

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

AUDIT REPORT

For the Two Years Ended December 31, 2013

LEAD-DEADWOOD SANITARY DISTRICT NO. 1
DISTRICT OFFICIALS
December 31, 2013

Manager:
Francis Toscana, District Manager

Governing Board:
Jackson Pahl, President
Malcolm Allen
Justin (Thad) Fuller
Rocky Rantapaa
Georgeann Silvernail

District Clerk:
Julianne Evenson

District Attorney:
Thomas Adams

LEAD-DEADWOOD SANITARY DISTRICT NO. 1
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

Board of Trustees
Lead-Deadwood Sanitary District No. 1
Deadwood, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund of the Lead-Deadwood Sanitary District No. 1, Deadwood, South Dakota (District), as of December 31, 2013 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 opinions 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

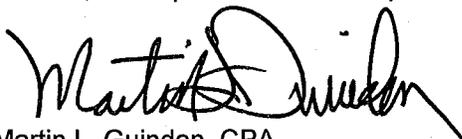
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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*.

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 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.



Martin L. Guindon, CPA
Auditor General

May 27, 2014

LEAD-DEADWOOD SANITARY DISTRICT NO. 1
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Audit Findings:

The prior audit report contained no written audit findings.

SCHEDULE OF CURRENT AUDIT FINDINGS

Current Audit Findings:

There are no written current audit findings to report.



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Lead-Deadwood Sanitary District No. 1
Deadwood, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the Lead-Deadwood Sanitary District No. 1, Deadwood, South Dakota (District), as of December 31, 2013 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Lead-Deadwood Sanitary District No. 1 as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for each of the years in the biennial period then ended in accordance with accounting principles generally accepted in the United States of America.

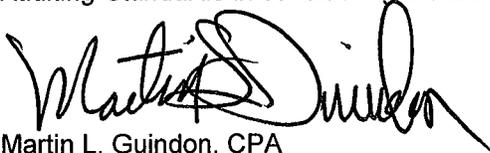
Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2014 on our consideration of the 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 and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

May 27, 2014

LEAD-DEADWOOD SANITARY DISTRICT NO. 1
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2013

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 1,518,843.05	\$ 260,844.35	\$ 1,779,687.40
Investments	762,000.00	1,077,251.79	1,839,251.79
Accounts Receivable, Net	52,484.51	18,536.74	71,021.25
Taxes Receivable--Delinquent	2,573.40	4,579.36	7,152.76
Prepaid Expenses	172.00	241.20	413.20
Total Current Assets	2,336,072.96	1,361,453.44	3,697,526.40
Noncurrent Assets:			
Easements		5,000.00	5,000.00
Capital Assets:			
Land	860,000.00	210,757.63	1,070,757.63
Construction in Progress	65,985.88		65,985.88
Buildings	5,526,286.93	8,110,308.07	13,636,595.00
Improvements Other Than Buildings	10,892,461.50		10,892,461.50
Machinery and Equipment	197,698.60	685,027.32	882,725.92
Less: Accumulated Depreciation (Credit)	(4,089,923.40)	(6,077,020.61)	(10,166,944.01)
Total Noncurrent Assets	13,452,509.51	2,934,072.41	16,386,581.92
TOTAL ASSETS	\$ 15,788,582.47	\$ 4,295,525.85	\$ 20,084,108.32
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 9,870.46	\$ 23,504.58	\$ 33,375.04
Revenue Collected in Advance		6,185.17	6,185.17
Unearned Revenue	2,573.40	4,579.36	7,152.76
Total Current Liabilities	12,443.86	34,269.11	46,712.97
Noncurrent Liabilities:			
Bonds Payable:			
General Obligation	915,000.00		915,000.00
Rural Water Association Loan	49,733.39		49,733.39
Accrued Leave Payable		28,899.71	28,899.71
Total Noncurrent Liabilities	964,733.39	28,899.71	993,633.10
NET POSITION:			
Net Investment in Capital Assets	12,537,509.51	2,929,072.41	15,466,581.92
Unrestricted	2,273,895.71	1,303,284.62	3,577,180.33
Total Net Position	14,811,405.22	4,232,357.03	19,043,762.25
TOTAL LIABILITIES AND NET POSITION	\$ 15,788,582.47	\$ 4,295,525.85	\$ 20,084,108.32

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

LEAD-DEADWOOD SANITARY DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2013

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenues:			
Charges for Goods and Services	\$ 730,917.17	\$ 843,229.72	\$ 1,574,146.89
Miscellaneous	1,500.00	1,942.90	3,442.90
Total Operating Revenues	732,417.17	845,172.62	1,577,589.79
Operating Expenses:			
Personal Services	212,299.15	456,906.90	669,206.05
Other Current Expense	173,194.25	367,333.74	540,527.99
Depreciation	342,183.31	179,850.43	522,033.74
Total Operating Expenses	727,676.71	1,004,091.07	1,731,767.78
Operating Income (Loss)	4,740.46	(158,918.45)	(154,177.99)
Nonoperating Revenues (Expenses):			
Investment Earnings	1,306.18	3,860.25	5,166.43
Interest Expense and Fiscal Charges	(12,057.79)		(12,057.79)
Property Taxes	212,047.31	17,785.83	229,833.14
Total Nonoperating Revenues (Expenses)	201,295.70	21,646.08	222,941.78
Change in Net Position	206,036.16	(137,272.37)	68,763.79
Net Position - Beginning	14,605,369.06	4,369,629.40	18,974,998.46
NET POSITION - ENDING	\$ 14,811,405.22	\$ 4,232,357.03	\$ 19,043,762.25

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

LEAD-DEADWOOD SANITARY DISTRICT NO. 1
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2013

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Receipts from Customers	\$ 732,417.17	\$ 845,172.62	\$ 1,577,589.79
Cash Payments to Employees for Services	(212,299.15)	(456,906.90)	(669,206.05)
Cash Payments to Suppliers of Goods and Services	(168,736.81)	(352,608.49)	(521,345.30)
Net Cash Provided (Used) by Operating Activities	<u>351,381.21</u>	<u>35,657.23</u>	<u>387,038.44</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Property Taxes	<u>212,047.31</u>	<u>17,785.83</u>	<u>229,833.14</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Capital Assets	(65,985.88)	(381,124.00)	(447,109.88)
Principal Paid on Capital Debt	(189,951.27)		(189,951.27)
Interest Paid on Capital Debt	(12,057.79)		(12,057.79)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(267,994.94)</u>	<u>(381,124.00)</u>	<u>(649,118.94)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investment Securities	(762,000.00)	(1,077,251.79)	(1,839,251.79)
Proceeds from Sales and Maturities of Investments	761,000.00	1,057,319.25	1,818,319.25
Interest Earnings	1,306.18	3,860.25	5,166.43
Net Cash Provided by Investing Activities	<u>306.18</u>	<u>(16,072.29)</u>	<u>(15,766.11)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	295,739.76	(343,753.23)	(48,013.47)
Balances - Beginning	<u>1,223,103.29</u>	<u>604,597.58</u>	<u>1,827,700.87</u>
Balances - Ending	<u>\$ 1,518,843.05</u>	<u>\$ 260,844.35</u>	<u>\$ 1,779,687.40</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ 4,740.46	\$ (158,918.45)	\$ (154,177.99)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	342,183.31	179,850.43	522,033.74
Change in Assets and Liabilities:			
Accounts and Other Payables	4,457.44	14,725.25	19,182.69
Net Cash Provided (Used) by Operating Activities	<u>\$ 351,381.21</u>	<u>\$ 35,657.23</u>	<u>\$ 387,038.44</u>

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

LEAD-DEADWOOD SANITARY DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenues:			
Charges for Goods and Services	\$ 691,900.00	\$ 834,305.44	\$ 1,526,205.44
Miscellaneous	1,200.00	11,072.38	12,272.38
Total Operating Revenues	693,100.00	845,377.82	1,538,477.82
Operating Expenses:			
Personal Services	238,319.08	415,413.81	653,732.89
Other Current Expense	141,877.57	388,733.05	530,610.62
Depreciation	340,776.16	178,482.38	519,258.54
Total Operating Expenses	720,972.81	982,629.24	1,703,602.05
Operating Income (Loss)	(27,872.81)	(137,251.42)	(165,124.23)
Nonoperating Revenues (Expenses):			
Investment Earnings	3,205.13	7,674.20	10,879.33
Interest Expense and Fiscal Charges	(189,433.09)		(189,433.09)
Gain (Loss) on Disposition of Assets		117,350.00	117,350.00
Property Taxes	208,971.39	21,961.43	230,932.82
Total Nonoperating Revenues (Expenses)	22,743.43	146,985.63	169,729.06
Change in Net Position	(5,129.38)	9,734.21	4,604.83
Net Position - Beginning	14,610,498.44	4,359,895.19	18,970,393.63
NET POSITION - ENDING	\$ 14,605,369.06	\$ 4,369,629.40	\$ 18,974,998.46

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

LEAD-DEADWOOD SANITARY DISTRICT NO. 1
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Receipts from Customers	\$ 691,296.76	\$ 847,511.75	\$ 1,538,808.51
Cash Payments to Employees for Services	(238,319.08)	(415,413.81)	(653,732.89)
Cash Payments to Suppliers of Goods and Services	(143,036.63)	(397,168.74)	(540,205.37)
Net Cash Provided (Used) by Operating Activities	<u>309,941.05</u>	<u>34,929.20</u>	<u>344,870.25</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Property Taxes	<u>208,971.39</u>	<u>21,961.43</u>	<u>230,932.82</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from Sales of Capital Assets		117,350.00	117,350.00
Purchase of Capital Assets	(84,431.00)	(84,431.00)	(168,862.00)
Principal Paid on Capital Debt	(134,517.19)		(134,517.19)
Interest Paid on Capital Debt	(86,987.63)		(86,987.63)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(305,935.82)</u>	<u>32,919.00</u>	<u>(273,016.82)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investment Securities	(761,000.00)	(1,057,319.25)	(1,818,319.25)
Proceeds from Sales and Maturities of Investments	758,206.00	1,054,490.22	1,812,696.22
Interest Earnings	3,205.13	7,674.20	10,879.33
Net Cash Provided by Investing Activities	<u>411.13</u>	<u>4,845.17</u>	<u>5,256.30</u>
Net Increase (Decrease) in Cash and Cash Equivalents	213,387.75	94,654.80	308,042.55
Balances - Beginning	<u>1,009,715.54</u>	<u>509,942.78</u>	<u>1,519,658.32</u>
Balances - Ending	<u>\$ 1,223,103.29</u>	<u>\$ 604,597.58</u>	<u>\$ 1,827,700.87</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ (27,872.81)	\$ (137,251.42)	\$ (165,124.23)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	340,776.16	178,482.38	519,258.54
Change in Assets and Liabilities:			
Receivables	(1,803.24)	2,133.93	330.69
Accounts and Other Payables	(1,159.06)	(8,435.69)	(9,594.75)
Net Cash Provided (Used) by Operating Activities	<u>\$ 309,941.05</u>	<u>\$ 34,929.20</u>	<u>\$ 344,870.25</u>

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

LEAD-DEADWOOD SANITARY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the Lead-Deadwood Sanitary District No. 1 (District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial statements to be misleading or incomplete.

The District was created in 1979 under authority of South Dakota Codified Law (SDCL) 34A-5 to provide water and sewer service to the cities of Lead and Deadwood.

The funds included in this report are controlled by or dependent upon the District's governing Board.

b. Basis of Presentation:

The District is considered a special-purpose government engaged only in Business-Type (Enterprise) activities and thus are only required to present the following as its basic financial statements:

- a. Management Discussion and Analysis (MD&A) (Which the District has elected not to present.)
- b. Enterprise Fund Financial Statements
 - 1. Statement of Net Position
 - 2. Statement of Revenues, Expenses and Changes in Fund Net Position
 - 3. Statement of Cash Flows
- c. Notes to the Financial Statements

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

The funds of the District financial reporting entity are described below:

Proprietary Funds:

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

- a. *The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected*

to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)

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

Water Fund – financed primarily by user charges this fund accounts for the construction and operation of the waterworks system and related facilities. (SDCL 9-47-1) This is a major fund.

Sewer Fund – financed primarily by user charges this fund accounts for the construction and operation of the sanitary sewer system and related facilities. (SDCL 9-48-2) This is 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.

Measurement Focus:

The fund financial statements are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Basis of Accounting:

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

d. Deposits and Investments:

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

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

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. *Infrastructure assets* are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2013 balance of capital assets are valued at original cost.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the District. Infrastructure assets acquired since January 1, 2004 are recorded at cost and classified as "Improvements Other Than Buildings."

For capital assets used in proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an operating expense in the financial statements, with capital assets and accumulated depreciation reported on each proprietary fund's Statement of Net Position.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land and Land Rights	\$ 1,000.00	-----N/A-----	-----N/A-----
Buildings	\$ 1,000.00	Straight-line	50 years
Improvements Other Than Buildings	\$ 1,000.00	Straight-line	50 years
Machinery and Equipment	\$ 1,000.00	Straight-line	5-25 years

Land and land rights are an inexhaustible capital asset and are not depreciated.

f. Long-Term Liabilities:

All long-term liabilities to be repaid from business-type resources are reported as liabilities in the fund financial statements. The long-term liabilities primarily consist of general obligation bonds, loans, and compensated absences.

g. Proprietary Funds Revenue and Expense Classifications:

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

h. Cash and Cash Equivalents:

For the purposes of the proprietary funds' Statement of Cash Flows, the District considers all highly liquid investments as deposits (including restricted assets) with a term to maturity at date of acquisition of three months or less to be cash equivalents.

i. Equity Classifications:

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

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Unrestricted Net Position – All other net position that do not meet the definition of “net investment in capital assets.”

j. Application of Net Position:

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

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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 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 may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The District has all of its deposit in demand accounts, money market accounts, and certificates of deposit with local financial institutions. The District has no investments.

Assignment of Investment Income – The District's policy is to credit all income from investments to the fund making the investment.

3. RECEIVABLES AND PAYABLES

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

4. UNEARNED REVENUE

Reported unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

5. 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 the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The District is permitted by several state statutes to levy an unlimited amount of taxes per \$1,000 of taxable valuation on taxable real property in the District.

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the two years ended December 31, 2013 is as follows:

	Balance 1/1/2012	Increases	Decreases	Balance 12/31/2013
Capital Assets Not Being Depreciated:				
Land and Land Rights	\$ 870,542.63	\$ 200,215.00	\$	\$ 1,070,757.63
Construction in Progress		65,985.88		65,985.88
Total Capital Assets Not Being Depreciated	870,542.63	266,200.88	0.00	1,136,743.51
Capital Assets Being Depreciated:				
Buildings and Facilities	13,636,595.00			13,636,595.00
Infrastructure (Improvements Other Than Buildings)	10,892,461.50			10,892,461.50
Machinery and Equipment	532,954.92	349,771.00		882,725.92
Total Capital Assets Being Depreciated	25,062,011.42	349,771.00	0.00	25,411,782.42
Less Accumulated Depreciation For:				
Buildings and Facilities	(7,051,516.48)	(527,253.16)		(7,578,769.64)
Infrastructure (Improvements Other Than Buildings)	(1,830,216.70)	(435,698.46)		(2,265,915.16)
Machinery and Equipment	(243,918.55)	(78,340.66)		(322,259.21)
Total Accumulated Depreciation	(9,125,651.73)	(1,041,292.28)	0.00	(10,166,944.01)
Total Capital Assets Being Depreciated, Net	15,936,359.69	(691,521.28)	0.00	15,244,838.41
Total Capital Assets, Net	\$ 16,806,902.32	\$ (425,320.40)	\$ 0.00	\$ 16,381,581.92

Depreciation expense was charged to functions as follows:

Water Fund	\$ 682,959.47
Sewer Fund	358,332.81
Total Depreciation Expense	\$ 1,041,292.28

Construction Work in Progress at December 31, 2013 is composed of the following:

Project Name	Project Authorization	Expended thru 12/31/2013	Committed
Filter Media Replacement	\$ 97,625.00	\$ 65,985.88	\$ 31,639.12

7. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Balance 1/1/2012	Additions	Reductions	Balance 12/31/2013	Due Within One Year
Bonds and Loans Payable:					
General Obligation Debt	\$ 1,220,000.00	\$ 1,095,000.00	\$ (1,400,000.00)	\$ 915,000.00	\$ 180,000.00
Rural Water Association Loan	69,201.85		(19,468.46)	49,733.39	10,411.70
Other Liabilities:					
Compensated Absences	32,226.76		(3,327.05)	28,899.71	
Total Long-Term Liabilities	\$ 1,321,428.61	\$ 1,095,000.00	\$ (1,422,795.51)	\$ 993,633.10	\$ 190,411.70

In 2012 the District issued \$1,095,000 in General Obligation Water Revenue bonds with an average interest rate of 1.053 percent to refund the following:

Date Issued	Project	Average Interest Rate	Unpaid Principal At Time of Refunding
2002	Water Revenue Refunding	3.786%	\$ 1,065,000

The entire proceeds of the refunding issue in the amount of \$1,066,342.31 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service requirements on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the District's Water Fund records.

The District refunded the debt to reduce its total debt service payments over the next six years by \$82,239.41 and to obtain an economic gain of \$80,014.28.

Debt payable at December 31, 2013 is comprised of the following:

General Obligation Bonds:

2012 Water Revenue Bonds, Maturing July 1, 2018, Interest Rate of 0.45% to 1.35%, Payable from Water Fund \$ 915,000.00

National Rural Water SRF Loan, Maturing July 1, 2018, Interest Rate of 4.5%, Payable from Water Fund \$ 49,733.39

Compensated Absences:

Accumulated Unpaid Vacation Leave \$ 28,899.71

Payment to be made by the fund that the payroll expenses are charged to.

The annual requirements to amortize all debt outstanding as of December 31, 2013, except for compensated absences are as follows:

Annual Requirements to Amortize Long-Term Debt
December 31, 2013

Year Ending Dec. 31,	General Obligation Water Revenue Bonds		Rural Water Association Loan	
	Principal	Interest	Principal	Interest
2014	\$ 180,000.00	\$ 8,537.50	\$ 10,414.82	\$ 2,024.86
2015	185,000.00	7,121.26	10,890.00	1,546.56
2016	180,000.00	5,480.00	11,390.29	1,046.27
2017	185,000.00	3,561.25	11,913.56	523.00
2018	185,000.00	1,248.75	5,124.72	57.18
Total	<u>\$ 915,000.00</u>	<u>\$ 25,948.76</u>	<u>\$ 49,733.39</u>	<u>\$ 5,197.87</u>

Year Ending Dec. 31,	Totals		Total Principal and Interest
	Principal	Interest	
2014	\$ 190,414.82	\$ 10,562.36	\$ 200,977.18
2015	195,890.00	8,667.82	204,557.82
2016	191,390.29	6,526.27	197,916.56
2017	196,913.56	4,084.25	200,997.81
2018	190,124.72	1,305.93	191,430.65
Total	<u>\$ 964,733.39</u>	<u>\$ 31,146.63</u>	<u>\$ 995,880.02</u>

8. RETIREMENT PLAN

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2013, 2012, and 2011 were \$27,993.87, \$26,166.66, and \$28,441.72, respectively, equal to the required contributions each year.

9. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2013, the District was not involved in any litigation.

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2013, the District managed its risks as follows:

Employee Health Insurance:

The District purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The District joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control, and risk reduction information, and to obtain lower costs for that coverage. The District's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the District. The District pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The District pays an annual premium to the pool to provide coverage for:

- General Liability Coverage
- Vehicle Coverage
- Errors and Omissions of Officials and Employees

The agreement with the SDPAA provides that the above coverages will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The District would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of District's First Full Year	50%
End of District's Second Full Year	60%
End of District's Third Full Year	70%
End of District's Fourth Full Year	80%
End of District's Fifth Full Year	90%
End of District's Sixth Full Year and Thereafter	100%

As of December 31, 2013, the District has vested balance in the cumulative reserve fund of \$26,293.27.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The District joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The District pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended December 31, 2013 no claims for unemployment benefits were paid. At December 31, 2013 no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.