



**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**  
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2016 AND 2015



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**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Rapid Valley Sanitary District/Water Service  
Rapid City, South Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **RAPID VALLEY SANITARY DISTRICT/WATER SERVICE** (the District), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **RAPID VALLEY SANITARY DISTRICT/WATER SERVICE** as of December 31, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages three through six, 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 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated April 10, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



KETEL THORSTENSON, LLP  
Certified Public Accountants

April 10, 2017

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

This section of Rapid Valley Sanitary District/Water Service’s (the District) annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year ended on December 31, 2016. Please read it in conjunction with the District’s financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- During the year, the District’s revenues generated from charges for services and other revenues were \$2,958,196 while cost of sales and operating expenses were \$2,653,614. This represents \$304,582 more in operating revenues than expenses.
- The service department continued to be proactive in replacing water service lines that were either already leaking or that had the potential for developing leaks. Projects completed in 2016 include: South Valley Drive, Lancer Street, and Orchard Meadows Phase IV. The slight increase in new development within the District’s boundaries has continued, which will also contribute to an increase in income in 2017.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of two parts – management’s discussion and analysis (this section) and the financial statements. The financial statements offer short and long-term financial information about the activities of the District. The financial statements include notes that explain the financial statements and provide more detailed data.

The District operates similar to a private business. The required financial statements include the balance sheet, statement of revenues, expenses and changes in net position, and the statement of cash flows. The District applies the accrual basis of accounting and an economic resources measurement focus. Inflows and outflows include all revenues and expenses during the year, regardless of when cash is received or paid.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

*Balance Sheets*

The District's net position increased as follows:

	<b>2016</b>	2015	2014
Current Assets	<b>\$ 2,528,473</b>	\$ 2,593,270	\$ 2,393,978
Net Capital Assets being Depreciated	<b>19,779,304</b>	19,456,791	19,191,082
Capital Assets not being Depreciated	<b>1,786,630</b>	1,786,630	1,849,211
Other Assets	<b>386,516</b>	342,560	297,057
<b>Total Assets</b>	<b>\$ 24,480,923</b>	\$ 24,179,251	\$ 23,731,328
Long-Term Debt Outstanding	<b>\$ 8,024,789</b>	\$ 8,234,485	\$ 8,431,226
Other Liabilities	<b>160,085</b>	159,159	206,259
<b>Total Liabilities</b>	<b>\$ 8,184,874</b>	\$ 8,393,644	\$ 8,637,485
Net Position:			
Net Investment in Capital Assets	<b>\$ 13,541,145</b>	\$ 13,008,936	\$ 12,557,142
Restricted for Debt Service	<b>310,364</b>	270,104	229,844
Unrestricted	<b>2,444,540</b>	2,506,567	2,306,857
<b>Total Net Position</b>	<b>\$ 16,296,049</b>	\$ 15,785,607	\$ 15,093,843
Beginning Net Position	<b>\$ 15,785,607</b>	\$ 15,093,843	\$ 14,531,034
Increase in Net Position	<b>510,442</b>	691,764	562,809
Percentage of Increase in Net Position	<b>3.23%</b>	4.58%	3.87%

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

The balance sheet reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of one revenue bond, two State Revolving Fund Loans and four Rural Economic and Community Development Loans have been reported in this manner on the Balance Sheets. The difference between the District's assets and liabilities is its net position.

*Statements of Revenues, Expenses and Changes in Net Position*

	<b>2016</b>	2015	2014
Operating Revenues	<b>\$ 2,958,196</b>	\$ 2,786,537	\$ 2,679,906
Non-Operating Income	<b>309,625</b>	241,646	239,212
Contributions from Developers/Others	<b>233,463</b>	494,469	399,163
<b>Total Revenue</b>	<b>3,501,284</b>	3,522,652	3,318,281
Cost of Sales	<b>(682,390)</b>	(670,628)	(682,960)
Operating Expenses	<b>(1,971,224)</b>	(1,813,203)	(1,730,151)
Non-Operating Expense	<b>(337,228)</b>	(347,057)	(342,361)
<b>Total Expenses</b>	<b>(2,990,842)</b>	(2,830,888)	(2,755,472)
<b>Change in Net Position</b>	<b>\$ 510,442</b>	\$ 691,764	\$ 562,809
<b>Net Position</b>	<b>\$ 16,296,049</b>	\$ 15,785,607	\$ 15,093,843

In 2016, operating revenue increased by 6.16 percent to \$2,958,196 while expenditures increased by 5.65 percent to \$2,990,842. Factors contributing to these results included:

- The summer of 2016 was a drier year in terms of weather to 2015. 2016 had approximately 11 percent more water consumption than 2015.
- Rapid Valley Sanitary District continues to administer the Green Valley Sanitary District's water system and billing.

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2016**

**CAPITAL ASSET ADMINISTRATION**

By the end of 2016, the District had invested \$30,808,681 in a broad range of capital assets, including, land, buildings, and various machinery and equipment (see table below). This amount represents a net increase (including additions and deductions) of \$322,573 or 1.07 percent over the last year.

	<b>Balance December 31, 2016</b>	Balance December 31, 2015	Balance December 31, 2014
<i>Capital Assets being Depreciated</i>			
Buildings	\$ 824,560	\$ 824,560	\$ 824,560
Water and Sewer Systems	27,823,000	27,174,990	26,449,024
Office Furniture	25,501	27,015	27,015
Equipment and Vehicles	348,990	229,911	224,829
	<b>29,022,051</b>	28,256,476	27,525,428
<i>Less Accumulated Depreciation</i>	<b>9,242,747</b>	8,799,685	8,334,346
<b>Net Capital Assets being Depreciated</b>	<b>\$ 19,779,304</b>	\$ 19,456,791	\$ 19,191,082
<i>Capital Assets not being Depreciated</i>			
Land	\$ 543,457	\$ 543,457	\$ 543,457
Water Rights	1,243,173	1,243,173	1,243,173
Construction in Progress	-	-	62,581
<b>Total Capital Assets not being Depreciated</b>	<b>\$ 1,786,630</b>	\$ 1,786,630	\$ 1,849,211

The District's fiscal year 2017 capital budget projects include:

- Homestead Street water main
- Racetrack sewer main
- Joker Street water main

**LONG-TERM DEBT**

The District continued making loan payments on the revenue bond and Rural Development and State Revolving Fund loans. The changes in long-term debt consisted of the following:

Balance -- December 31, 2014	\$ 8,431,226
Principal Repayments	(196,741)
Balance -- December 31, 2015	8,234,485
Principal Repayments	(209,696)
<b>Balance -- December 31, 2016</b>	<b>\$ 8,024,789</b>

## **RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2016**

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's current economic position has shown little change. The District did approve an increase in the total property levy of \$231,368 that will be collected in calendar year 2017. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes by \$7,508. This year's property tax levy requests increased approximately 3.3 percent from 2016.

The District's adopted expense budget for the next fiscal year will increase approximately 6.9 percent to \$2,915,975. It is anticipated that expenses should be comparable to 2016. Major increases in the cost of services, materials, etc. are not anticipated. Diligent monitoring of purchases will also contribute to keeping expenses down.

Based on the 2017 budget, the District expects that the results for 2017 will remain constant with the established rate increases for water and sewer which went into effect in January 2015. There was an increase in the monthly minimum charge for water and the monthly minimum charge for sewer effective January 1, 2017. The District continues to be pro-active in repairing and replacing water service lines, which will have a positive impact on the amount of water being produced and/or purchased. The District continues to use three S-30 Surveyor leak detectors which are being used systematically throughout the system for early detection of water leaks. The installation of MXU readers will also have a positive effect on water sales versus water loss as well as the installation of monitoring pits in key locations to get sales versus production. The District has started a large-scale water meter update program which will result in approximately 600 old meters being replaced with more efficient and accurate meters. This will also have a positive effect on water sales. The contract with Verizon to utilize a water tower for antennas will generate an additional \$30,000 annually for the District. This will be beneficial in helping to keep rates viable for our consumers.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Rapid Valley Sanitary District/Water Service, 4611 Teak Drive, Rapid City, SD 57703.



**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015**

<b>ASSETS</b> (Note 6)	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Cash and Cash Equivalents (Note 1)	\$ 1,519,392	\$ 1,743,708
Investments (Note 1)	660,280	520,948
Accounts Receivable	123,527	120,542
Unbilled Accounts Receivable	167,656	154,753
Prepaid Expenses	57,618	53,319
<b>Total Current Assets</b>	<b>2,528,473</b>	<b>2,593,270</b>
<b>Capital Assets being Depreciated</b> (Note 5)		
Buildings	824,560	824,560
Water and Sewer Systems	27,823,000	27,174,990
Office Furniture	25,501	27,015
Equipment and Vehicles	348,990	229,911
	<b>29,022,051</b>	<b>28,256,476</b>
Less Accumulated Depreciation	9,242,747	8,799,685
	<b>19,779,304</b>	<b>19,456,791</b>
<b>Capital Assets not being Depreciated</b> (Note 5)		
Land	543,457	543,457
Water Rights	1,243,173	1,243,173
	<b>1,786,630</b>	<b>1,786,630</b>
<b>Other Assets</b>		
Restricted Cash and Cash Equivalents (Note 6)	310,364	270,104
Utility Investment	76,152	72,456
	<b>386,516</b>	<b>342,560</b>
<b>TOTAL ASSETS</b>	<b>\$ 24,480,923</b>	<b>\$ 24,179,251</b>

The accompanying notes are an integral part of these statements.

<b>LIABILITIES AND NET POSITION</b>	<b>2016</b>	<b>2015</b>
<b>Current Liabilities</b>		
Current Portion of Long-Term Debt (Note 6)	\$ 217,015	\$ 207,224
Accounts Payable - Operations	16,359	16,359
Accrued Expenses	75,250	75,242
Meter Deposits	68,476	67,558
<b>Total Current Liabilities</b>	<b>377,100</b>	<b>366,383</b>
<b>Long-Term Liabilities (Note 6)</b>		
Long-Term Debt	8,024,789	8,234,485
Less Current Portion Shown Above	217,015	207,224
	<b>7,807,774</b>	<b>8,027,261</b>
<b>Net Position</b>		
Net Investment in Capital Assets	13,541,145	13,008,936
Restricted for Debt Service (Note 6)	310,364	270,104
Unrestricted	2,444,540	2,506,567
<b>Total Net Position</b>	<b>16,296,049</b>	<b>15,785,607</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 24,480,923</b>	<b>\$ 24,179,251</b>

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Water Charges (Note 6)	\$ 1,593,000	\$ 1,448,195
Sewer Charges (Note 6)	1,208,912	1,183,592
Late Fees	82,745	89,183
Charges for Services and Fees (Net of Cost of Sales of \$-0- and \$11,394 - December 31, 2016 and 2015, Respectively)	62,789	52,817
Permits	10,750	12,750
<b>Total Revenues</b>	<b>2,958,196</b>	<b>2,786,537</b>
<b>Costs of Sales</b>		
Water Purchases	11,110	12,215
Sewer Treatment Expense	671,280	658,413
	<b>682,390</b>	<b>670,628</b>
<b>Gross Margin</b>	<b>2,275,806</b>	<b>2,115,909</b>
<b>Operating Expenses</b>		
Operating	909,010	753,433
Personnel (Note 4)	588,405	594,431
Depreciation	473,809	465,339
	<b>1,971,224</b>	<b>1,813,203</b>
<b>Operating Income</b>	<b>304,582</b>	<b>302,706</b>
<b>Non-Operating Income (Expense)</b>		
Property Taxes (Note 3)	237,401	223,590
Donated Systems	233,463	494,469
Lease Income	35,000	-
Gain on Sale of Capital Assets	19,702	-
Investment Income	11,148	8,976
Miscellaneous Income	6,374	9,080
Interest Expense	(337,228)	(347,057)
	<b>205,860</b>	<b>389,058</b>
<b>Change in Net Position</b>	<b>510,442</b>	<b>691,764</b>
<b>Net Position -- Beginning of Year</b>	<b>15,785,607</b>	<b>15,093,843</b>
<b>Net Position -- End of Year</b>	<b>\$ 16,296,049</b>	<b>\$ 15,785,607</b>

The accompanying notes are an integral part of these statements.

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<b>2016</b>	2015
<b>Cash Flows From Operating Activities</b>		
Receipts from Customers	\$ 2,943,226	\$ 2,834,032
Payments to Suppliers	(1,595,700)	(1,432,041)
Payments to Employees	(588,396)	(598,868)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>759,130</b>	803,123
<b>Cash Flows From Noncapital Financing Activities</b>		
Miscellaneous Income	6,374	9,080
Lease Income	35,000	-
Property Taxes	237,401	223,590
<b>Net Cash Flows Provided by Noncapital Financing Activities</b>	<b>278,775</b>	232,670
<b>Cash Flows From Capital and Related Financing Activities</b>		
Repayments of Long-Term Debt	(209,696)	(196,741)
Purchases of Capital Assets	(562,859)	(173,998)
Proceeds from Sale of Capital Assets	19,702	-
Payment of Construction Accounts Payable	-	(51,925)
Interest Paid	(337,228)	(347,057)
<b>Net Cash Flows Used in Capital and Related Financing Activities</b>	<b>(1,090,081)</b>	(769,721)
<b>Cash Flows From Investing Activities</b>		
Interest Received	11,148	8,976
Purchases of Investments	(139,332)	(200,840)
Change in Utility Investment	(3,696)	(5,243)
<b>Net Cash Flows Used in Investing Activities</b>	<b>(131,880)</b>	(197,107)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(184,056)</b>	68,965
<b>Cash and Cash Equivalents -- Beginning of Year</b>	<b>2,013,812</b>	1,944,847
<b>Cash and Cash Equivalents -- End of Year</b>	<b>\$ 1,829,756</b>	\$ 2,013,812
<b>Reconciliation of Operating Income to Net Cash Flows</b>		
<b>Provided by Operating Activities:</b>		
Operating Income	\$ 304,582	\$ 302,706
<i>Adjustments to Reconcile Operating Income to Net Cash Flows</i>		
<i>Provided by Operating Activities:</i>		
Depreciation	473,809	465,339
<i>Changes in Assets and Liabilities:</i>		
Accounts Receivable	(2,985)	(58,033)
Unbilled Accounts Receivable	(12,903)	93,741
Prepaid Expenses	(4,299)	(5,455)
Accounts Payable and Accrued Expenses	8	4,437
Meter Deposits	918	388
<b>Net Cash Flows Provided by Operating Activities</b>	<b>\$ 759,130</b>	\$ 803,123
<b>Supplemental Disclosures of Noncash Activities</b>		
Capital Assets Donated	\$ 233,463	\$ 494,469
Gain on Sale of Capital Assets	19,702	-

The accompanying notes are an integral part of these statements.

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

**Operations**

Rapid Valley Sanitary District/Water Service (the District) provides water and sewer services to the residents of the Rapid Valley subdivisions in Rapid City, South Dakota. The District collects monthly water and sewer payments and maintains the water and sewer systems. The District obtains its water primarily from its water treatment plant.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. Actual results could differ from those estimates.

**Method of Accounting**

The District uses the accrual method of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests). The accounting policies of the District conform to generally accepted accounting principles applicable to enterprise funds of a government entity. In the Statements of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statements of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

**Capital Assets**

The District capitalizes all property and equipment over \$1,000, and records capital assets at cost. Donated water and sewer systems are recorded as contributions and capitalized at the developer's cost. Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Buildings	60 Years
Water and Sewer Systems	10-100 Years
Office Furniture	7 Years
Equipment and Vehicles	5-15 Years

The District has purchased water rights for use in operating its water treatment facility. The water rights are considered to have an indefinite life; therefore, amortization is not being recorded in accordance with accounting principles generally accepted in the United States of America. The assets are instead subject to an annual impairment test. At December 31, 2016, the District does not consider the assets to be impaired.

**Federal Income Tax**

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

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

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

**Deposits and Investments**

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits - The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC, NCUA, and SIPC. 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 must be "AA" or better, 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 including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The District's cash and cash equivalents consisted only of checking and savings accounts, certificates of deposit, and money market accounts. Investments on the Balance Sheets consist of certificates of deposit at December 31, 2016, and 2015. All of these accounts are insured or collateralized in the District's name.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The negotiable certificates of deposit are measured as a Level 2 recurring fair value measurement.

*Interest Rate, Credit, Concentration, and Custodial Risk:*

The District has a formal investment policy that limits investments to meet South Dakota codified law as stipulated above, and limits investment balances to be insured directly or indirectly by the federal government.

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2016 AND 2015**

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

**Deposits and Investments (Continued)**

The District's investments consist of the following:

	Credit Rating	Maturity	Fair Value at December 31, 2016
<i>Investments exceeding five percent:</i>			
Goldman Sachs Certificate of Deposit	Unrated	3-18 months	51,318
Goldman Sachs Certificate of Deposit	Unrated	3-18 months	51,293
AMEX Centurion Certificate of Deposit	Unrated	3-18 months	50,037
AMEX Centurion Certificate of Deposit	Unrated	3-18 months	50,037
Ally BK Certificate of Deposit	Unrated	3-18 months	49,885
Ally BK Certificate of Deposit	Unrated	3-18 months	49,885
Nonnegotiable Certificates of Deposit			357,825
			<b>\$ 660,280</b>

**Cash and Cash Equivalents**

For the purposes of the Statements of Cash Flows, the District considers cash in the bank, including restricted cash, and all temporary investments with original maturities of three months or less to be cash equivalents.

**Equity Classifications**

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

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

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

**(2) Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The District manages its risks by purchasing from a commercial insurance carrier health insurance for its employees, liability and property insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials, and liability insurance for workmen's compensation. The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

## RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2016 AND 2015

#### (3) Property Tax

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

As required by Governmental Accounting Standards Board (GASB) Statement No. 34, property taxes are recorded as receivables in the year they are budgeted. Accordingly, taxes levied in October 2016, have not been recorded as a receivable in the accompanying Balance Sheets as the use of such has been budgeted for the 2017 fiscal year.

#### (4) Retirement Plan

All employees, except for certified employees working less than 20 hours per week, 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 South Dakota Codified Law 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 SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute at eight percent and nine percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2016, 2015, and 2014, was **\$22,627**, \$25,032, and \$22,901, respectively.

In 2015, the Governmental Accounting Standards Board (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* became effective. The new standards require the District to record its share of the SDRS net pension asset or liability, related deferred balances and its share of net pension revenue or expense rather than recording the District's required retirement contributions, noted above. As of June 30, 2016, SDRS is 96.89 percent funded and accordingly has a net pension liability based on actuarial assumptions including inflation, investment return, mortality tables, and other factors. The District's share of the net pension liability at June 30, 2016 was .0205 percent. Based on the overall insignificant impact to the financial statements, the District has elected not to record the new pension standards. If the District had recorded the pension activity, a net pension liability totaling approximately \$69,000 would have been recorded along with deferred outflows of resources totaling approximately \$142,000 for a net increase in assets at December 31, 2016 of \$73,000. In addition, an increase to pension costs of approximately \$29,000 would have been recorded for the year ending December 31, 2016.



**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2016 AND 2015**

**(5) Changes in Capital Assets**

Changes in capital assets were as follows during the years ended December 31, 2016 and 2015:

	Balance December 31, 2014	Additions	Transfers/ Dispositions	Balance December 31, 2015
<i>Capital Assets being Depreciated</i>				
Buildings	\$ 824,560	\$ -	\$ -	\$ 824,560
Water and Sewer Systems	26,449,024	725,966	-	27,174,990
Office Furniture	27,015	-	-	27,015
Equipment and Vehicles	224,829	5,082	-	229,911
	27,525,428	731,048	-	28,256,476
<i>Less Accumulated Depreciation</i>	8,334,346	465,339	-	8,799,685
<b>Net Capital Assets being Depreciated</b>	<b>\$ 19,191,082</b>	<b>\$ 265,709</b>	<b>\$ -</b>	<b>\$ 19,456,791</b>

<i>Capital Assets not being Depreciated</i>				
Land	\$ 543,457	\$ -	\$ -	\$ 543,457
Water Rights	1,243,173	-	-	1,243,173
Construction in Progress	62,581	199,010	(261,591)	-
<b>Net Capital Assets not being Depreciated</b>	<b>\$ 1,849,211</b>	<b>\$ 199,010</b>	<b>\$ (261,591)</b>	<b>\$ 1,786,630</b>

	Balance December 31, 2015	Additions	Transfers/ Dispositions	Balance December 31, 2016
<i>Capital Assets being Depreciated</i>				
Buildings	\$ 824,560	\$ -	\$ -	\$ 824,560
Water and Sewer Systems	27,174,990	648,010	-	27,823,000
Office Furniture	27,015	-	(1,514)	25,501
Equipment and Vehicles	229,911	148,312	(29,233)	348,990
	28,256,476	796,322	(30,747)	29,022,051
<i>Less Accumulated Depreciation</i>	8,799,685	473,809	(30,747)	9,242,747
<b>Net Capital Assets being Depreciated</b>	<b>\$ 19,456,791</b>	<b>\$ 322,513</b>	<b>\$ -</b>	<b>\$ 19,779,304</b>

<i>Capital Assets not being Depreciated</i>				
Land	\$ 543,457	\$ -	\$ -	\$ 543,457
Water Rights	1,243,173	-	-	1,243,173
Construction in Progress	-	414,543	(414,543)	-
<b>Net Capital Assets not being Depreciated</b>	<b>\$ 1,786,630</b>	<b>\$ 414,543</b>	<b>\$ (414,543)</b>	<b>\$ 1,786,630</b>

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**(6) Long-Term Debt**

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

Balance -- December 31, 2014	\$ 8,431,226
Principal Repayments	(196,741)
Balance -- December 31, 2015	8,234,485
Principal Repayments	(209,696)
Balance -- December 31, 2016	<b>\$ 8,024,789</b>

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

	<u>2016</u>	<u>2015</u>
Revenue bond, due to Rural Development in monthly installments of \$11,615, including interest at 3.75 percent, maturing in January 2049, secured by the water system and pledge of water revenues. The debt is paid out of the water department.	<b>\$ 2,632,924</b>	\$ 2,672,759
Revenue bond, due to Rural Development in monthly installments of \$12,752, including interest at 4.375 percent, maturing January 2048, secured by the water system and a pledge of water revenues. The debt is paid out of the water department.	<b>2,548,208</b>	2,588,783
Revenue bond, due to Rural Development in monthly installments of \$8,520 including interest at 4.125 percent, maturing January 2048, secured by the water system and a pledge of water revenues. The debt is paid out of the water department.	<b>1,781,618</b>	1,809,737
Revenue bond, due in semi-annual installments of \$28,737, including interest at 5.36 percent, maturing in November 2026, secured by the water system and a pledge of water revenues. The debt is paid out of the water department. (a)	<b>440,466</b>	473,017
State Revolving Fund Loan, due in quarterly installments of \$6,907, including interest at 3.00 percent, maturing February 2035, secured by water system and pledge of water revenues. The debt is paid out of the water department.	<b>387,168</b>	402,884
Revenue bond, due to Rural Development in monthly installments of \$1,275, including interest at 5.5 percent, maturing in January 2036, secured by a pledge of water revenues and substantially all District assets. This debt is paid out of the water department. (a)	<b>179,889</b>	185,138
State Revolving Fund Loan, due in monthly installments of \$4,323, including interest at 5.25 percent, maturing in January 2018, secured by a pledge of sewer revenues. This debt is paid out of the sewer department.	<b>54,516</b>	102,167
	<b>8,024,789</b>	8,234,485
Less Current Portion	<b>217,015</b>	207,224
	<b>\$ 7,807,774</b>	\$ 8,027,261

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**(6) Long-Term Debt (Continued)**

The annual requirements to amortize debt outstanding are as follows:

2017	\$ 217,015	\$ 329,909
2018	178,372	320,996
2019	181,663	313,383
2020	187,997	307,048
2021	194,997	296,516
2022 - 2026	1,109,995	1,365,233
2027 - 2031	1,032,937	1,154,919
2032- 2036	1,243,086	908,137
2037 - 2041	1,329,461	643,759
2042 - 2046	1,631,518	341,702
2047 - 2049	717,748	129,559
Total	<u>\$ 8,024,789</u>	<u>\$ 6,111,161</u>

A debt reserve is maintained in accordance with debt covenants for **\$358,999** and \$338,467 at December 31, 2016 and 2015, which exceeds the current year minimum requirement of **\$310,364** and \$270,104, respectively, required by the related debt agreements, and is reported as restricted for Debt Service in the accompanying Balance Sheets.

The District has pledged future revenues associated with various debt agreements. All debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Pledged revenues associated with each debt issue have been pledged through the maturity date listed above for each debt issue. Below is a comparison, by department, of principal and interest payments and total pledged revenues for the current year.

	Water	Sewer
Current Year Principal and Interest	\$ 495,045	\$ 51,879
Pledged Revenue	1,593,000	1,208,912

(a) On March 1, 2017, the District refinanced these bonds. The new agreement requires monthly installments of \$6,479, including interest at 4.0 percent, maturing in March 2027, secured by the water system and a pledge of water revenues.

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**(7) Segment Information**

Summarized financial information for the water and sewer departments is presented below:

*Balance Sheets at December 31:*

	Water		Sewer		Total	
	2016	2015	2016	2015	2016	2015
<b>Assets</b>						
<b>Current Assets</b>						
Cash and Cash						
Equivalents	\$ 865,452	\$ 882,528	\$ 653,940	\$ 861,180	\$ 1,519,392	\$ 1,743,708
Investments	151,290	250,396	508,990	270,552	660,280	520,948
Other Current Assets	192,276	180,477	156,525	148,137	348,801	328,614
<b>Net Capital Assets,</b>						
Depreciated	14,699,873	14,457,923	5,079,431	4,998,868	19,779,304	19,456,791
<b>Net Capital Assets, Not</b>						
Depreciated	1,514,902	1,514,902	271,728	271,728	1,786,630	1,786,630
Other Assets	38,076	36,228	38,076	36,228	76,152	72,456
<b>Restricted Cash and Cash</b>						
Equivalents	310,364	270,104	-	-	310,364	270,104
<b>Total Assets</b>	<b>\$ 17,772,233</b>	<b>\$ 17,592,558</b>	<b>\$ 6,708,690</b>	<b>\$ 6,586,693</b>	<b>\$ 24,480,923</b>	<b>\$ 24,179,251</b>
<b>Liabilities</b>						
<b>Current Liabilities</b>						
	\$ 302,675	\$ 294,523	\$ 74,425	\$ 71,860	\$ 377,100	\$ 366,383
<b>Noncurrent Liabilities</b>						
	7,803,471	7,972,745	4,303	54,516	7,807,774	8,027,261
<b>Total Liabilities</b>	<b>8,106,146</b>	<b>8,267,268</b>	<b>78,728</b>	<b>126,376</b>	<b>8,184,874</b>	<b>8,393,644</b>
<b>Net Position</b>						
<b>Net Investment in Capital</b>						
Assets	8,244,502	7,840,507	5,296,643	5,168,429	13,541,145	13,008,936
Restricted for Debt Service	310,364	270,104	-	-	310,364	270,104
Unrestricted	1,111,221	1,214,679	1,333,319	1,291,888	2,444,540	2,506,567
<b>Total Net Position</b>	<b>9,666,087</b>	<b>9,325,290</b>	<b>6,629,962</b>	<b>6,460,317</b>	<b>16,296,049</b>	<b>15,785,607</b>
<b>Total Liabilities and</b>						
<b>Net Position</b>	<b>\$ 17,772,233</b>	<b>\$ 17,592,558</b>	<b>\$ 6,708,690</b>	<b>\$ 6,586,693</b>	<b>\$ 24,480,923</b>	<b>\$ 24,179,251</b>

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**(7) Segment Information (Continued)**

*Statements of Revenues, Expenses and Changes in Net Position for the years ended December 31:*

	Water		Sewer		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
User Charges	\$ 1,593,000	\$ 1,448,195	\$ 1,208,912	\$ 1,183,592	\$ 2,801,912	\$ 2,631,787
Late Fees	41,373	44,592	41,372	44,591	82,745	89,183
Charges for Services and Fees, Net	56,182	50,422	6,607	2,395	62,789	52,817
Permits	-	-	10,750	12,750	10,750	12,750
<b>Total Revenues</b>	<b>1,690,555</b>	<b>1,543,209</b>	<b>1,267,641</b>	<b>1,243,328</b>	<b>2,958,196</b>	<b>2,786,537</b>
<b>Costs of Sales</b>	<b>11,110</b>	<b>12,215</b>	<b>671,280</b>	<b>658,413</b>	<b>682,390</b>	<b>670,628</b>
<b>Gross Margin</b>	<b>1,679,445</b>	<b>1,530,994</b>	<b>596,361</b>	<b>584,915</b>	<b>2,275,806</b>	<b>2,115,909</b>
Depreciation Expense	359,422	361,420	114,387	103,919	473,809	465,339
<b>Other Operating Expenses</b>						
Salaries and Wages	263,877	283,988	113,089	121,709	376,966	405,697
Insurance - Health	111,652	92,042	47,851	39,446	159,503	131,488
Chemical Supplies - Water	135,708	123,650	-	-	135,708	123,650
Utilities and Telephone	91,012	82,753	39,005	35,465	130,017	118,218
Repairs	112,216	79,283	972	2,572	113,188	81,855
Engineering Costs	100,380	26,418	2,356	2,748	102,736	29,166
Maintenance Supplies	57,585	41,048	24,679	17,592	82,264	58,640
Office Supplies/Equipment	32,313	29,792	32,312	29,791	64,625	59,583
Meters and Equipment	39,324	22,160	967	1,826	40,291	23,986
Insurance - Umbrella	22,658	20,405	9,710	8,745	32,368	29,150
Taxes - Payroll	20,516	22,550	8,792	9,664	29,308	32,214
Sewer Main Cleaning	-	-	28,940	28,453	28,940	28,453
Contract Agreements	19,612	19,395	8,405	8,312	28,017	27,707
Miscellaneous	12,062	14,709	12,062	11,345	24,124	26,054
Professional Fees	14,602	15,553	8,281	8,740	22,883	24,293
Retirement Plan Funding	15,839	17,522	6,788	7,510	22,627	25,032
Master Plan	11,065	18,712	11,066	18,713	22,131	37,425
Truck and Equipment Expense	15,109	13,463	6,475	5,770	21,584	19,233
Trustee Fees	10,350	10,425	10,350	10,425	20,700	20,850
Dues, Donations, and Subscriptions	13,882	16,703	5,949	7,158	19,831	23,861
Trustee Travel	4,190	3,785	4,190	3,785	8,380	7,570
Conference and Travel	3,617	4,282	1,550	1,835	5,167	6,117
Public Relations	2,321	3,510	2,322	3,511	4,643	7,021
Investment Expense	386	231	407	229	793	460
Advertising	310	70	311	71	621	141
<b>Total Other Operating Expenses</b>	<b>1,110,586</b>	<b>962,449</b>	<b>386,829</b>	<b>385,415</b>	<b>1,497,415</b>	<b>1,347,864</b>
<b>Operating Income</b>	<b>209,437</b>	<b>207,125</b>	<b>95,145</b>	<b>95,581</b>	<b>304,582</b>	<b>302,706</b>

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2016 AND 2015**

**(7) Segment Information (Concluded)**

*Statements of Revenues, Expenses and Changes in Net Position for the years ended December 31 (Continued):*

	Water		Sewer		Total	
	2016	2015	2016	2015	2016	2015
<b>Non-Operating Income (Expense)</b>						
Property Taxes	-	-	237,401	223,590	237,401	223,590
Donated Systems	117,831	296,182	115,632	198,287	233,463	494,469
Lease Income	35,000	-	-	-	35,000	-
Gain on Capital Asset Disposal	9,851	-	9,851	-	19,702	-
Miscellaneous Income	3,187	4,540	3,187	4,540	6,374	9,080
Interest Expense	(321,089)	(327,378)	(16,139)	(19,679)	(337,228)	(347,057)
<b>Total Non-Operating Income (Expense)</b>	<b>(155,220)</b>	<b>(26,656)</b>	<b>349,932</b>	<b>406,738</b>	<b>194,712</b>	<b>380,082</b>
<b>Income before Investment Income</b>	<b>54,217</b>	<b>180,469</b>	<b>445,077</b>	<b>502,319</b>	<b>499,294</b>	<b>682,788</b>
<b>Investment Income</b>	<b>4,801</b>	<b>1,269</b>	<b>6,347</b>	<b>7,707</b>	<b>11,148</b>	<b>8,976</b>
<b>Income Before Transfers</b>	<b>59,018</b>	<b>181,738</b>	<b>451,424</b>	<b>510,026</b>	<b>510,442</b>	<b>691,764</b>
<b>Transfers</b>	<b>281,779</b>	<b>326,988</b>	<b>(281,779)</b>	<b>(326,988)</b>	<b>-</b>	<b>-</b>
<b>Change in Net Position</b>	<b>340,797</b>	<b>508,726</b>	<b>169,645</b>	<b>183,038</b>	<b>510,442</b>	<b>691,764</b>
Beginning Net Position	9,325,290	8,816,564	6,460,317	6,277,279	15,785,607	15,093,843
<b>Ending Net Position</b>	<b>\$ 9,666,087</b>	<b>\$ 9,325,290</b>	<b>\$ 6,629,962</b>	<b>\$ 6,460,317</b>	<b>\$ 16,296,049</b>	<b>\$ 15,785,607</b>

*Statements of Cash Flows for the years ended December 31:*

	Water		Sewer		Total	
	2016	2015	2016	2015	2016	2015
Net Cash Flows From Operating Activities	\$ 557,984	\$ 591,891	\$ 201,146	\$ 211,232	\$ 759,130	\$ 803,123
Net Cash Flows From Noncapital Financing Activities	319,966	331,528	(41,191)	(98,858)	278,775	232,670
Net Cash Flows From Capital and Related Financing Activities	(956,825)	(709,814)	(133,256)	(59,907)	(1,090,081)	(769,721)
Net Cash Flows From Investing Activities	102,059	(151,730)	(233,939)	(45,377)	(131,880)	(197,107)
Net Change in Cash and Cash Equivalents	23,184	61,875	(207,240)	7,090	(184,056)	68,965
Cash and Cash Equivalents -- Beginning	1,152,632	1,090,757	861,180	854,090	2,013,812	1,944,847
<b>Cash and Cash Equivalents -- Ending</b>	<b>\$ 1,175,816</b>	<b>\$ 1,152,632</b>	<b>\$ 653,940</b>	<b>\$ 861,180</b>	<b>\$ 1,829,756</b>	<b>\$ 2,013,812</b>

## OTHER REPORTS



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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees  
Rapid Valley Sanitary District/Water Service  
Rapid City, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **RAPID VALLEY SANITARY DISTRICT/WATER SERVICE** (the District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 10, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Auditor's Findings as Findings #2016-001 and #2016-002 to be material weaknesses.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Auditor's Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

### **District's Response to Findings**

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



Board of Trustees

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**Purpose of this Report**

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

A handwritten signature in dark ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, professional style.

KETEL THORSTENSON, LLP  
Certified Public Accountants

April 10, 2017

## **RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

### **AUDITOR'S FINDINGS**

**DECEMBER 31, 2016**

#### **CURRENT YEAR AUDIT FINDINGS**

##### **Material Weaknesses in Internal Control**

###### 2016-001 Finding: Audit Adjustments:

Condition and Cause: As in prior years, we were requested to make adjustments to reclassify principal borrowings and repayments of long-term debt, adjust capital asset and related depreciation balances, record donated water and sewer systems, and adjust accounts receivable balances. Total adjustments resulted in a \$56,220 decrease in reported net income.

Criteria and Effect: The District maintains its books on a cash-basis of accounting throughout the year and has processes in place to review monthly financial statements in this format, which is consistent with the budgeting process. Material audit adjustments were necessary to prepare the financial statements according to accounting principles generally accepted in the United States of America.

Recommendation: We recommend management continue to provide information necessary to prepare accrual-based financial statements at year end as part of the audit and to review all audit adjustments posted for propriety.

Views of Responsible Officials: See District's Corrective Action Plan.

###### 2016-002 Finding: Financial Statement Preparation:

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

Criteria and Effect: It is our responsibility to inform the Board that this deficiency could result in a material misstatement to the financial statements that would have not been prevented or detected by the District's management.

Recommendation: As in prior years, we have instructed management to review a draft of the auditor-prepared financial statements in detail for their accuracy. We have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's statements. We are satisfied the appropriate steps have been taken to provide the District with complete financial statements. It is the District's responsibility to make the ultimate decision to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials: See District's Corrective Action Plan.

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**STATEMENT OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2016**

Several year-end accruals and annual adjustments were posted in the current and prior years as part of the audit process. Finding #2015-001 will be repeated in the current year as Finding #2016-001.

The District does not consider the additional costs of preparing its financial statements to be necessary. Finding #2015-002 will be repeated in the current year as Finding #2016-002.

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**CORRECTIVE ACTION PLAN  
DECEMBER 31, 2016**

**2016-001 Finding: Internal Control over Significant Accounts:**

The District maintains its records on a cash basis throughout the year for budgetary comparison reasons. The District annually reviews the year-end adjustments provided by the auditors and posts the entries to the general ledger. The General Manager is responsible for the annual review of these adjustments.

**2016-002 Finding: Financial Statement Preparation:**

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