

**GREEN VALLEY
SANITARY DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
AND FINANCIAL STATEMENTS

DECEMBER 31, 2016

CASEY  PETERSON
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

**Green Valley Sanitary District
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December 31, 2016**

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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
Green Valley 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 financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities and the general fund of Green Valley Sanitary District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Green Valley Sanitary District's basic financial statements and have issued our report thereon dated August 11, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow the 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 were not identified. We identified a deficiency in internal control that we consider to be a material weakness, which is described as item 2016-001 on the following page.



Material Weakness

Internal Control Deficiency Over Financial Reporting

2016-001 Drafting the Financial Statements and Notes to the Financial Statements

Condition and Criteria: The District requests their auditors to draft the financial statements and accompanying notes for convenience and due to cost effectiveness. The Board of Directors possess suitable skill, knowledge, and experience to understand the extent of services provided by their auditors and to identify any material misstatements in the financial statements draft by their auditors. However, the District does not have an internal control system to provide for drafting the audited financial statements and rely on their auditors to identify changes in accounting standards for reporting purposes. The auditors bring all changes in financial statement reporting and disclosures to the attention of the Board and the Board makes the final decision on the necessary changes to financial reports.

Cause: This condition is common in an organization of this size due to the limited number of office staff.

Effect: The District engages their auditor to draft the financial statements and notes to the financial statements.

Auditor's Recommendation: We recommend that the Board develop a system of internal controls to ensure proper reporting of the financial statements and notes to the financial statements.

Management Response: Green Valley Sanitary District reviewed and takes responsibility for the financial statements. Due to the limited resources of the District, the preparation of the financial statements and notes will continue to be outsourced. This is a common practice for organizations of similar size and the Board feels comfortable with this practice. The Board does accept the risk associated with the District's auditor drafting the financial statements and related notes.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Green Valley Sanitary District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Green Valley Sanitary District's Response to Findings

Green Valley Sanitary District's response to the finding identified in our audit is shown above. The Green Valley Sanitary 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. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record, and its distribution is not limited.

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota
August 11, 2017

Independent Auditor's Report

To the Board of Directors
Green Valley Sanitary District
Rapid City, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities and general fund of Green Valley Sanitary District, as of and for the year ended December 31, 2016 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and the general fund of Green Valley Sanitary District as of December 31, 2016, and the respective changes in modified cash basis financial position in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2017 on our consideration of Green Valley Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Green Valley Sanitary District's internal control over financial reporting and compliance.

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

Casey Peterson, Ltd.

Rapid City, South Dakota
August 11, 2017

FINANCIAL STATEMENTS

**Green Valley Sanitary District
Governmental Balance Sheet/Statement of Net Position -
Modified Cash Basis
December 31, 2016**

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 6,834	\$ -	\$ 6,834
Restricted Cash:			
For Debt Service	350,014	-	350,014
Water Improvement System	-	4,046,007	4,046,007
Less: Accumulated Depreciation	-	(323,680)	(323,680)
TOTAL ASSETS	<u>356,848</u>	<u>3,722,327</u>	<u>4,079,175</u>
LIABILITIES			
Long-term Liabilities			
Due within One Year	-	59,638	59,638
Due in More Than One Year	-	1,476,992	1,476,992
TOTAL LIABILITIES	<u>-</u>	<u>1,536,630</u>	<u>1,536,630</u>
FUND BALANCE/NET POSITION			
Net Investment in Capital Assets	-	2,185,697	2,185,697
Restricted for:			
Debt Service	350,014	-	350,014
Unassigned/Unrestricted	6,834	-	6,834
TOTAL FUND BALANCE/NET POSITION	<u>356,848</u>	<u>2,185,697</u>	<u>2,542,545</u>
TOTAL LIABILITIES AND FUND BALANCE/NET POSITION	<u>\$ 356,848</u>	<u>\$ 3,722,327</u>	<u>\$ 4,079,175</u>

Total Governmental Fund Balances \$ 356,848

Amounts reported for governmental activities in the Statement of Net Position - Modified Cash Basis are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental activities. 3,722,327

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of special assessment bonds. (1,536,630)

Net Position of Governmental Activities \$ 2,542,545

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

Green Valley Sanitary District
Statement of Cash Receipts and Disbursements/Statement of
Activities - Modified Cash Basis
For the Year Ended December 31, 2016

	General Fund	Adjustments	Statement of Activities
DISBURSEMENTS			
General Government	\$ 19,531	\$ 80,920	\$ 100,451
Debt Principal	58,042	(58,042)	-
Interest Expense	43,853	-	43,853
Total Disbursements	121,426	22,878	144,304
GENERAL RECEIPTS			
Property Taxes	14,989	-	14,989
Special Assessment	115,358	-	115,358
Other Revenue	1,909	-	1,909
Total General Receipts	132,256	-	132,256
CHANGE IN FUND BALANCE/NET POSITION	10,830	(22,878)	(12,048)
FUND BALANCE/NET POSITION - BEGINNING OF YEAR	346,018	2,208,575	2,554,593
FUND BALANCE/NET POSITION - END OF YEAR	\$ 356,848	\$ 2,185,697	\$ 2,542,545
 Total Governmental Fund Net Change in Fund Balance			 \$ 10,830
Amounts reported for governmental activities in the Statement of Activities - Modified Cash Basis are different because:			
Repayment of general obligation debt is an expenditure in the governmental funds but repayment reduces long-term liabilities in the Statement of Net Position.			58,042
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.			(80,920)
Change in Net Position of Governmental Activities			\$ (12,048)

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

Green Valley Sanitary District
Notes to the Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP) as described within this note. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. NATURE OF ACTIVITIES - REPORTING ENTITY

Green Valley Sanitary District (the District) is a general purpose government and the entity included in the financial statements are the funds and accounts that are controlled by or dependent upon the District's governing board. The District completed a water improvement system using grant and loan funds. Green Valley Sanitary District has contracted with Rapid Valley Sanitary District to maintain and operate the system. Rapid Valley Sanitary District will retain all operating revenues and will be responsible for all expenses related to system operation. However, the District will hold the loan that was used to fund the project and pay the debt with special assessment tax collections.

B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Governmental Balance Sheet/Statement of Net Position - Modified Cash Basis displays information about the reporting entity as a whole. These statements include the only fund of the District, the General Fund. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

The Statement of Cash Receipts and Disbursements/Statement of Activities - Modified Cash Basis presents a comparison between direct disbursements and program receipts for each function of the District's governmental activities. Direct disbursements are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program receipts include grants and contributions that are restricted to meeting the capital requirements of a particular program. Receipts that are not classified as program revenues, including all taxes, are presented as general receipts.

Fund Financial Statements:

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

Governmental Funds:

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

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Green Valley Sanitary District
Notes to the Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus

Government-Wide Financial Statements:

In the government-wide Statement of Net Position - Modified Cash Basis and Statement of Activities - Modified Cash Basis, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is used, applied within the limitations of the modified cash basis of accounting.

Basis of Accounting

In the government-wide Statement of Net Position - Modified Cash Basis and Statement of Activities - Modified Cash Basis and the fund financial statements, governmental and business-type activities are presented using the modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the balance sheet reports only cash and cash equivalents (those investments with terms to maturity of 90 days or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed.

Acceptable modifications to the cash basis of accounting include the reporting of capital assets and related depreciation expense and outstanding debt obligations on the government-wide financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the District applied accounting principles generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. RESTRICTED CASH

The District is required by state and federal agencies to maintain a separate bank account for depositing capital grant receipts and debt proceeds and administering payments for water system related expenses. All proceeds from the agencies are to be used specifically for improvements to the District's water system. An account is established to receipt Special Assessment collections for payments due related to bond proceeds. These receipts and disbursements have been administered by the General Fund and have been presented in the governmental activities of the financial statements. Included in cash, net position and fund balance at the end of the year are amounts unexpended and restricted for debt, totaling \$350,014 at December 31, 2016.

Green Valley Sanitary District
Notes to the Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. 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 90 days or less.

F. CAPITAL ASSETS/WATER SYSTEMS

All costs relating to major water projects are capitalized at cost.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The estimated useful life for water system is 50 years.

Capital assets used in governmental fund operations are accounted for as capital expenditures upon acquisition.

G. LONG-TERM LIABILITIES

Long-term liabilities are reported as liabilities in the government-wide financial statements. Long-term liabilities consist of special assessment bonds payable. In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due.

H. PROGRAM RECEIPTS

Program receipts derive directly from the program itself or from parties other than the District's taxpayers or citizenry as a whole. Program receipts are classified into two categories as follows:

1. Program-specific Operating Grants and Contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
2. Program-specific Capital Grants and Contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

I. REVENUE RECEIVED IN ADVANCE

Under the cash basis of accounting, cash may have been received in advance of the District's providing a good or service to a customer. These amounts are reported in the financial statements, as applicable.

J. EQUITY CLASSIFICATIONS

Government-wide Financial Statements:

Equity is classified as net position and is displayed in three components under the modified cash basis:

Net Investment in Capital Assets - Consist of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of capital outlay certificates 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 its 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.

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

Green Valley Sanitary District
Notes to the Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

It is the District's policy to first use restricted net position prior to the use of unrestricted net position when a disbursement is made for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements

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

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

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

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by resolutions of the District Commissioners.

Assigned - Amounts that are constrained by the District management and are intended to be used for specific purposes but are neither restricted nor committed. The District Commissioners have given management the authority to create assignments of fund equity.

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

The District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

NOTE 2 - DEPOSITS AND INVESTMENTS

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are as follows:

Deposits

The District's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1 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.

**Green Valley Sanitary District
Notes to the Financial Statements
December 31, 2016**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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; including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by 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 and meeting the requirements of §4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities act of 1933 and whose only investments are in securities described in (a) above and repurchase agreements described in (b) above.

The District did not hold any investments as of December 31, 2016.

Credit Risk - Credit risk is the risk that the District will not recover its investments due to the inability of the counter-party to fulfill its obligation. The District does not have a policy for credit risk.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2016, none of the District's deposits were exposed to custodial credit risk.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not have a policy for concentration of credit risk.

NOTE 3 - PROPERTY TAXES

Property taxes are levied on or before October 1 of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable on or before April 30 of the fiscal year. The District is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the District.

NOTE 4 - LONG-TERM DEBT

The following is a summary of changes in long-term liabilities for the year ended December 31, 2016:

	<u>Balance 12/31/15</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 12/31/16</u>	<u>Amounts Due Within 1 Year</u>
Governmental Activities:					
Special Assessment Bond	<u>\$ 1,594,672</u>	<u>\$ -</u>	<u>\$ (58,042)</u>	<u>\$ 1,536,630</u>	<u>\$ 59,638</u>

**Green Valley Sanitary District
Notes to the Financial Statements
December 31, 2016**

NOTE 4 - LONG-TERM DEBT (CONTINUED)

The Special Assessment Bond was created in April 2012 for the purpose of paying a portion of the cost of water improvements for the District with an original principal amount of \$1,773,000. The first annual payment was made on April 16, 2013 and will continue each April in the amount of \$101,895 including interest at 2.75% per annum. For the year ended December 31, 2016, the District's interest expense totaled \$43,853. The final payment is due April 2036. The Special Assessments collected are restricted to the purpose of paying this debt.

Principal and interest requirements to retire the District's Special Assessment Bond are as follows:

	Principal	Interest	Total
2017	\$ 59,638	\$ 42,257	\$ 101,895
2018	61,278	40,617	101,895
2019	62,963	38,932	101,895
2020	64,694	37,201	101,895
2021	66,473	35,422	101,895
2022 - 2026	360,814	148,661	509,475
2027 - 2031	413,231	96,245	509,476
2032 - 2036	447,539	36,213	483,752
	\$ 1,536,630	\$ 475,548	\$ 2,012,178

The District is required to establish and fund annually a debt service reserve fund equal to 10% or \$10,754 per year, of the annual payment each year over the life of the loan until one annual installment is accumulated. The reserve is required to establish an emergency fund for debt repayment should the need arise. As of December 31, 2016, the reserve account was established and fully funded.

NOTE 5 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2016 is as follows:

	Balance 12/31/15	Increase	Decrease	Balance 12/31/16
Capital Assets Being Depreciated:				
Water Improvement System	\$ 4,046,007	\$ -	\$ -	\$ 4,046,007
Less: Accumulated Depreciation	(242,760)	(80,920)	-	(323,680)
Net Depreciable Capital Assets	\$ 3,803,247	\$ (80,920)	\$ -	\$ 3,722,327

NOTE 6 - RISK MANAGEMENT

The District purchases liability insurance from a commercial insurance carrier as required by outstanding loans for risks related to torts, theft or damage to property, and errors and omissions related to officers. Claims resulting from these risks have not exceeded the District's liability coverage.

**Green Valley Sanitary District
Notes to the Financial Statements
December 31, 2016**

NOTE 7 - RESTRICTED NET POSITION

The following table shows restricted net position at December 31, 2016 and the purpose of such restrictions as shown in the Statement of Net Position - Modified Cash Basis:

<u>Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Major Purpose:		
Debt Service	Debt Covenants	<u>\$ 350,014</u>

NOTE 8 - SUBSEQUENT EVENTS

The District did not have subsequent events requiring disclosure in the financial statements through the date of the independent auditor's report, which is the date the financial statements were available to be issued.