



**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2017 AND 2016



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

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**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**TABLE OF CONTENTS**

	<u>PAGE</u>
Independent Auditor’s Report . . . . .	3-4
Management’s Discussion and Analysis . . . . .	5-8
<i>Financial Statements:</i>	
Balance Sheets. . . . .	9-10
Statements of Revenues, Expenses and Changes in Net Position . . . . .	11
Statements of Cash Flows . . . . .	12
Notes to Financial Statements . . . . .	13-22
<i>Other Reports:</i>	
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 <i>Government Auditing Standards</i> . . . . .	24-25
Schedule of Findings . . . . .	26
Summary Schedule of Prior Audit Findings . . . . .	27
Corrective Action Plan . . . . .	28



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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, 2017 and 2016, 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, 2017 and 2016, 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 five through eight, 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, 2018, 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, 2018

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

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, 2017. 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 \$3,170,703 while cost of sales and operating expenses were \$2,756,007. This represents \$414,696 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 2017 include: Homestead water main, Joker water main, Orchard Meadows Phase V, and Homestead Phase IV. The increase in new development within the District’s boundaries has continued, which will also contribute to an increase in income in 2018.

**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>2017</b>	2016	2015
Current Assets	<b>\$ 3,035,459</b>	\$ 2,528,473	\$ 2,593,270
Net Capital Assets being Depreciated	<b>19,708,071</b>	19,779,304	19,456,791
Capital Assets not being Depreciated	<b>1,786,630</b>	1,786,630	1,786,630
Other Assets	<b>428,097</b>	386,516	342,560
<b>Total Assets</b>	<b>\$ 24,958,257</b>	\$ 24,480,923	\$ 24,179,251
Long-Term Debt Outstanding	<b>\$ 7,825,117</b>	\$ 8,024,789	\$ 8,234,485
Other Liabilities	<b>162,730</b>	160,085	159,159
<b>Total Liabilities</b>	<b>\$ 7,987,847</b>	\$ 8,184,874	\$ 8,393,644
Net Position:			
Net Investment in Capital Assets	<b>\$ 13,669,584</b>	\$ 13,541,145	\$ 13,008,936
Restricted for Debt Service	<b>335,325</b>	310,364	270,104
Unrestricted	<b>2,965,501</b>	2,444,540	2,506,567
<b>Total Net Position</b>	<b>\$ 16,970,410</b>	\$ 16,296,049	\$ 15,785,607
Beginning Net Position	<b>\$ 16,296,049</b>	\$ 15,785,607	\$ 15,093,843
Increase in Net Position	<b>674,361</b>	510,442	691,764
Percentage of Increase in Net Position	<b>4.14%</b>	3.23%	4.58%

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2017**

**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 two State Revolving Fund Loans, three Rural Economic and Community Development Loans, and one Bank loan 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>2017</b>	2016	2015
Operating Revenues	<b>\$ 3,170,703</b>	\$ 2,958,196	\$ 2,786,537
Non-Operating Income	<b>299,903</b>	309,625	241,646
Contributions from Developers/Others	<b>287,403</b>	233,463	494,469
<b>Total Revenue</b>	<b>3,758,009</b>	3,501,284	3,522,652
Cost of Sales	<b>(696,133)</b>	(682,390)	(670,628)
Operating Expenses	<b>(2,059,874)</b>	(1,971,224)	(1,813,203)
Non-Operating Expense	<b>(327,641)</b>	(337,228)	(347,057)
<b>Total Expenses</b>	<b>(3,083,648)</b>	(2,990,842)	(2,830,888)
<b>Change in Net Position</b>	<b>\$ 674,361</b>	\$ 510,442	\$ 691,764
<b>Net Position</b>	<b>\$ 16,970,410</b>	\$ 16,296,049	\$ 15,785,607

In 2017, operating revenue increased by 7.18 percent to \$3,170,703 while expenditures increased by 3.10 percent to \$3,083,648. Factors contributing to these results included:

- The summer of 2017 was a drier year in terms of weather to 2016. 2017 had approximately 1.3 percent less water consumption than 2016. Although we sold slightly less water, the 6 percent increase in the minimum water charge and the 5 percent increase in the sewer minimum charge which went into effect January 1, 2017 contributed to the increase in operating revenue.
- 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, 2017**

**CAPITAL ASSET ADMINISTRATION**

By the end of 2017, the District had invested \$31,205,843 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 \$397,162 or 1.29 percent over the last year.

	<b>Balance December 31, 2017</b>	Balance December 31, 2016	Balance December 31, 2015
<i>Capital Assets being Depreciated</i>			
Buildings	\$ 824,560	\$ 824,560	\$ 824,560
Water and Sewer Systems	28,220,162	27,823,000	27,174,990
Office Furniture	25,501	25,501	27,015
Equipment and Vehicles	348,990	348,990	229,911
	<b>29,419,213</b>	29,022,051	28,256,476
<i>Less Accumulated Depreciation</i>	<b>9,711,142</b>	9,242,747	8,799,685
<b>Net Capital Assets being Depreciated</b>	<b>\$ 19,708,071</b>	\$ 19,779,304	\$ 19,456,791
<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	-	-	-
<b>Total Capital Assets not being Depreciated</b>	<b>\$ 1,786,630</b>	\$ 1,786,630	\$ 1,786,630

The District's fiscal year 2018 capital budget projects include:

- Water treatment plant conversion to Nanostone ceramic filters
- Longview water main extension
- Legacy and Earth Drive water main extension
- Office remodel

**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, 2015	\$ 8,234,485
Principal Repayments	(209,696)
Balance -- December 31, 2016	8,024,789
Principal Repayments	(839,513)
Principal Borrowings	639,841
<b>Balance -- December 31, 2017</b>	<b>\$ 7,825,117</b>

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)  
DECEMBER 31, 2017**

**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 \$238,678 that will be collected in calendar year 2018. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes by \$7,310. This year's property tax levy requests increased approximately 3.2 percent from 2017.

The District's adopted expense budget for the next fiscal year will increase approximately 4.5 percent to \$3,048,733. It is anticipated that expenses should be comparable to 2017. 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 2018 budget, the District expects that the results for 2018 will remain constant with the established rate increases for water and sewer which went into effect in January 2017. There was an increase in the monthly minimum charge for water and the monthly minimum charge for sewer effective January 1, 2018. 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 District is also utilizing a satellite imaging leak detection program through Utilis to locate and reduce water loss. 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 \$30,900 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, 2017 AND 2016**

<b>ASSETS (Note 7)</b>	<b>2017</b>	<b>2016</b>
<b>Current Assets</b>		
Cash and Cash Equivalents (Notes 1 and 7)	\$ 1,994,581	\$ 1,519,392
Investments (Note 1)	664,995	660,280
Accounts Receivable	143,788	123,527
Unbilled Accounts Receivable	167,656	167,656
Prepaid Expenses	64,439	57,618
<b>Total Current Assets</b>	<b>3,035,459</b>	<b>2,528,473</b>
<b>Capital Assets being Depreciated (Note 6)</b>		
Buildings	824,560	824,560
Water and Sewer Systems	28,220,162	27,823,000
Office Furniture	25,501	25,501
Equipment and Vehicles	348,990	348,990
	<b>29,419,213</b>	<b>29,022,051</b>
Less Accumulated Depreciation	9,711,142	9,242,747
	<b>19,708,071</b>	<b>19,779,304</b>
<b>Capital Assets not being Depreciated (Note 6)</b>		
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 7)	335,325	310,364
Utility Investment	92,772	76,152
	<b>428,097</b>	<b>386,516</b>
<b>TOTAL ASSETS</b>	<b>\$ 24,958,257</b>	<b>\$ 24,480,923</b>

The accompanying notes are an integral part of these statements.

<b>LIABILITIES AND NET POSITION</b>	<b>2017</b>	<b>2016</b>
<b>Current Liabilities</b>		
Current Portion of Long-Term Debt (Note 7)	\$ 191,072	\$ 217,015
Accounts Payable - Operations	-	16,359
Accrued Expenses	84,865	75,250
Meter Deposits	77,865	68,476
<b>Total Current Liabilities</b>	<b>353,802</b>	<b>377,100</b>
<b>Long-Term Liabilities (Note 7)</b>		
Long-Term Debt	7,825,117	8,024,789
Less Current Portion Shown Above	191,072	217,015
	<b>7,634,045</b>	<b>7,807,774</b>
<b>Net Position</b>		
Net Investment in Capital Assets	13,669,584	13,541,145
Restricted for Debt Service (Note 7)	335,325	310,364
Unrestricted	2,965,501	2,444,540
<b>Total Net Position</b>	<b>16,970,410</b>	<b>16,296,049</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 24,958,257</b>	<b>\$ 24,480,923</b>

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Revenues</b>		
Water Charges (Note 7)	\$ 1,733,642	\$ 1,593,000
Sewer Charges (Note 7)	1,274,897	1,208,912
Late Fees	83,615	82,745
Charges for Services and Fees (Net of Cost of Sales of \$518 and \$-0- for December 31, 2017 and 2016, Respectively)	70,049	62,789
Permits	8,500	10,750
<b>Total Revenues</b>	<b>3,170,703</b>	<b>2,958,196</b>
<b>Costs of Sales</b>		
Water Purchases	13,558	11,110
Sewer Treatment Expense	682,575	671,280
	<b>696,133</b>	<b>682,390</b>
<b>Gross Margin</b>	<b>2,474,570</b>	<b>2,275,806</b>
<b>Operating Expenses</b>		
Operating	990,494	909,010
Personnel (Note 5)	600,985	588,405
Depreciation	468,395	473,809
	<b>2,059,874</b>	<b>1,971,224</b>
<b>Operating Income</b>	<b>414,696</b>	<b>304,582</b>
<b>Non-Operating Income (Expense)</b>		
Property Taxes (Note 4)	234,142	237,401
Donated Systems	287,403	233,463
Lease Income	30,750	35,000
Gain on Sale of Capital Assets	-	19,702
Investment Income	27,047	11,148
Miscellaneous Income	7,964	6,374
Interest Expense	(327,641)	(337,228)
	<b>259,665</b>	<b>205,860</b>
<b>Change in Net Position</b>	<b>674,361</b>	<b>510,442</b>
<b>Net Position -- Beginning of Year</b>	<b>16,296,049</b>	<b>15,785,607</b>
<b>Net Position -- End of Year</b>	<b>\$ 16,970,410</b>	<b>\$ 16,296,049</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from Customers	\$ 3,159,831	\$ 2,943,226
Payments to Suppliers	(1,693,448)	(1,595,700)
Payments to Employees	(607,729)	(588,396)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>858,654</b>	<b>759,130</b>
<b>Cash Flows From Noncapital Financing Activities</b>		
Miscellaneous Income	7,964	6,374
Lease Income	30,750	35,000
Property Taxes	234,142	237,401
<b>Net Cash Flows Provided by Noncapital Financing Activities</b>	<b>272,856</b>	<b>278,775</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Repayments of Long-Term Debt	(839,513)	(209,696)
Borrowings of Long-Term Debt	639,841	-
Purchases of Capital Assets	(109,759)	(562,859)
Proceeds from Sale of Capital Assets	-	19,702
Interest Paid	(327,641)	(337,228)
<b>Net Cash Flows Used in Capital and Related Financing Activities</b>	<b>(637,072)</b>	<b>(1,090,081)</b>
<b>Cash Flows From Investing Activities</b>		
Interest Received	27,047	11,148
Purchases of Investments	(4,715)	(139,332)
Change in Utility Investment	(16,620)	(3,696)
<b>Net Cash Flows Provided by (Used in) Investing Activities</b>	<b>5,712</b>	<b>(131,880)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>500,150</b>	<b>(184,056)</b>
<b>Cash and Cash Equivalents -- Beginning of Year</b>	<b>1,829,756</b>	<b>2,013,812</b>
<b>Cash and Cash Equivalents -- End of Year</b>	<b>\$ 2,329,906</b>	<b>\$ 1,829,756</b>
<b>Reconciliation of Operating Income to Net Cash Flows</b>		
<b>Provided by Operating Activities:</b>		
Operating Income	\$ 414,696	\$ 304,582
<i>Adjustments to Reconcile Operating Income to Net Cash Flows</i>		
<i>Provided by Operating Activities:</i>		
Depreciation	468,395	473,809
<i>Changes in Assets and Liabilities:</i>		
Accounts Receivable	(20,261)	(2,985)
Unbilled Accounts Receivable	-	(12,903)
Prepaid Expenses	(6,821)	(4,299)
Accounts Payable and Accrued Expenses	(6,744)	8
Meter Deposits	9,389	918
<b>Net Cash Flows Provided by Operating Activities</b>	<b>\$ 858,654</b>	<b>\$ 759,130</b>
<b>Supplemental Disclosures of Noncash Activities</b>		
Capital Assets Donated	\$ 287,403	\$ 233,463
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, 2017 AND 2016**

**(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, 2017, 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, 2017 AND 2016**

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

**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) 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.

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016**

**(2) Deposits and Investments (Continued)**

The District’s cash and cash equivalents consisted 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, 2017, and 2016. 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. The money market balances are measured at a Level 1 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.

The District’s investments consist of the following:

	Credit Rating	Maturity	Fair Value at December 31, 2017
<i>Investments exceeding five percent:</i>			
Ally BK Certificate of Deposit	Unrated	3-18 months	49,983
Ally BK Certificate of Deposit	Unrated	3-18 months	49,982
Ally BK Certificate of Deposit	Unrated	3-18 months	49,941
Ally BK Certificate of Deposit	Unrated	3-18 months	49,941
State Bank Ind Certificate of Deposit	Unrated	3-18 months	49,896
State Bank Ind Certificate of Deposit	Unrated	3-18 months	49,896
Nonnegotiable Certificates of Deposit			359,942
<i>Investments less than five percent:</i>			
Money Market			5,414
			<b>\$ 664,995</b>

**(3) 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, 2017 AND 2016**

**(4) Property Tax**

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

Property taxes are recorded as receivables in the year they are budgeted. Accordingly, taxes levied in October 2017, have not been recorded as a receivable in the accompanying Balance Sheets as the use of such has been budgeted for the 2018 fiscal year.

**(5) 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, 2017, 2016, 2015, and 2014 was **\$23,404**, \$22,627, \$25,032, and \$22,901, respectively.

Generally accepted accounting principles 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, 2017, SDRS is 100.1 percent funded and accordingly has a net pension asset based on actuarial assumptions including inflation, investment return, mortality tables, and other factors. The District's share of the net pension asset was **.0193** percent and .0205 percent at June 30, 2017 and 2016, respectively. Based on the overall insignificant impact to the financial statements, the District has elected not to record the new pension standards. For the year ended December 31, 2017, if the District had recorded the pension activity, a net pension asset totaling approximately **\$1,752** would have been recorded along with deferred outflows of resources totaling approximately **\$130,442** for a net increase in assets of **\$132,195**. For the year ended December 31, 2016, 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 revenue (costs) of approximately **\$39,557** and (\$29,000) would have been recorded for the years ending December 31, 2017 and 2016, respectively.



**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016**

**(6) Changes in Capital Assets**

Changes in capital assets were as follows during the years ended December 31, 2017 and 2016:

	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>

	Balance December 31, 2016	Additions	Transfers/ Dispositions	Balance December 31, 2017
<i>Capital Assets being Depreciated</i>				
Buildings	\$ 824,560	\$ -	\$ -	\$ 824,560
Water and Sewer Systems	27,823,000	397,162	-	28,220,162
Office Furniture	25,501	-	-	25,501
Equipment and Vehicles	348,990	-	-	348,990
	29,022,051	397,162	-	29,419,213
<i>Less Accumulated Depreciation</i>	9,242,747	468,395	-	9,711,142
<b>Net Capital Assets being Depreciated</b>	<b>\$ 19,779,304</b>	<b>\$ (71,233)</b>	<b>\$ -</b>	<b>\$ 19,708,071</b>

<i>Capital Assets not being Depreciated</i>				
Land	\$ 543,457	\$ -	\$ -	\$ 543,457
Water Rights	1,243,173	-	-	1,243,173
Construction in Progress	-	87,636	(87,636)	-
<b>Net Capital Assets not being Depreciated</b>	<b>\$ 1,786,630</b>	<b>\$ 87,636</b>	<b>\$ (87,636)</b>	<b>\$ 1,786,630</b>

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016**

**(7) Long-Term Debt**

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

Balance -- December 31, 2015	\$ 8,234,485
Principal Repayments	(209,696)
Balance -- December 31, 2016	8,024,789
Principal Repayments	(839,513)
Principal Borrowings	639,841
Balance -- December 31, 2017	<b>\$ 7,825,117</b>

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

	<u>2017</u>	<u>2016</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>\$ 2,591,570</b>	\$ 2,632,924
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>2,505,821</b>	2,548,208
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>1,752,317</b>	1,781,618
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>370,975</b>	387,168
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>4,303</b>	54,516
Loan due in monthly installments of \$6,479, including interest at 4.00 percent, maturing in March 2027, secured by a pledge of water revenues, all deposit accounts, and all equipment. This debt is paid out of the water department.	<b>600,131</b>	-
Debt Refinanced in 2017	-	620,355
	<b>7,825,117</b>	8,024,789
Less Current Portion	<b>191,072</b>	217,015
	<b>\$ 7,634,045</b>	<b>\$ 7,807,774</b>

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016**

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

The annual requirements to amortize debt outstanding are as follows:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 191,072	\$ 313,275
2019	194,298	305,727
2020	200,478	299,547
2021	207,391	289,102
2022	217,156	282,869
2023 - 2027	1,165,398	1,276,259
2028 - 2032	1,050,576	1,060,780
2033- 2037	1,201,897	833,483
2038 - 2042	1,400,995	572,225
2043 - 2047	1,667,773	305,447
2048 - 2049	328,083	27,802
Total	<u>\$ 7,825,117</u>	<u>\$ 5,566,516</u>

A debt reserve is maintained in accordance with debt covenants for **\$379,561** and \$358,999 at December 31, 2017 and 2016, which exceeds the current year minimum requirement of **\$335,324** and \$310,364, 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.

	<u>Water</u>	<u>Sewer</u>
Current Year Principal and Interest	\$ 475,435	\$ 51,878
Pledged Revenue	1,733,642	1,274,897

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016**

**(8) Segment Information**

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

*Balance Sheets at December 31:*

	Water		Sewer		Total	
	2017	2016	2017	2016	2017	2016
<b>Assets</b>						
Current Assets						
Cash and Cash						
Equivalents	\$ 924,461	\$ 865,452	\$ 1,070,120	\$ 653,940	\$ 1,994,581	\$ 1,519,392
Investments	152,707	151,290	512,288	508,990	664,995	660,280
Other Current Assets	209,395	192,276	166,488	156,525	375,883	348,801
Net Capital Assets,						
Depreciated	14,648,437	14,699,873	5,059,634	5,079,431	19,708,071	19,779,304
Net Capital Assets, Not						
Depreciated	1,514,902	1,514,902	271,728	271,728	1,786,630	1,786,630
Other Assets	46,386	38,076	46,386	38,076	92,772	76,152
Restricted Cash and Cash						
Equivalents	335,325	310,364	-	-	335,325	310,364
<b>Total Assets</b>	<b>\$ 17,831,613</b>	<b>\$ 17,772,233</b>	<b>\$ 7,126,644</b>	<b>\$ 6,708,690</b>	<b>\$ 24,958,257</b>	<b>\$ 24,480,923</b>
<b>Liabilities</b>						
Current Liabilities	\$ 324,039	\$ 302,675	\$ 29,763	\$ 74,425	\$ 353,802	\$ 377,100
Noncurrent Liabilities	7,634,045	7,803,471	-	4,303	7,634,045	7,807,774
<b>Total Liabilities</b>	<b>7,958,084</b>	<b>8,106,146</b>	<b>29,763</b>	<b>78,728</b>	<b>7,987,847</b>	<b>8,184,874</b>
<b>Net Position</b>						
Net Investment in Capital						
Assets	8,342,525	8,244,502	5,327,059	5,296,643	13,669,584	13,541,145
Restricted for Debt Service	335,325	310,364	-	-	335,325	310,364
Unrestricted	1,195,679	1,111,221	1,769,822	1,333,319	2,965,501	2,444,540
<b>Total Net Position</b>	<b>9,873,529</b>	<b>9,666,087</b>	<b>7,096,881</b>	<b>6,629,962</b>	<b>16,970,410</b>	<b>16,296,049</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 17,831,613</b>	<b>\$ 17,772,233</b>	<b>\$ 7,126,644</b>	<b>\$ 6,708,690</b>	<b>\$ 24,958,257</b>	<b>\$ 24,480,923</b>

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016**

**(8) Segment Information (Continued)**

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

	Water		Sewer		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
User Charges	\$ 1,733,642	\$ 1,593,000	\$ 1,274,897	\$ 1,208,912	\$ 3,008,539	\$ 2,801,912
Late Fees	41,808	41,373	41,807	41,372	83,615	82,745
Charges for Services and Fees, Net	58,026	56,182	12,023	6,607	70,049	62,789
Permits	-	-	8,500	10,750	8,500	10,750
<b>Total Revenues</b>	<b>1,833,476</b>	<b>1,690,555</b>	<b>1,337,227</b>	<b>1,267,641</b>	<b>3,170,703</b>	<b>2,958,196</b>
<b>Costs of Sales</b>	<b>13,558</b>	<b>11,110</b>	<b>682,575</b>	<b>671,280</b>	<b>696,133</b>	<b>682,390</b>
<b>Gross Margin</b>	<b>1,819,918</b>	<b>1,679,445</b>	<b>654,652</b>	<b>596,361</b>	<b>2,474,570</b>	<b>2,275,806</b>
Depreciation Expense	351,878	359,422	116,517	114,387	468,395	473,809
<b>Other Operating Expenses</b>						
Salaries and Wages	279,859	263,877	119,940	113,089	399,799	376,966
Chemical Supplies - Water	150,913	135,708	-	-	150,913	135,708
Insurance - Health	103,277	111,652	44,262	47,851	147,539	159,503
Utilities and Telephone	98,331	91,012	42,141	39,005	140,472	130,017
Repairs	101,694	112,216	22,771	972	124,465	113,188
Meters and Equipment	99,043	39,324	1,315	967	100,358	40,291
Maintenance Supplies	64,164	57,585	27,499	24,679	91,663	82,264
Engineering Costs	74,585	100,380	7,729	2,356	82,314	102,736
Office Supplies/Equipment	37,712	32,313	37,711	32,312	75,423	64,625
Insurance - Umbrella	23,834	22,658	10,214	9,710	34,048	32,368
Taxes - Payroll	21,169	20,516	9,073	8,792	30,242	29,308
Sewer Main Cleaning	-	-	30,231	28,940	30,231	28,940
Contract Agreements	17,001	19,612	7,286	8,405	24,287	28,017
Dues, Donations, and Subscriptions	16,504	13,882	7,073	5,949	23,577	19,831
Retirement Plan Funding	16,383	15,839	7,021	6,788	23,404	22,627
Professional Fees	13,469	14,602	8,119	8,281	21,588	22,883
Trustee Fees	10,553	10,350	10,553	10,350	21,106	20,700
Truck and Equipment Expense	12,679	15,109	5,434	6,475	18,113	21,584
Miscellaneous	8,636	12,062	8,636	12,062	17,272	24,124
Master Plan	5,932	11,065	5,933	11,066	11,865	22,131
Trustee Travel	4,541	4,190	4,541	4,190	9,082	8,380
Conference and Travel	4,943	3,617	2,118	1,550	7,061	5,167
Public Relations	3,113	2,321	3,114	2,322	6,227	4,643
Investment Expense	50	386	170	407	220	793
Advertising	105	310	105	311	210	621
<b>Total Other Operating Expenses</b>	<b>1,168,490</b>	<b>1,110,586</b>	<b>422,989</b>	<b>386,829</b>	<b>1,591,479</b>	<b>1,497,415</b>
<b>Operating Income</b>	<b>299,550</b>	<b>209,437</b>	<b>115,146</b>	<b>95,145</b>	<b>414,696</b>	<b>304,582</b>

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2017 AND 2016**

**(8) Segment Information (Concluded)**

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

	Water		Sewer		Total	
	2017	2016	2017	2016	2017	2016
<b>Non-Operating Income (Expense)</b>						
Property Taxes	-	-	<b>234,142</b>	237,401	<b>234,142</b>	237,401
Donated Systems	<b>190,682</b>	117,831	<b>96,721</b>	115,632	<b>287,403</b>	233,463
Lease Income	<b>30,750</b>	35,000	-	-	<b>30,750</b>	35,000
Gain on Capital Asset Disposal	-	9,851	-	9,851	-	19,702
Miscellaneous Income	<b>3,982</b>	3,187	<b>3,982</b>	3,187	<b>7,964</b>	6,374
Interest Expense	<b>(325,976)</b>	(321,089)	<b>(1,665)</b>	(16,139)	<b>(327,641)</b>	(337,228)
<b>Total Non-Operating Income (Expense)</b>	<b>(100,562)</b>	(155,220)	<b>333,180</b>	349,932	<b>232,618</b>	194,712
<b>Income before Investment Income</b>	<b>198,988</b>	54,217	<b>448,326</b>	445,077	<b>647,314</b>	499,294
<b>Investment Income</b>	<b>6,346</b>	4,801	<b>20,701</b>	6,347	<b>27,047</b>	11,148
<b>Income Before Transfers</b>	<b>205,334</b>	59,018	<b>469,027</b>	451,424	<b>674,361</b>	510,442
<b>Transfers</b>	<b>2,108</b>	281,779	<b>(2,108)</b>	(281,779)	-	-
<b>Change in Net Position</b>	<b>207,442</b>	340,797	<b>466,919</b>	169,645	<b>674,361</b>	510,442
Beginning Net Position	<b>9,666,087</b>	9,325,290	<b>6,629,962</b>	6,460,317	<b>16,296,049</b>	15,785,607
<b>Ending Net Position</b>	<b>\$ 9,873,529</b>	\$ 9,666,087	<b>\$ 7,096,881</b>	\$ 6,629,962	<b>\$ 16,970,410</b>	\$ 16,296,049

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

	Water		Sewer		Total	
	2017	2016	2017	2016	2017	2016
Net Cash Flows From Operating Activities	\$ <b>635,705</b>	\$ 557,984	\$ <b>222,949</b>	\$ 201,146	\$ <b>858,654</b>	\$ 759,130
Net Cash Flows From Noncapital Financing Activities	<b>36,840</b>	319,966	<b>236,016</b>	(41,191)	<b>272,856</b>	278,775
Net Cash Flows From Capital and Related Financing Activities	<b>(585,194)</b>	(956,825)	<b>(51,878)</b>	(133,256)	<b>(637,072)</b>	(1,090,081)
Net Cash Flows From Investing Activities	<b>(3,381)</b>	102,059	<b>9,093</b>	(233,939)	<b>5,712</b>	(131,880)
Net Change in Cash and Cash Equivalents	<b>83,970</b>	23,184	<b>416,180</b>	(207,240)	<b>500,150</b>	(184,056)
Cash and Cash Equivalents -- Beginning	<b>1,175,816</b>	1,152,632	<b>653,940</b>	861,180	<b>1,829,756</b>	2,013,812
<b>Cash and Cash Equivalents -- Ending</b>	<b>\$ 1,259,786</b>	\$ 1,175,816	<b>\$ 1,070,120</b>	\$ 653,940	<b>\$ 2,329,906</b>	\$ 1,829,756

## OTHER REPORTS



# Ketel Thorstenson, LLP

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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, 2017, 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, 2018.

### **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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as #2017-001 and #2017-002, 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, flowing style.

KETEL THORSTENSON, LLP  
Certified Public Accountants

April 10, 2018

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2017**

**CURRENT YEAR AUDIT FINDINGS**

**Material Weaknesses in Internal Control**

2017-001 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 assets and related depreciation balances, record donated water and sewer systems, and adjust accounts receivable, accounts payable, accrued vacation, and capital credits balances. Total adjustments resulted in a \$49,306 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.

2017-002 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**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2017**

Finding No. 2016-001: Audit Adjustments

*Status:* The District made efforts to record all year-end entries, but several audit adjustments were made.

*Initial Year Report:* Originally issued years ago.

*Reasons for Recurrence and Corrective Action Plan:* The finding is altered based on specific audit adjustments each year, and is repeated in the Schedule of Findings. See Corrective Action Plan.

Finding No. 2016-002: Financial Statement Preparation

*Status:* It is more cost effective for the District to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements as a part of the annual audit process. The District has designated a member of management to review the draft financial statements and accompanying notes to the financial statements.

*Initial Year Report:* Originally issued years ago.

*Reasons for Recurrence and Corrective Action Plan:* As the District has accept the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2017, see Corrective Action Plan.

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**CORRECTIVE ACTION PLAN  
DECEMBER 31, 2017**

**2017-001 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.

**2017-002 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.