

BELLE FOURCHE IRRIGATION DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018

CASEY  PETERSON
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

**Belle Fourche Irrigation District
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December 31, 2018**

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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*

Board of Directors
Belle Fourche Irrigation District
Newell, 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 the governmental activities and the general fund of Belle Fourche Irrigation District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Belle Fourche Irrigation District's basic financial statements and have issued our report thereon dated December 20, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Belle Fourche Irrigation District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Belle Fourche Irrigation District's internal control. Accordingly, we do not express an opinion on the effectiveness of Belle Fourche Irrigation 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Management's Responses as items 2018-001, 2018-002, and 2018-003, that we consider to be material weaknesses.

Compliance and Other Matters

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

Belle Fourche Irrigation District's Response to Findings

Belle Fourche Irrigation District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Management's Responses. Belle Fourche Irrigation District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

Casey Peterson, Ltd.

Rapid City, South Dakota
December 20, 2019

Belle Fourche Irrigation District

Schedule of Findings and Management's Responses

December 31, 2018

Material Weakness
Internal Control Over Financial Reporting
Segregation of Duties

2018-001 *Condition:* The District has a lack of segregation of duties due to the limited staff size. We specifically noted a lack of segregation related to receiving customer payments, recording transactions, reconciling receipts and receivables, and maintaining custody of assets. This finding was reported in 2017.

Criteria: Internal controls are designed to safeguard assets and prevent or detect losses from employee dishonesty or error. Segregation of duties is a fundamental concept in a good system of internal controls. Although the number of employees may limit the ability to separate specific functions, proper review of reconciliations and monitoring of other activities is critical in a small government.

Cause: The number of office personnel prevents proper segregation of duties and limits the oversight or monitoring of key accounting functions.

Effect: There is a potential that intentional or unintentional errors could be made and not be detected.

Auditor's Recommendation: Management of the District should be aware of this condition, understanding the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control perspective. Under these conditions, the most effective controls lie in management's knowledge of matters relating to the operations of the District. We specifically recommend all reconciliations and subsidiary ledgers related to receipts of property assessment proceeds, receivables and the related deferred revenue and other significant balance sheet accounts be reviewed by someone other than the person primarily responsible for performing the reconciliations or maintaining the subsidiary ledger to ensure accuracy and agreement with the general ledger.

Management's Response: Management agrees with the finding and related recommendations. The District accepts the risk associated with the Secretary/Treasurer performing incompatible duties due to cost considerations. Management will implement suggested controls wherever cost effective for the District.

Material Weakness
Internal Control Over Financial Reporting
Review and Approval

2018-002 *Condition:* The District lacks an appropriate system of internal controls to ensure year-end reconciliations and all year-end entries are properly made as part of their year-end closing process. This finding was reported in 2017.

Criteria: Year-end reconciliations and closing entries should be performed by the accountant and reviewed and approved by a member of management capable of identifying errors. Performing an adequate closing process at year-end results in accurate financial reporting.

Cause: The District is not properly reviewing all of the necessary year-end entries and reconciliations to ensure accurate balances are presented the financial statements. Material adjustments were noted in inventory, property and equipment, prepaid expenses, long-term debt, accounts payable, leave accruals, and revenues.

Belle Fourche Irrigation District
Schedule of Findings and Management's Responses
December 31, 2018

Effect: There were various corrections identified by the auditors to properly state amounts presented within the financial statements of the District.

Auditor's Recommendation: We recommend management undergo training on year-end closing and reconciliation procedures and develop a process of review and documentation of the review of the year-end work performed. These reviews should be documented by initialing the reconciliations and/or other supporting documentation to indicate approval.

Management's Response: Management agrees with the finding and related recommendations. Management will implement suggested controls wherever cost effective for the District.

Material Weakness

Internal Control Over Financial Reporting

Preparation of the Financial Statements and Related Notes

2018-003 *Condition:* The District lacks the ability to prepare financial statements and related notes.

Criteria: Management is responsible for establishing internal controls over the preparation of the financial statements and drafting the financial statements. The District should have a system of internal controls in place related to the preparation of the financial statements. This finding was reported in 2017.

Cause: The District does not have a system of internal controls in place to prepare the financial statements, which is common for an organization of this size due to the limited number of staff.

Effect: The District engages its auditors to draft the financial statements and related notes. There is a risk that errors may occur and not be detected.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the District's auditors drafting the financial statements because of cost or other considerations. If the District chooses not to accept this risk, a third-party accountant should be engaged to prepare the draft financial statements and related notes.

Management's Response: Management agrees with the finding and related recommendations. The District accepts the risk associated with the District's auditors drafting the financial statements.

Independent Auditor's Report

Board of Directors
Belle Fourche Irrigation District
Newell, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Belle Fourche Irrigation District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Belle Fourche Irrigation District, as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedule of Net Pension Liability (Asset) and Schedule of Pension Contributions on pages 26 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2019 on our consideration of Belle Fourche Irrigation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Belle Fourche Irrigation District's internal control over financial reporting and compliance.

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota
December 20, 2019

FINANCIAL STATEMENTS

Belle Fourche Irrigation District
Governmental Fund Balance Sheet/Statement of Net Position
December 31, 2018

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,261,515	\$ -	\$ 1,261,515
Certificates of Deposit	980,997	-	980,997
Accounts Receivable	3,696	-	3,696
Grants Receivable	31,997	-	31,997
Assessments Receivable	36,908	-	36,908
Capital Credits Receivable	40,521	-	40,521
Inventory	412,002	-	412,002
Prepaid Expenses	34,144	-	34,144
Restricted Assets:			
Certificates of Deposit -			
Bureau of Reclamation Reserve	150,900	-	150,900
Restricted Pension Asset	-	<u>563</u>	<u>563</u>
Total Restricted Assets	<u>150,900</u>	<u>563</u>	<u>151,463</u>
Capital Assets:			
Land	-	1,700	1,700
SWRMS - Irrigation System	-	4,955,387	4,955,387
Building	-	183,431	183,431
Equipment	-	1,843,797	1,843,797
US Contract - Irrigation System	-	12,945,284	12,945,284
US Contract - Keyhole Dam	-	60,000	60,000
Less: Accumulated Depreciation	-	<u>(14,716,245)</u>	<u>(14,716,245)</u>
Total Capital Assets, Net of Depreciation and Amortization	<u>-</u>	<u>5,273,354</u>	<u>5,273,354</u>
TOTAL ASSETS	<u>2,952,680</u>	<u>5,273,917</u>	<u>8,226,597</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension-related Deferred Outflows	<u>-</u>	<u>181,203</u>	<u>181,203</u>
LIABILITIES			
Accrued Expenses	54,752	-	54,752
Assessments Received in Advance	158,174	-	158,174
Long-term Debt			
Due in One Year	11,208	160,534	171,742
Due in More than One Year	<u>-</u>	<u>4,503,965</u>	<u>4,503,965</u>
TOTAL LIABILITIES	<u>224,134</u>	<u>4,664,499</u>	<u>4,888,633</u>

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

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
DEFERRED INFLOWS OF RESOURCES			
Assessments Not Collected Within			
Available Period	40,048	(40,048)	-
Pension-related Deferred Inflows	-	50,975	50,975
Capital Credits Redeemable in Future Periods	<u>40,521</u>	<u>(40,521)</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>80,569</u>	<u>(29,594)</u>	<u>50,975</u>
FUND BALANCE/NET POSITION			
FUND BALANCE			
Nonspendable:			
For Prepaid Expenses	34,144	(34,144)	-
For Inventory	412,002	(412,002)	-
Restricted:			
For Bureau of Reclamation Reserve	150,712	(150,712)	-
Assigned:			
For SWRMS Reserve	939,820	(939,820)	-
For Keyhole Water Reserve	41,126	(41,126)	-
Unassigned	<u>1,070,173</u>	<u>(1,070,173)</u>	<u>-</u>
TOTAL FUND BALANCE	<u>2,647,977</u>	<u>(2,647,977)</u>	<u>-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 2,952,680</u>		
NET POSITION			
Net Invested in Capital Assets		609,656	609,656
Restricted:			
Bureau of Reclamation Reserve		150,448	150,448
Proportionate Share of Net Pension		133,861	133,861
Unrestricted		<u>2,574,227</u>	<u>2,574,227</u>
TOTAL NET POSITION		<u>3,468,192</u>	<u>3,468,192</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		<u>\$ 5,455,120</u>	<u>\$ 8,407,800</u>

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

**Belle Fourche Irrigation District
Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
December 31, 2018**

Total Governmental Fund Balance	\$ 2,647,977
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	5,273,354
Assessments receivable are not available to pay for current period expenses, and therefore, are deferred in the governmental funds.	40,048
Assets, including capital credits which are non-redeemable, that are not available to pay for current period expenditures, are deferred in the governmental funds.	40,521
Pension-related balances reported in the governmental activities are not available financial resources and, therefore, are not reported in the funds.	
Net Pension Asset	563
Pension-related Deferred Outflows	181,203
Pension-related Deferred Inflows	(50,975)
Debt used in governmental activities is not a financial resource and therefore is not reported in the governmental funds.	<u>(4,664,499)</u>
Net Position of Governmental Activities	<u>\$ 3,468,192</u>

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

Belle Fourche Irrigation District
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities
December 31, 2018

	General Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES			
Irrigation District Operating Expenses	\$ 1,267,563	\$ 203,101	\$ 1,470,664
Capital Outlay - Purchases of Property, Plant, and Equipment	77,302	(77,302)	-
Debt Service - Irrigation System Payment	143,536	(143,536)	-
Interest Expense on Long-term Debt	4,181	-	4,181
Total Expenditures/Expenses	<u>1,492,582</u>	<u>(17,737)</u>	<u>1,474,845</u>
PROGRAM REVENUES			
Operating Grants	35,560	(3,132)	32,428
Capital Grants	39,312	-	39,312
Total Program Revenues	<u>74,872</u>	<u>(3,132)</u>	<u>71,740</u>
Net Program Expenses	<u>1,417,710</u>	<u>(14,605)</u>	<u>1,403,105</u>
GENERAL REVENUES			
Assessments	1,445,156	3,557	1,448,713
Custom Work and Materials Sales	5,010	-	5,010
Other Financing Sources - Proceeds from Sale of Assets/Gain on Sale of Assets	25,463	(17,622)	7,841
Other Financing Sources - Debt Proceeds	39,312	(39,312)	-
Insurance Proceeds	104,665	-	104,665
Other Income	32,192	-	32,192
Total General Revenues	<u>1,651,798</u>	<u>(53,377)</u>	<u>1,598,421</u>
REVENUES IN EXCESS OF EXPENDITURES	234,088	(234,088)	
CHANGE IN NET POSITION		195,316	195,316
FUND BALANCE/NET POSITION, BEGINNING	<u>2,413,889</u>	<u>858,987</u>	<u>3,272,876</u>
FUND BALANCE/NET POSITION, ENDING	<u>\$ 2,647,977</u>	<u>\$ 820,215</u>	<u>\$ 3,468,192</u>

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

Belle Fourche Irrigation District
Reconciliation of the Governmental Fund Statement of Revenues,
Expenditures and Changes in Fund Balance to the Statement of Activities
For the Year Ended December 31, 2018

Total Governmental Fund Net Change in Fund Balances	\$ 234,088
Governmental funds report loan proceeds as revenues. However, in the Statement of Activities the proceeds are reported as long-term debt. This is the amount of the loan proceeds.	(39,312)
The recognition of revenues in the governmental fund differs from the recognition in the governmental activities in the fact that revenue accruals in the fund financial statements require the amounts to be "available."	425
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(84,468)
Pension expense in the statement of activities do not provide current financial resources and are not reported as revenues in the funds.	(41,331)
Government funds report proceeds on sale of property for the full amount of consideration received. However, in the Statement of Activities proceeds from sale of property are reported net of remaining basis. This is the amount of basis remaining at the time of sale of the asset.	(17,622)
Payment of long-term debt principal and interest is an expenditure in the governmental fund, but the repayments reduce long-term liabilities in the Statement of Net Position.	143,536
Change in Net Assets of Governmental Activities	\$ 195,316

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

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities - Reporting Entity

Belle Fourche Irrigation District (the District) is a political subdivision of the State of South Dakota and is exempt from federal income taxes. The District was formed for the purpose of providing services and delivering irrigation water to members adjacent to the Belle Fourche River in western South Dakota.

In conformity with Governmental Accounting and Financial Reporting Standards, Belle Fourche Irrigation District is the reporting entity for financial reporting purposes. The District is governed by a board of seven members elected by registered voters of the District. The financial statements of the District include the general fund controlled by the Board. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has accountability for fiscal matters. There are no component units included within the reporting entity. The District does not have to prepare a budget that is subject to approval by the state of South Dakota, and the District can issue debt without the permission of the state of South Dakota.

B. Basis of Presentation

The Statement of Net Position is presented in combination with the Governmental Fund Balance Sheet. In addition, the Government-wide Statement of Activities is presented in combination with the Statement of Revenue, Expenditures and Changes in Fund Balance.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display various information about the District. These statements include the financial activities of the overall organization. Governmental activities are generally financed through assessments and other non-exchange transactions.

The Statement of Activities presents expenses and revenues of the District's governmental activities. Expenses are for the services that the District provides and are presented in the normal functional categories as defined by the adopted budget. Revenues primarily include property assessments and grants.

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

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

General Fund - The General Fund is the general operating fund. It is used to account for all financial resources of the general government.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded in the financial statements. Basis of accounting refers to "when" revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements: Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period ("availability period"). Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due.

D. 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

F. Inventory

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out for the governmental fund inventories.

Inventory in the governmental fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time an individual inventory item is used. Inventories reported in the fund financial statements are equally offset by a non-spendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. The non-spendable fund balance associated with inventory is reduced by the related amounts included in accounts payable, if applicable.

G. Property and Equipment

In the government-wide statements, property and equipment are carried at historical cost less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. All reported capital assets except land, easements, and construction in process are depreciated. Land and easements are inexhaustible assets and therefore are not depreciated. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful lives are as follows:

Furniture, Fixtures and Equipment	5 - 7 years
Buildings and Structures	31.5 - 90 years

Capital assets used in the government fund operations are accounted for as capital expenditures of the fund upon acquisition.

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District's policy is to capitalize those assets with a useful life greater than one year, and an initial acquisition cost of \$600 or more. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

H. Deferred Outflows of Resources

The District reports decreases in net assets that relate to future periods as deferred outflows of resources as a separate section of its government-wide Statement of Net Position. Deferred outflows of resources consist of deferred outflows related to the District's participation in the South Dakota Retirement System's (SDRS) defined benefit pension plan. They will not be recognized as an outflow of resources until the applicable future period. No deferred outflows of resources affect the Governmental Fund Balance Sheet in the current year.

I. Deferred Inflows of Resources

The District's Governmental Fund Balance Sheet and Statement of Net Position report a separate section for deferred inflows of resources. Deferred inflows of resources reflect increases in net assets that relate to future periods. Deferred inflows of resources are reported in the District's Statement of Net Position related to the District's participation in the SDRS' defined benefit pension plan. In its governmental fund, the District reports deferred inflows of resources for revenues that are not considered available. District revenues are recognized to the extent that they are used to finance each year's appropriations. In the fund financial statements, revenue may be limited by any amount not collected during the current fiscal period or within the "availability period" (60 days). Accordingly, unavailable revenues from property taxes, capital credits, and grants are reported in the Governmental Fund Balance Sheet.

J. Long-term Liabilities

Long-term liabilities are reported as liabilities in the government-wide financial statements. Long-term liabilities consist of loans and accrued vacation. In the fund financial statements, debt proceeds are reported as revenues (general revenues), while payments of principal and interest are reported as expenditures when they become due.

Annual leave is earned by the full-time employees at a rate of 6 to 20 days per year based on the number of years of service. Upon termination, the employees are entitled to receive compensation for their accrued annual leave up to 80 hours.

K. Accounts and Assessment Receivable

Accounts and assessments receivable are stated at unpaid balances expected to be collected from customers. No allowance for uncollectible assessments or receivables is maintained because assessments are secured by a tax lien on the property assessed and receivables are considered collectable by management.

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Net Position, Fund Balance, and Use of Restricted Resources

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on use through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position represents all other components of net position that do not meet the previously described definitions of "restricted" or "net investment in capital assets."

Fund Balance:

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

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

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

Assigned - Amounts that are constrained by the District's intent to be used for specific purposes but are not restricted. Amounts can be assigned by the Board or management of the District.

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

M. Application of Net Position

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned amounts are available for use, it is the District's policy to use committed resources first, followed by assigned and then unassigned resources, as they are needed.

N. Program Revenues

Program revenues derive directly from the program itself. Program revenues are classified into categories as follows:

- a. Charges for Services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
- b. Operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are to be used for operations of the District.
- c. Capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in the operations of the District.

Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK

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

Deposits - The District's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2018 the District's deposits in financial institutions were not exposed to custodial credit risk.

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

Concentration of Credit Risk - The District places no limit on the amount that may be deposited with any one financial institution or invested with any one issuer.

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

The District had no investments as of December 31, 2018.

**Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2018**

NOTE 3 - PROPERTY AND EQUIPMENT

Summary of changes in capital assets for the year ended December 31, 2018 is as follows:

	Balance 12/31/2017	Increase	Decrease	Balance 12/31/2018
Non-depreciable Capital Assets:				
Land	\$ 1,700	\$ -	\$ -	\$ 1,700
Depreciable Capital Assets:				
Buildings and Structures	183,431	-	-	183,431
Equipment	1,949,801	55,665	161,669	1,843,797
SWRMS - Irrigation System	4,933,750	21,637	-	4,955,387
US Contract - Irrigation System	12,945,284	-	-	12,945,284
US Contract - Keyhole	60,000	-	-	60,000
Subtotal	<u>20,073,966</u>	<u>77,302</u>	<u>161,669</u>	<u>19,989,599</u>
Less Accumulated Depreciation for:				
Buildings and Structures	153,752	3,312	-	157,064
Equipment	1,538,543	121,999	143,352	1,517,190
SWRMS - Irrigation System	-	36,707	-	36,707
US Contract - Irrigation System	12,945,284	-	-	12,945,284
US Contract - Keyhole	60,000	-	-	60,000
Subtotal	<u>14,697,579</u>	<u>162,018</u>	<u>143,352</u>	<u>14,716,245</u>
Net Capital Assets	<u>\$ 5,376,387</u>	<u>\$ (84,716)</u>	<u>\$ 18,317</u>	<u>\$ 5,273,354</u>

NOTE 4 - COMMITMENTS AND CONTINGENCIES

During the year ended December 31, 2017, the District entered into a water conservation agreement with the Bureau of Reclamation for repair and maintenance of the drainage system to improve water conservation. Construction did not begin until fiscal year 2018. The total estimated project cost is \$148,712. The project is expected to be completed during the year ended December 31, 2019. The project is funded, in part, by a grant from the Bureau of Reclamation in the amount of \$72,000. The remaining cost will be paid by District reserves.

**Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2018**

NOTE 5 - LONG-TERM DEBT

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

	Balance <u>12/31/2017</u>	Increase	Decrease	Balance <u>12/31/2018</u>	Amounts Due <u>Within 1 Year</u>
General Obligation Debt:					
Contract Payable - US BoR	\$ 2,187,144	\$ -	\$ 121,508	\$ 2,065,636	\$ 121,508
Contract Payable - SWRMS	2,438,381	39,312	-	2,477,693	16,225
Loan Payable - Butler	<u>143,198</u>	<u>-</u>	<u>22,028</u>	<u>121,170</u>	<u>22,801</u>
Subtotal	<u>4,768,723</u>	<u>39,312</u>	<u>143,536</u>	<u>4,664,499</u>	<u>160,534</u>
Other Liabilities:					
Accrued Vacation	<u>20,691</u>	<u>5,310</u>	<u>14,793</u>	<u>11,208</u>	<u>11,208</u>
Total Long-term Liabilities	<u>\$ 4,789,414</u>	<u>\$ 44,622</u>	<u>\$ 158,329</u>	<u>\$ 4,675,707</u>	<u>\$ 171,742</u>

Long-term debt at December 31, 2018 consisted of the following:

Contract Payable - United States Department of Interior-Bureau of Reclamation, payable in annual installments of \$121,508. No interest charged on this contract.	\$ 2,065,636
Contract Payable - SD State Water Resources Management System (SWRMS), first payment due November 2019, payable semiannually, with interest at 3%.	2,477,693
Equipment Loan Payable - Butler Machinery, payable in annual installments of \$26,368, with interest at 2.95%.	<u>121,170</u>
	4,664,499
Less: Current Maturities	<u>(160,534)</u>
	<u>\$ 4,503,965</u>

The annual debt service requirements to maturity for long-term debt outstanding as of December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 160,534	\$ 77,898	\$ 238,432
2020	178,164	76,292	254,456
2021	179,860	74,796	254,656
2022	181,617	73,050	254,667
2023	183,643	69,252	252,895
2024 - 2028	805,089	306,252	1,111,341
2029 - 2033	836,963	265,982	1,102,945
2034 - 2038	509,431	239,223	748,654
2039 - 2043	310,347	223,555	533,902
Thereafter	<u>1,318,851</u>	<u>435,293</u>	<u>1,754,144</u>
	<u>\$ 4,664,499</u>	<u>\$ 1,841,593</u>	<u>\$ 6,506,092</u>

Belle Fourche Irrigation District

Notes to the Financial Statements

December 31, 2018

NOTE 6 - PROPERTY ASSESSMENT

Property assessments are levied on or before January 31 for the previous calendar year, are payable in one installment on or before April 30, and attach as an enforceable lien on property as of the following November 10. The District assesses varying amounts per acre of irrigable property where the District's services are utilized.

NOTE 7 - PENSION PLAN

Plan Information

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

Benefits Provided

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

**Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2018**

NOTE 7 - PENSION PLAN (CONTINUED)

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. The District's share of contributions to the SDRS for the years ended December 31, 2018, 2017, and 2016 were \$30,325, \$28,682, and \$27,664, respectively, and were equal to the required contributions each year.

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

At June 30, 2018, SDRS is 100.02% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the District as of the measurement period ending June 30, 2018 and reported by the District as of December 31, 2018 are as follows:

Proportionate Share of Pension Liability	\$ 2,954,914
Less: Proportionate Share of Net Pension Restricted for Pension Benefits	<u>2,955,477</u>
Proportionate Share of Net Pension Liability (Asset)	<u>\$ (563)</u>

At December 31, 2018, the District reported a liability (asset) of \$(563) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2018 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the District's proportion was 0.02415450%, which is an increase of 0.0012437% from its proportion measured as of June 30, 2017.

**Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2018**

NOTE 7 - PENSION PLAN (CONTINUED)

For the year ended December 31, 2018, the District recognized pension expense (reduction of pension expense) of \$41,336. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 21,292	\$ -
Changes in Assumption	143,022	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	42,575
Changes in Proportion and Difference Between District Contributions and Proportionate Share of Contributions	1,871	8,400
District Contributions Subsequent to the Measurement Date	15,018	-
Total	\$ 181,203	\$ 50,975

\$15,015 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended December 31,		
2019	\$	74,578
2020		55,191
2021		(9,224)
2022		(5,335)
2023		-
Thereafter		-
Total	\$	115,210

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%	
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service	
Discount Rate	6.50% net of plan investment expense	

**Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2018**

NOTE 7 - PENSION PLAN (CONTINUED)

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the Council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	<u>2.0%</u>	0.7%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of Liability (Asset) to Changes in the Discount Rate

The following presents the District's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50%, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's Proportionate Share of the Net Pension Liability (Asset)	<u>\$ 425,479</u>	<u>\$ (563)</u>	<u>\$ (347,126)</u>

**Belle Fourche Irrigation District
Notes to the Financial Statements
December 31, 2018**

NOTE 7 - PENSION PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

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

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2018, the District managed its risk as follows:

Employee Health Insurance - The District provides health insurance for its employees. The District purchases health insurance for its employees from a commercial insurance carrier.

Liability Insurance - The District purchases liability insurance for risks related to torts; theft of or damage to property; errors and omissions of directors and officers; and automobile accident or damage from a commercial insurance carrier. Claims resulting from these risks have not exceeded the District's liability coverage.

Worker's Compensation - The District purchased liability insurance for worker's compensation from a commercial carrier.

Unemployment Benefits - 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.

NOTE 9 - SUBSEQUENT EVENTS

Subsequent to year end, the District was awarded a new water conservation grant agreement with the Bureau of Reclamation to repair and improve infrastructure. The total estimated project cost is \$168,276. The project is expected to be completed during the year ended December 31, 2021. The Bureau of Reclamation grant portion is \$75,000. The remaining costs will be paid by District reserves.

Subsequent events were evaluated through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**Belle Fourche Irrigation District
Schedule of Net Pension Liability (Asset)
For the Years Ended December 31**

Year Ending	District's Proportion of Net Pension Liability (Asset)	District's Proportionate Share of Net Pension Liability (Asset) (a)	District's Covered- employee Payroll (b)	District's Proportionate Share of Net Pension Liability (Asset) as a Percentage of its Covered- employee Payroll (a/b)	Plan Fiduciary Net Pension as a Percentage of its Total Pension Liability (Asset)
6/30/2018	0.0241545	\$ (563)	\$ 527,369	-0.11%	100.10%
6/30/2017	0.0229108	\$ (2,079)	\$ 465,500	-0.45%	100.10%
6/30/2016	0.0235796	\$ 79,650	\$ 483,695	16.47%	96.89%
6/30/2015	0.0223510	\$ (94,797)	\$ 405,801	-23.36%	104.10%

*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset), which is June 30 of the previous year.

See independent auditor's report.

**Belle Fourche Irrigation District
Schedule of Pension Contributions
For the Years Ended December 31**

Year Ending	Contractually- required Contribution (a)	Contributions in Relation to the Contractually- required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered- employee Payroll (c)	Contributions as a Percentage of Covered- employee Payroll (b/c)
12/31/2018	\$ 30,325	\$ 30,325	\$ -	\$ 505,417	6.00%
12/31/2017	\$ 28,682	\$ 28,682	\$ -	\$ 478,060	6.00%
12/31/2016	\$ 27,664	\$ 27,664	\$ -	\$ 461,063	6.00%
12/31/2015	\$ 27,392	\$ 27,392	\$ -	\$ 456,523	6.00%

See independent auditor's report.