses (Continued):

2015-003. Lack of Segregation of Duties

Condition and Cause: The District has a general lack of segregation of duties due to the limited number of staff.

Criteria and Effect: As a result of the inadequate segregation of duties of the District, this deficiency could result in a material misstatement to the financial statements would not be prevented or detected by the District's management.

Recommendation: This is not an uncommon problem in an organization of this size. A proper system of segregation of duties and functions assures adequate internal control over the safeguarding of assets and the reliability of financial records and reporting. Without proper segregation of duties, the likelihood of detection is reduced. We recommend the board designate an individual, the President or the Treasurer, to review the general ledger detail and bank statements, to include the cancelled check images, on a monthly basis. We also recommend the District review time cards for payroll. We recommend the District strive for as much segregation of duties as possible with the limited number of personnel.

Views of Responsible Officials: At this time, the District is aware of the segregation of duties limitations and will evaluate internal controls from time to time as changes in personnel or procedures occur. The District Manager is responsible for the corrective action plan for this finding.

Prior Year Audit Findings:

All of the above findings are repeated from the December 31, 2014 and 2013, Schedule of Findings. Due to feasibility, these deficiencies have not been corrected.