

**LEAD-DEADWOOD SANITARY DISTRICT NO. 1**

**AUDIT REPORT**

**For the Two Years Ended December 31, 2015**

LEAD-DEADWOOD SANITARY DISTRICT NO. 1  
DISTRICT OFFICIALS  
December 31, 2015

Governing Board:  
Justin (Thad) Fuller  
Bruce Oberlander  
Jackson Pahl  
Georgeann Silvernail  
Rocky Rantapaa

Manager:  
Terry Wolterstorff

District Clerk:  
Julianne Evenson

District Attorney:  
Tom Adam

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427 SOUTH CHAPELLE  
C/O 500 EAST CAPITOL  
PIERRE SD 57501-5070  
(605) 773-3595

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, 2015, 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 April 25, 2017.

***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.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with a large initial "M" and "G".

Martin L. Guindon, CPA  
Auditor General

April 25, 2017

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, 2015, 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, 2015, 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*

Accounting principles generally accepted in the United States of America require that the Schedule of the District's Contributions and the Schedule of the District's Proportionate Share of the Net Pension Liability (Asset) on pages 25 through 26, 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.

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 April 25, 2017, 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

April 25, 2017



**LEAD-DEADWOOD SANITARY DISTRICT NO. 1**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**December 31, 2015**

|   | <b>Enterprise Funds</b>        |                               | <b>Totals</b>                  |
|---|--------------------------------|-------------------------------|--------------------------------|
|   | <b>Water<br/>Fund</b>          | <b>Sewer<br/>Fund</b>         |                                |
| <b>ASSETS:</b>                              |                                |                               |                                |
| Current Assets:                             |                                |                               |                                |
| Cash and Cash Equivalents                   | \$ 2,076,324.43                | \$ 499,156.39                 | \$ 2,575,480.82                |
| Investments                                 | 765,000.00                     | 1,088,391.99                  | 1,853,391.99                   |
| Accounts Receivable, Net                    | 52,484.51                      | 80,519.25                     | 133,003.76                     |
| Property Taxes Receivable--Delinquent       | 7,411.34                       | 575.02                        | 7,986.36                       |
| Prepaid Expenses                            | 959.49                         | 1,519.39                      | 2,478.88                       |
| Total Current Assets                        | <u>2,902,179.77</u>            | <u>1,670,162.04</u>           | <u>4,572,341.81</u>            |
| Noncurrent Assets:                          |                                |                               |                                |
| Net Pension Asset                           | 41,016.28                      | 74,816.20                     | 115,832.48                     |
| Capital Assets:                             |                                |                               |                                |
| Land  | 860,000.00                     | 210,757.63                    | 1,070,757.63                   |
| Intangible Assets                           | 1,500,000.00                   | 5,000.00                      | 1,505,000.00                   |
| Construction Work in Progress               |                                | 17,979.22                     | 17,979.22                      |
| 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                     | 367,667.58                     | 675,418.95                    | 1,043,086.53                   |
| Less: Accumulated Depreciation (Credit)     | <u>(4,830,140.21)</u>          | <u>(6,393,555.15)</u>         | <u>(11,223,695.36)</u>         |
| Total Noncurrent Assets                     | <u>14,357,292.08</u>           | <u>2,700,724.92</u>           | <u>17,058,017.00</u>           |
| <b>TOTAL ASSETS</b>                         | <u><b>\$ 17,259,471.85</b></u> | <u><b>\$ 4,370,886.96</b></u> | <u><b>\$ 21,630,358.81</b></u> |
| <b>DEFERRED OUTFLOWS OF RESOURCES:</b>      |                                |                               |                                |
| Pension Related Deferred Outflows           | \$ 72,109.65                   | \$ 130,106.60                 | \$ 202,216.25                  |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b> | <u><b>\$ 72,109.65</b></u>     | <u><b>\$ 130,106.60</b></u>   | <u><b>\$ 202,216.25</b></u>    |
| <b>LIABILITIES:</b>                         |                                |                               |                                |
| Current Liabilities:                        |                                |                               |                                |
| Accounts Payable                            | \$ 362.89                      | \$ 5,794.48                   | \$ 6,157.37                    |
| Unearned Revenue                            |                                | 6,185.17                      | 6,185.17                       |
| Total Current Liabilities                   | <u>362.89</u>                  | <u>11,979.65</u>              | <u>12,342.54</u>               |
| Noncurrent Liabilities:                     |                                |                               |                                |
| Bonds Payable:                              |                                |                               |                                |
| General Obligation                          | 550,000.00                     |                               | 550,000.00                     |
| Rural Water Association Loan                | 28,352.21                      |                               | 28,352.21                      |
| Accrued Leave Payable                       |                                | 28,899.71                     | 28,899.71                      |
| Total Noncurrent Liabilities                | <u>578,352.21</u>              | <u>28,899.71</u>              | <u>607,251.92</u>              |
| <b>TOTAL LIABILITIES</b>                    | <u><b>\$ 578,715.10</b></u>    | <u><b>\$ 40,879.36</b></u>    | <u><b>\$ 619,594.46</b></u>    |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>       |                                |                               |                                |
| Pension Related Deferred Inflows            | \$ 62,024.65                   | \$ 113,136.74                 | \$ 175,161.39                  |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>  | <u><b>\$ 62,024.65</b></u>     | <u><b>\$ 113,136.74</b></u>   | <u><b>\$ 175,161.39</b></u>    |

**LEAD-DEADWOOD SANITARY DISTRICT NO. 1**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**December 31, 2015**  
**(Continued)**

|                                  | <u>Enterprise Funds</u>        |                               | <u>Totals</u>                  |
|----------------------------------|--------------------------------|-------------------------------|--------------------------------|
|                                  | <u>Water<br/>Fund</u>          | <u>Sewer<br/>Fund</u>         |                                |
| <b>NET POSITION:</b>             |                                |                               |                                |
| Net Investment in Capital Assets | \$ 13,737,923.59               | \$ 2,625,908.72               | \$ 16,363,832.31               |
| Restricted For:                  |                                |                               |                                |
| SDRS Pension Purposes            | 51,101.28                      | 91,786.06                     | 142,887.34                     |
| Unrestricted                     | <u>2,901,816.88</u>            | <u>1,629,282.68</u>           | <u>4,531,099.56</u>            |
| <b>TOTAL NET PENSION</b>         | <u><u>\$ 16,690,841.75</u></u> | <u><u>\$ 4,346,977.46</u></u> | <u><u>\$ 21,037,819.21</u></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, 2015**

|  | <b>Enterprise Funds</b>        |                               | <b>Totals</b>                  |
|--|--------------------------------|-------------------------------|--------------------------------|
|  | <b>Water<br/>Fund</b>          | <b>Sewer<br/>Fund</b>         |                                |
| <b>Operating Revenues:</b>               |                                |                               |                                |
| Charges for Goods and Services           | \$ 663,902.00                  | \$ 992,001.72                 | \$ 1,655,903.72                |
| Miscellaneous                            |                                | 2,714.28                      | 2,714.28                       |
| Total Operating Revenues                 | <u>663,902.00</u>              | <u>994,716.00</u>             | <u>1,658,618.00</u>            |
| <b>Operating Expenses:</b>               |                                |                               |                                |
| Personal Services                        | 245,040.09                     | 452,745.77                    | 697,785.86                     |
| Other Current Expense                    | 180,616.84                     | 375,047.22                    | 555,664.06                     |
| Depreciation                             | 356,011.83                     | 184,790.10                    | 540,801.93                     |
| Total Operating Expenses                 | <u>781,668.76</u>              | <u>1,012,583.09</u>           | <u>1,794,251.85</u>            |
| Operating Income (Loss)                  | <u>(117,766.76)</u>            | <u>(17,867.09)</u>            | <u>(135,633.85)</u>            |
| <b>Nonoperating Revenues (Expenses):</b> |                                |                               |                                |
| Investment Earnings                      | 1,060.42                       | 4,237.17                      | 5,297.59                       |
| Interest Expense                         | (8,626.98)                     |                               | (8,626.98)                     |
| Property Taxes                           | 248,737.96                     | 19,298.62                     | 268,036.58                     |
| Total Nonoperating Revenues (Expenses)   | <u>241,171.40</u>              | <u>23,535.79</u>              | <u>264,707.19</u>              |
| Change in Net Position                   | <u>123,404.64</u>              | <u>5,668.70</u>               | <u>129,073.34</u>              |
| Net Position - Beginning                 | 16,523,780.12                  | 4,261,675.74                  | 20,785,455.86                  |
| Adjustments: (See Note 8)                |                                |                               |                                |
| GASB 68 Pension Reporting                | 43,656.99                      | 79,633.02                     | 123,290.01                     |
| Adjusted Net Position - Beginning        | <u>16,567,437.11</u>           | <u>4,341,308.76</u>           | <u>20,908,745.87</u>           |
| <b>NET POSITION - ENDING</b>             | <u><u>\$ 16,690,841.75</u></u> | <u><u>\$ 4,346,977.46</u></u> | <u><u>\$ 21,037,819.21</u></u> |

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, 2015**

|   | <b>Enterprise Funds</b> |                       |                        |
|---|-------------------------|-----------------------|------------------------|
|   | <b>Water<br/>Fund</b>   | <b>Sewer<br/>Fund</b> | <b>Totals</b>          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                         |                       |                        |
| Cash Receipts from Customers  | \$ 663,902.00           | \$ 989,132.09         | \$ 1,653,034.09        |
| Other Operating Cash Receipts   |                         | 2,714.28              | 2,714.28               |
| Cash Payments to Employees for Services   | (252,484.38)            | (464,898.81)          | (717,383.19)           |
| Cash Payments to Suppliers of Goods and Services  | (181,146.17)            | (369,794.43)          | (550,940.60)           |
| Net Cash Provided (Used) by Operating Activities  | <u>230,271.45</u>       | <u>157,153.13</u>     | <u>387,424.58</u>      |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>   |                         |                       |                        |
| Property Taxes  | <u>241,326.62</u>       | <u>18,723.60</u>      | <u>260,050.22</u>      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>  |                         |                       |                        |
| Purchase of Capital Assets  | (6,529.28)              | (24,247.79)           | (30,777.07)            |
| Principal Paid on Capital Debt  | (195,930.43)            |                       | (195,930.43)           |
| Interest Paid on Capital Debt   | (8,626.98)              |                       | (8,626.98)             |
| Net Cash (Used) by Capital and Related Financing Activities   | <u>(211,086.69)</u>     | <u>(24,247.79)</u>    | <u>(235,334.48)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                         |                       |                        |
| Purchase of Investment Securities   | (1,000.00)              | (1,980.76)            | (2,980.76)             |
| Cash Received for Interest  | 1,060.42                | 4,237.17              | 5,297.59               |
| Net Cash Provided (Used) by Investing Activities  | <u>60.42</u>            | <u>2,256.41</u>       | <u>2,316.83</u>        |
| Net Increase (Decrease) in Cash and Cash Equivalents  | 260,571.80              | 153,885.35            | 414,457.15             |
| Balances - Beginning  | <u>1,815,752.63</u>     | <u>345,271.04</u>     | <u>2,161,023.67</u>    |
| Balances - Ending   | <u>\$ 2,076,324.43</u>  | <u>\$ 499,156.39</u>  | <u>\$ 2,575,480.82</u> |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET<br/>CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b> |                         |                       |                        |
| Operating Income (Loss)   | \$ (117,766.76)         | \$ (17,867.09)        | \$ (135,633.85)        |
| Adjustments to Reconcile Operating Income to<br>Net Cash Provided (Used) by Operating Activities:         |                         |                       |                        |
| Depreciation Expense  | 356,011.83              | 184,790.10            | 540,801.93             |
| (Increase) Decrease in Receivables  |                         | (2,869.63)            | (2,869.63)             |
| (Increase) Decrease in Prepaid Expenses   | (416.37)                | (601.47)              | (1,017.84)             |
| (Increase) Decrease in Pension Related Deferred Outflows  | (17,962.70)             | (31,339.26)           | (49,301.96)            |
| (Increase) Decrease in Net Pension Asset  | 25,305.09               | 46,158.02             | 71,463.11              |
| (Decrease) Increase in Accounts and Other Payables  | (112.96)                | 5,854.26              | 5,741.30               |
| (Decrease) Increase in Pension Related Deferred Inflows   | (14,786.68)             | (26,971.80)           | (41,758.48)            |
| Net Cash Provided (Used) by Operating Activities  | <u>\$ 230,271.45</u>    | <u>\$ 157,153.13</u>  | <u>\$ 387,424.58</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, 2014**

|  | <b>Enterprise Funds</b> |                        | <b>Totals</b>           |
|--|-------------------------|------------------------|-------------------------|
|  | <b>Water<br/>Fund</b>   | <b>Sewer<br/>Fund</b>  |                         |
| <b>Operating Revenues:</b>                     |                         |                        |                         |
| Charges for Goods and Services                 | \$ 720,401.44           | \$ 931,549.35          | \$ 1,651,950.79         |
| Miscellaneous                                  | 4,252.46                | 711.00                 | 4,963.46                |
| <b>Total Operating Revenues</b>                | <b>724,653.90</b>       | <b>932,260.35</b>      | <b>1,656,914.25</b>     |
| <b>Operating Expenses:</b>                     |                         |                        |                         |
| Personal Services                              | 216,409.79              | 456,956.27             | 673,366.06              |
| Other Current Expense                          | 144,879.19              | 286,455.59             | 431,334.78              |
| Depreciation                                   | 387,684.98              | 245,612.75             | 633,297.73              |
| <b>Total Operating Expenses</b>                | <b>748,973.96</b>       | <b>989,024.61</b>      | <b>1,737,998.57</b>     |
| <b>Operating Income (Loss)</b>                 | <b>(24,320.06)</b>      | <b>(56,764.26)</b>     | <b>(81,084.32)</b>      |
| <b>Nonoperating Revenues (Expenses):</b>       |                         |                        |                         |
| Investment Earnings                            | 1,206.39                | 2,833.76               | 4,040.15                |
| Interest Expense                               | (10,523.31)             |                        | (10,523.31)             |
| Gain (Loss) on Disposition of Assets           |                         | (3,432.19)             | (3,432.19)              |
| Property Taxes                                 | 246,011.88              | 17,573.79              | 263,585.67              |
| <b>Total Nonoperating Revenues (Expenses)</b>  | <b>236,694.96</b>       | <b>16,975.36</b>       | <b>253,670.32</b>       |
| <b>Change in Net Position</b>                  | <b>212,374.90</b>       | <b>(39,788.90)</b>     | <b>172,586.00</b>       |
| <b>Net Position - Beginning</b>                | <b>14,811,405.22</b>    | <b>4,232,357.03</b>    | <b>19,043,762.25</b>    |
| Adjustments: (See Note 8)                      |                         |                        |                         |
| Prior Period Adjustment Water Rights           | 1,500,000.00            |                        | 1,500,000.00            |
| Prior Period Adjustment Accounts<br>Receivable |                         | 69,107.61              |                         |
| <b>Adjusted Net Position - Beginning</b>       | <b>16,311,405.22</b>    | <b>4,301,464.64</b>    | <b>20,612,869.86</b>    |
| <b>NET POSITION - ENDING</b>                   | <b>\$ 16,523,780.12</b> | <b>\$ 4,261,675.74</b> | <b>\$ 20,785,455.86</b> |

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, 2014**

|   | <b>Enterprise Funds</b> |                       |                        |
|---|-------------------------|-----------------------|------------------------|
|   | <b>Water<br/>Fund</b>   | <b>Sewer<br/>Fund</b> | <b>Totals</b>          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                         |                       |                        |
| Cash Receipts from Customers  | \$ 720,401.44           | \$ 941,544.08         | \$ 1,661,945.52        |
| Other Operating Cash Receipts   | 4,252.46                | 711.00                | 4,963.46               |
| Cash Payments to Employees for Services   | (216,409.79)            | (456,956.27)          | (673,366.06)           |
| Cash Payments to Suppliers of Goods and Services  | (154,644.92)            | (310,696.67)          | (465,341.59)           |
| Net Cash Provided (Used) by Operating Activities  | <u>353,599.19</u>       | <u>174,602.14</u>     | <u>528,201.33</u>      |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>   |                         |                       |                        |
| Property Taxes  | <u>246,011.88</u>       | <u>17,573.79</u>      | <u>263,585.67</u>      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>  |                         |                       |                        |
| Purchase of Capital Assets  | (100,933.82)            | (104,713.56)          | (205,647.38)           |
| Proceeds from Sale of Capital Assets  |                         | 3,290.00              | 3,290.00               |
| Principal Paid on Capital Debt  | (190,450.75)            |                       | (190,450.75)           |
| Interest Paid on Capital Debt   | (10,523.31)             |                       | (10,523.31)            |
| Net Cash (Used) by Capital and Related Financing Activities   | <u>(301,907.88)</u>     | <u>(101,423.56)</u>   | <u>(403,331.44)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                         |                       |                        |
| Purchase of Investment Securities   | (2,000.00)              | (9,159.44)            | (11,159.44)            |
| Cash Received for Interest  | 1,206.39                | 2,833.76              | 4,040.15               |
| Net Cash Provided (Used) by Investing Activities  | <u>(793.61)</u>         | <u>(6,325.68)</u>     | <u>(7,119.29)</u>      |
| Net Increase (Decrease) in Cash and Cash Equivalents  | 296,909.58              | 84,426.69             | 381,336.27             |
| Balances - Beginning  | <u>1,518,843.05</u>     | <u>260,844.35</u>     | <u>1,779,687.40</u>    |
| Balances - Ending   | <u>\$ 1,815,752.63</u>  | <u>\$ 345,271.04</u>  | <u>\$ 2,161,023.67</u> |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET<br/>CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b> |                         |                       |                        |
| Operating Income (Loss)   | \$ (24,320.06)          | \$ (56,764.26)        | \$ (81,084.32)         |
| Adjustments to Reconcile Operating Income to<br>Net Cash Provided (Used) by Operating Activities:         |                         |                       |                        |
| Depreciation Expense  | 387,684.98              | 245,612.75            | 633,297.73             |
| (Increase) Decrease in Receivables  |                         | 9,994.73              | 9,994.73               |
| (Increase) Decrease in Prepaid Expenses   | (371.12)                | (676.72)              | (1,047.84)             |
| (Decrease) Increase in Accounts and Other Payables  | (9,394.61)              | (23,564.36)           | (32,958.97)            |
| Net Cash Provided (Used) by Operating Activities  | <u>\$ 353,599.19</u>    | <u>\$ 174,602.14</u>  | <u>\$ 528,201.33</u>   |
| Noncash Investing, Capital and Financing Activities:  |                         |                       |                        |
| Loss on Disposal of Capital Assets not Affecting Operating Income   |                         | \$ 6,722.19           |                        |

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 (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 reporting entity's 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 municipalities 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:

*Government-wide Financial Statements:*

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
- d. Required Supplementary Information
  1. Schedule of the District's Contributions
  2. Schedule of the District's Proportionate Share of the Net Pension Liability (Asset)

*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 municipal 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 municipal 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 they are earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is uncured (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 South Dakota Codified Law (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, 2015 balance of capital assets are all valued at original cost.

Infrastructure assets used in operations, consisting of certain improvements other than buildings, including water distribution and sewer distribution 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 net 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 government-wide financial statements and proprietary funds are as follows:

|                                   | <u>Capitalization<br/>Threshold</u> | <u>Depreciation<br/>Method</u> | <u>Estimated<br/>Useful Life</u> |
|-----------------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Land and land rights              | \$ 5,000.00                         | ----N/A-----                   | ----N/A-----                     |
| Improvements other than buildings | \$ 25,000.00                        | Straight-line                  | 50 yrs.                          |
| Buildings                         | \$ 5,000.00                         | Straight-line                  | 10-50 yrs.                       |
| Machinery and Equipment           | \$ 5,000.00                         | Straight-line                  | 10-40 yrs.                       |

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 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 with a term to maturity of three months or less, at date of acquisition, to be cash equivalents.

i. Equity Classifications:

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

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

k. Pensions:

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

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 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.

As of December 31, 2015, the District did not have any investments. The investments reported in the financial statements consist only of certificates of deposit.

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

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

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

**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 the 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 GENERAL CAPITAL ASSETS

A summary of changes in capital assets for the two years ended December 31, 2015 is as follows:

|   | <u>Balance<br/>January 1, 2014</u> | <u>Increases</u>      | <u>Decreases</u>      | <u>Ending Balance<br/>December 31, 2015</u> |
|---|------------------------------------|-----------------------|-----------------------|---|
| Capital Assets not being Depreciated:                     |                                    |                       |                       |   |
| Land and Land Rights                                      | \$ 1,070,757.63                    | \$                    | \$                    | \$ 1,070,757.63                             |
| Water Rights and Easement                                 | 5,000.00                           | 1,500,000.00          |                       | 1,505,000.00                                |
| Construction in Progress                                  | 65,985.88                          | 17,979.22             | (65,985.88)           | 17,979.22                                   |
| Total Capital Assets not being Depreciated                | <u>1,141,743.51</u>                | <u>1,517,979.22</u>   | <u>(65,985.88)</u>    | <u>2,593,736.85</u>                         |
| Capital Assets being Depreciated:                         |                                    |                       |                       |   |
| Buildings   | 13,636,595.00                      |                       |                       | 13,636,595.00                               |
| Improvements Other Than Buildings                         | 10,892,461.50                      |                       |                       | 10,892,461.50                               |
| Machinery and Equipment                                   | 882,725.92                         | 284,431.11            | (124,070.50)          | 1,043,086.53                                |
| Total Capital Assets being Depreciated                    | <u>25,411,782.42</u>               | <u>284,431.11</u>     | <u>(124,070.50)</u>   | <u>25,572,143.03</u>                        |
| Less Accumulated Depreciation for:                        |                                    |                       |                       |   |
| Buildings   | (7,578,769.66)                     | (526,047.23)          |                       | (8,104,816.89)                              |
| Improvements Other Than Buildings                         | (2,265,915.17)                     | (435,698.46)          |                       | (2,701,613.63)                              |
| Machinery and Equipment                                   | (322,259.18)                       | (212,353.97)          | 117,348.31            | (417,264.84)                                |
| Total Accumulated Depreciation                            | <u>(10,166,944.01)</u>             | <u>(1,174,099.66)</u> | <u>117,348.31</u>     | <u>(11,223,695.36)</u>                      |
| Total Capital Assets being Depreciated, Net               | <u>15,244,838.41</u>               | <u>(889,668.55)</u>   | <u>(6,722.19)</u>     | <u>14,348,447.67</u>                        |
| Total Capital Assets, Net                                 | <u>\$ 16,386,581.92</u>            | <u>\$ 628,310.67</u>  | <u>\$ (72,708.07)</u> | <u>\$ 16,942,184.52</u>                     |
| Depreciation expense was charged to functions as follows: |                                    |                       |                       |   |
| Water Fund  |                                    |                       |                       | \$ 743,696.82                               |
| Sewer Fund  |                                    |                       |                       | <u>430,402.77</u>                           |
| Total Depreciation Expense                                |                                    |                       |                       | <u>\$ 1,174,099.59</u>                      |

Construction Work in Progress at December 31, 2015 is composed of the following:

| <u>Project Name</u>                 | <u>Project<br/>Authorization</u> | <u>Expended<br/>thru<br/>12/31/2015</u> | <u>Committed</u> | <u>Required<br/>Future<br/>Financing</u> |
|-------------------------------------|----------------------------------|---|------------------|--|
| Highway 85 Sewer Line<br>Relocation | \$ 80,000.00                     | \$ 17,979.22                            | \$ 62,020.78     | \$ 0.00                                  |

7. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

|                                    | Balance<br>1/1/2014  | Additions      | Deletions              | Balance<br>12/31/2015 | Due Within<br>One Year |
|------------------------------------|----------------------|----------------|------------------------|-----------------------|------------------------|
| Bonds and Loans Payable:           |                      |                |                        |                       |                        |
| General Obligation Debt            | \$ 915,000.00        | \$             | \$ (365,000.00)        | \$ 550,000.00         | \$ 180,000.00          |
| Rural Water Association Loan       | 49,733.39            |                | (21,381.18)            | 28,352.21             | 11,390.29              |
| Other Liabilities:                 |                      |                |                        |                       |                        |
| Accrued Leave Payable              | 28,899.71            |                |                        | 28,899.71             | 0.00                   |
| <b>Total Long-Term Liabilities</b> | <u>\$ 993,633.10</u> | <u>\$ 0.00</u> | <u>\$ (386,381.18)</u> | <u>\$ 607,251.92</u>  | <u>\$ 191,390.29</u>   |

Debt payable at December 31, 2015 is comprised of the following:

General Obligation Bonds:

2012 Water Revenue Refunding Bonds, Maturity July 1, 2018, Interest Rate of 0.45% to 1.35%, Payable from Water Fund \$ 550,000.00

Loans:

National Rural Water Association Loan, May 1, 2018, Interest Rate of 4.5%, Payable from Water Fund \$ 28,352.21

Accrued Leave Payable:

Accumulated Accrued Leave Payable \$ 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, 2015, except for accrued leave payable are as follows:

Annual Requirements to Amortize Long-Term Debt  
December 31, 2015

| Year<br>Ending<br>Dec. 31, | General<br>Obligation<br>Water Revenue Bonds |                     | Rural Water<br>Association Loan |                    | Total                |                     |
|----------------------------|--|---------------------|---------------------------------|--------------------|----------------------|---------------------|
|                            | Principal                                    | Interest            | Principal                       | Interest           | Principal            | Interest            |
| 2016                       | \$ 180,000.00                                | \$ 5,480.00         | \$ 11,390.29                    | \$ 1,046.27        | \$ 191,390.29        | \$ 6,526.27         |
| 2017                       | 185,000.00                                   | 3,561.25            | 11,913.56                       | 523.00             | 196,913.56           | 4,084.25            |
| 2018                       | 185,000.00                                   | 1,248.75            | 5,048.36                        | 133.54             | 190,048.36           | 1,382.29            |
| <b>TOTAL</b>               | <u>\$ 550,000.00</u>                         | <u>\$ 10,290.00</u> | <u>\$ 28,352.21</u>             | <u>\$ 1,702.81</u> | <u>\$ 578,352.21</u> | <u>\$ 11,992.81</u> |

8. PRIOR PERIOD ADJUSTMENTS

The District implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of January 1, 2015 as follows:

|  | Water<br>Fund           | Sewer<br>Fund          | Total                   |
|--|-------------------------|------------------------|-------------------------|
| Net Position January 1, 2015, as previously reported | \$ 16,523,780.12        | \$ 4,261,675.74        | \$ 20,785,455.86        |
| Restatement for pension accounting:                  |                         |                        |                         |
| Net Pension Asset                                    | 66,321.37               | 120,974.22             | 187,295.59              |
| Pension related Deferred Outflows of Resources       | 54,146.95               | 98,767.34              | 152,914.29              |
| Pension related Deferred Inflows of Resources        | (76,811.33)             | (140,108.54)           | (216,919.87)            |
| Net Position January 1, 2015, as restated            | <u>\$ 16,567,437.11</u> | <u>\$ 4,341,308.76</u> | <u>\$ 20,908,745.87</u> |

The District also made a prior period adjustment to the January 1, 2014 Sewer Fund beginning net position was restated \$69,107.61 to reflect the correct amount of accounts receivable that were not accrued as revenue in 2013 and also made a prior period adjustment to the January 1, 2014 Water Fund beginning net position was restated \$1,500,000.00 to reflect the water rights that were donated to the district in 2003 and never recorded as an intangible asset.

|  | Water<br>Fund           | Sewer<br>Fund          | Total                   |
|--|-------------------------|------------------------|-------------------------|
| Net Position January 1, 2014, as previously reported | \$ 14,811,405.22        | \$ 4,232,357.03        | \$ 19,043,762.25        |
| Restatement:   |                         |                        |                         |
| Intangible Asset – Water Rights                      | 1,500,000.00            |                        | 1,500,000.00            |
| Accounts Receivable Accrual                          |                         | 69,107.61              | 69,107.61               |
| Net Position January 1, 2014, as restated            | <u>\$ 16,311,405.22</u> | <u>\$ 4,301,464.64</u> | <u>\$ 20,612,869.86</u> |

## 9. PENSION PLAN

### **Plan Information:**

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

### **Benefits Provided:**

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

The annual increase in the amount of the SDRS benefits payable on each July 1<sup>st</sup> is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
  - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
  - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

**Contributions:**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the calendar years ended December 31, 2015, 2014, and 2013 were \$31,001.76, \$28,085.22, and \$27,993.87, respectively, equal to the required contributions each year.

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

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the District as of this measurement period and reported by the District as of December 31, 2015 are as follows:

|   |                        |
|---|------------------------|
| Proportionate share of net position restricted for pension benefits | \$ 2,943,146.76        |
| Less proportionate share of total pension liability                 | <u>2,827,314.28</u>    |
| Proportionate share of net pension liability (asset)                | <u>\$ (115,832.48)</u> |

At December 31, 2015, the District reported a liability (asset) of \$(115,832.48) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the District's proportion was .0273107%, which is an increase of .0013140% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the District recognized pension expense (revenue) of \$11,404.43. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | <u>Deferred Outflows<br/>Of Resources</u> | <u>Deferred Inflows<br/>Of Resources</u> |
|--|---|--|
| Difference between expected and actual experience  | \$ 23,717.23                              | \$                                       |
| Changes in assumption  | 91,847.86                                 |  |
| Net Difference between projected and actual earnings on pension plan investments                             | 70,760.11                                 | 175,161.39                               |
| Changes in proportion and difference between District contributions and proportionate share of contributions |   |  |
| District contributions subsequent to the measurement date  | <u>15,891.05</u>                          |  |
| TOTAL  | <u>\$ 202,216.25</u>                      | <u>\$ 175,161.39</u>                     |

\$15,891.05 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

| <u>Year Ended<br/>December 31,</u> |                     |
|------------------------------------|---------------------|
| 2016                               | \$ 5,488.66         |
| 2017                               | 5,488.66            |
| 2018                               | (14,765.99)         |
| 2019                               | <u>19,200.82</u>    |
| TOTAL                              | <u>\$ 15,412.15</u> |

**Actuarial Assumptions:**

The total pension liability (asset) in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Inflation                 | 3.25 percent  |
| Salary Increases          | 5.83 percent at entry to 3.87 percent after 30 years of service                               |
| Investment Rate of Return | 7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense |

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the



percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Global Equity      | 61.0%                    | 4.5%  |
| Fixed Income       | 27.0%                    | 1.8%  |
| Real Estate        | 10.0%                    | 5.2%  |
| Cash               | 2.0%                     | 0.8%  |
| Total              | 100%                     |   |

**Discount Rate:**

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

**Sensitivity of liability (asset) to changes in the discount rate:**

The following presents the District's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

|   | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|---|--------------------|------------------------------|--------------------|
| District's proportionate share of the net pension liability (asset) | \$ 291,549.06      | \$ (115,832.48)              | \$ (448,017.05)    |

**Pension Plan Fiduciary Net Position:**

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

10. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2015, the District was not involved in any litigation.

## 11. 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, 2015, 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, property damage, officials liability, automobile liability, automobile damage, earthquake and flood.

The agreement with the SDPAA provides that the above coverages will be provided to a \$2,000,000 limit for general liability and various maximums for the loss or damage to property and equipment. 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, 2015, the District has vested balance in the cumulative reserve fund of \$26,293.27.

The District carries a \$500 deductible for officials liability, \$500 for vehicle comprehensive coverage, \$1,000 for vehicle collision coverage, and \$1,000 for property damage coverage (real, personal property and mobile equipment and equipment breakdown), except for damage from flood or earthquake, which is \$25,000.00.

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 two years ended December 31, 2015, no claims for unemployment benefits were paid. At December 31, 2015, no claims have been filed and were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next year.

**REQUIRED SUPPLEMENTARY INFORMATION  
LEAD-DEADWOOD SANITARY DISTRICT NO. 1  
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**

**South Dakota Retirement System**

\*Last 10 Fiscal Years

|  | <u>2015</u>      | <u>2014</u>      |
|--|------------------|------------------|
| Contractually required contribution                                  | \$ 31,001.76     | \$ 28,085.22     |
| Contributions in relation to the contractually required contribution | <u>31,001.76</u> | <u>28,085.22</u> |
| Contribution deficiency (excess)                                     | <u>\$ 0.00</u>   | <u>\$ 0.00</u>   |
| District's covered-employee payroll                                  | \$ 516,701.10    | \$ 468,093.98    |
| Contributions as a percentage of covered-employee payroll            | 6.00%            | 6.00%            |

\* Until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**REQUIRED SUPPLEMENTARY INFORMATION  
LEAD-DEADWOOD SANITARY DISTRICT NO. 1  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION  
LIABILITY (ASSET)**

**South Dakota Retirement System**

\*Last 10 Fiscal Years

|   | <u>2015</u>     | <u>2014</u>     |
|---|-----------------|-----------------|
| District's proportion of the net pension liability (asset)  | 0.0273107%      | 0.0259967%      |
| District's proportionate share of net pension liability (asset)   | \$ (115,832.48) | \$ (187,295.59) |
| District's covered-employee payroll   | \$ 498,613.00   | \$ 454,790.00   |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | -23.23%         | -41.18%         |
| Plan fiduciary net position as a percentage of the total pension liability (asset)                                  | 104.1%          | 107.3%          |

\* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30. Until a full 10-year trend is compiled, the District will present information for those years for which information is available.

LEAD-DEADWOOD SANITARY DISTRICT NO. 1  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
Schedule of the District's Proportionate Share of the Net Pension Liability (Asset) and  
Schedule of District's Contributions

**Changes of benefit terms:**

No significant changes.

**Changes of assumptions:**

No significant changes.