

BLACK HAWK SANITARY DISTRICT
BLACK HAWK, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016

FED EIN 46-0378272

BLACK HAWK SANITARY DISTRICT
BLACK HAWK, SOUTH DAKOTA

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BLACK HAWK SANITARY DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board
Black Hawk Sanitary District
Black Hawk, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Black Hawk Sanitary District (the District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion on Basic Financial Statements

Black Hawk Sanitary District does not report donated land and land rights on its financial statements. Accounting principles generally accepted in the United States of America require that donated land and land rights are to be valued at fair market value at the time of the donation or at historical cost or estimated historical cost if actual cost is not readily available and reported as a capital asset. This would increase capital assets reported on the District's financial statements. The amount by which this departure affects capital assets is not determinable.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, noted in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of Black Hawk Sanitary District, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Black Hawk Sanitary District
November 30, 2017

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5 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 November 30, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Donna Denker & Associates
Certified Public Accountants

November 30, 2017

BLACK HAWK SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2016

This section presents the Black Hawk Sanitary District's (the District) discussion and analysis of the District's financial performance during the fiscal year ended on December 31, 2016. Please read it in conjunction with the District's financial statements.

Financial Highlights

The District is a special purpose government organized under Meade County, South Dakota as an incorporated sanitary district with road district powers. The District provides sewer service to 202 homes and businesses. We also take care of road repairs, provide streetlights, snow removal and solid waste service.

The District operates on money charged to homeowners for service. Current charge is \$65 per month for expenses of the District.

In addition, road tax money is levied and collected by Meade County and remitted to the District to be used for road repairs and maintenance.

We are working to keep expenses as low as possible and still serve the needs of the elderly and people living on fixed incomes within the District.

Overview of the Financial Statements

This annual report consists of two parts – management's discussion and analysis (this section) and the basic financial statements, including related notes.

The financial statement notes explain some of the information in the financial statements and provide more detailed data.

Financial Statements

The financial statements report information about the District using accounting methods similar to those used by private-sector companies. The statement of net position includes the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position.

The District operates as a proprietary fund. The District charges fees to customers to cover the costs of the sanitary services it provides. The District also provides road maintenance which is paid for by a road tax levied by the County and remitted to the District.

BLACK HAWK SANITARY DISTRICT**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2016****Financial Statements (Continued)***Net Position*

The District's net position decreased by 1.05% between the fiscal years 2016 and 2015.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
ASSETS:			
Current and Other Assets	\$ 279,245	\$ 269,538	3.60%
Capital Assets	887,405	909,244	-2.40%
Total Assets	\$ 1,166,650	\$ 1,178,782	-1.03%
LIABILITIES AND NET POSITION:			
Liabilities:			
Current Liabilities	\$ 12,290	\$ 12,144	1.20%
Total Liabilities	12,290	12,144	1.20%
Net Position:			
Net Investment in Capital Assets	887,405	909,244	-2.40%
Unrestricted	266,955	257,394	3.71%
Total Net Position	1,154,360	1,166,638	-1.05%
Total Liabilities and Net Position	\$ 1,166,650	\$ 1,178,782	-1.03%

The statement of net position reports all financial and capital resources with the exception of land and land rights. The statement presents the assets and liabilities in order of relative liquidity.

The District's net investment in capital assets net position reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens. The District has no debt related to the capital assets.

The District's restricted net position represents resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statute, federal regulations or debt covenants.

The remaining balances of net position are unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current year, the District is able to report positive balances in all categories of net position. The same situation held true for the prior year.

BLACK HAWK SANITARY DISTRICT

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

Financial Statements (Concluded)

Business-Type Activities

Operating revenues of the District decreased 1.97% to \$169,196 and operating expenses decreased by 3.24% to \$200,541.

	2016	2015	Change
Total Operating Revenue	\$ 169,196	\$ 172,602	-1.97%
Total Operating Expenses	(200,541)	(207,249)	-3.24%
Net Operating Loss	(31,345)	(34,647)	9.53%
Total Non-Operating Revenue and Expense	19,067	16,040	18.87%
Change in Net Position	\$ (12,278)	\$ (18,607)	-34.01%

Capital Asset Administration

By the end of 2016, the District has invested \$1,527,818 in capital assets consisting primarily of a sewer collection system. During 2016, capital asset additions consisted of asphalt overlay on a portion of the roads for \$25,511 and an improvement project for \$15,474.

Economic Factors and Next Year's Rates

The District's current economic position has shown little change. The rates for 2017 will be the same as the rates for 2016.

Beginning in 2015 the District approved providing solid waste service to the District's customers. There was no increase in fees as the District used the portion of the monthly charge previously used to pay debt service to provide the service. This service is anticipated to continue.

Contacting the District's 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 the Black Hawk Sanitary District, PO Box 528, Black Hawk, South Dakota 57718.

BLACK HAWK SANITARY DISTRICT

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

ASSETS

Current Assets

Cash and Cash Equivalents	\$	246,155
Accounts Receivable, Net		19,870
Unbilled Accounts Receivable		13,220
Total Current Assets		279,245

Noncurrent Assets

Capital Assets:

Improvements Other Than Buildings		1,526,593
Machinery and Equipment		1,225
Less: Accumulated Depreciation		(640,413)
Total Noncurrent Assets		887,405

TOTAL ASSETS	\$	1,166,650
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LIABILITIES AND NET POSITION

Current Liabilities

Accounts Payable	\$	11,065
Customer Prepayments		1,225
Total Current Liabilities		12,290

TOTAL LIABILITIES		12,290
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Net Position

Net Investment in Capital Assets		887,405
Unrestricted		266,955
Total Net Position		1,154,360

TOTAL LIABILITIES AND NET POSITION	\$	1,166,650
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The accompanying notes to the financial statements are an integral part of this statement.

BLACK HAWK SANITARY DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Operating Revenue:

Charges for Goods and Services	\$	169,196
Total Operating Revenue		169,196

Operating Expenses:

Utilities	99,114
Depreciation	62,824
Sewer Repair and Maintenance	16,394
Professional Fees	9,527
Office Expense	6,806
Insurance	5,876
Total Operating Expenses	200,541

Operating Loss **(31,345)**

Non Operating Revenue (Expenses):

Road Tax	23,277
Road Repair and Maintenance	(4,772)
Investment Earnings	562
Total Non Operating Revenue (Expenses)	19,067

Change in Net Position **(12,278)**

Net Position - December 31, 2015 1,166,638

Net Position - December 31, 2016 **\$ 1,154,360**

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

BLACK HAWK SANTARY DISTRICT

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Cash Flows From Operating Activities	
Receipts from Customers	\$ 170,622
Payments to Suppliers	(137,570)
Net Cash Provided by Operating Activities	33,052
Cash Flows From Noncapital Financing Activities	
Road Tax Receipts	23,277
Road Repair and Maintenance	(4,772)
Net Cash Provided by Noncapital Financing Activities	18,505
Cash Flows From Capital and Related Financing Activities	
Purchase of Capital Assets	(40,985)
Net Cash Used by Capital and Related Financing Activities	(40,985)
Cash Flows From Investing Activities	
Interest Earnings	562
Net Cash Provided by Investing Activities	562
Net Increase in Cash and Cash Equivalents	11,134
Cash and Cash Equivalents - January 1, 2016	235,021
Cash and Cash Equivalents - December 31, 2016	\$ 246,155
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating Loss	\$ (31,345)
Add Non-Cash Adjustments:	
Depreciation	62,824
Change in Assets and Liabilities:	
Receivables	1,426
Payables and Liabilities	147
Net Cash Flows Provided by Operating Activities	\$ 33,052

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

BLACK HAWK SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

(1) Summary of Significant Accounting Policies

a. Financial Reporting Entity

Black Hawk Sanitary District (the District) was formed pursuant to the provisions of South Dakota Codified Law 34A-5 as an incorporated sanitary district with road district powers. The basic operations of the District include construction, operation and maintenance of sewage disposal facilities and road construction and maintenance. These operations are financed by user charges and a road tax levy. These operations are accounted for in an enterprise fund and reported as such.

The reporting entity of the District consists of one enterprise fund which includes all accounts of the primary government – Black Hawk Sanitary District. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is not included in any other governmental entity as a component unit. There are no component units which are required to be included in the District’s reporting entity.

b. Basis of Presentation

All activities of the District are accounted for within a single proprietary (enterprise) fund.

Proprietary Funds:

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

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity).
2. Laws or regulations require that the activity’s costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

In the financial statements the “economic resources” measurement focus and the accrual basis of accounting are applied to proprietary fund types.

BLACK HAWK SANITARY DISTRICT

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

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting:

All proprietary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. 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.

d. Deposits and Investments

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. The District has no investments during the year or as of December 31, 2016.

e. Capital Assets

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

Capital assets are recorded at historical cost. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

For capital assets, construction-period interest is capitalized in accordance with accounting principles generally accepted in the United States of America.

Depreciation of all exhaustible capital assets is recorded as an expense in the financial statements.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Improvements Other Than Buildings	\$500	Straight-Line	15-25 yrs.
Machinery and Equipment	\$500	Straight-Line	5 yrs.

BLACK HAWK SANITARY DISTRICT

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

(1) Summary of Significant Accounting Policies (Concluded)

f. Proprietary Funds Revenue and Expense Classification

In the proprietary fund's statement of revenues, expenses and changes in net position, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

g. Cash and Cash Equivalents

For the purposes of the statement of cash flows, the District considers all highly liquid investments as deposits with a term to maturity of three months or less, at date of acquisition, to be cash equivalents.

h. Equity Classifications

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

1. Net Investment in Capital Assets – consists of capital assets, including restricted 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 external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or by law through constitutional provisions or enabling legislation. The District has no restricted net position in the current year.
3. Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

i. Application of Net Position

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

j. 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.

k. 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.

BLACK HAWK SANITARY DISTRICT

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

(2) Deposits and Investments

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. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent trust, retirement, building, and depreciation reserve funds; such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The District has all of its deposits in demand deposits and savings accounts.

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 though it does adhere to all applicable laws regarding public deposits. As of December 31, 2016, none of the District’s deposits were exposed to custodial credit risk.

(3) Receivables and Payables

Receivables and payables are not aggregated in these financial statements. The District expects all current receivables to be collected within one year. An allowance for estimated uncollectible fees in the amount of \$2,803 has been established related to prior years’ receivables.

(4) Road Tax Revenue

Road taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

BLACK HAWK SANITARY DISTRICT

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

(5) Changes in General Capital Assets

A summary of changes in capital assets for the year ended December 31, 2016 is as follows:

	Balance December 31, 2015	Additions	Balance December 31, 2016
Improvements Other Than Buildings	\$ 1,485,608	\$ 40,985	\$ 1,526,593
Machinery and Equipment	1,225	-	1,225
Total Capital Assets	1,486,833	40,985	1,527,818
Less Accumulated Depreciation for:			
Improvements Other Than Buildings	576,731	62,579	639,310
Machinery and Equipment	858	245	1,103
Total Accumulated Depreciation	577,589	62,824	640,413
Capital Assets - Net	\$ 909,244	\$ (21,839)	\$ 887,405

(6) Operating Leases

The District leases office space under an operating lease agreement calling for monthly payments of \$325. This lease is renewable annually.

(7) 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; and natural disasters. The District manages its risks by purchasing from a commercial insurance carrier liability and property insurance for risks related to torts; theft or damage to property, and errors and omissions of public officials.

OTHER REPORTS

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 Governing Board
Black Hawk Sanitary District
Black Hawk, 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 Black Hawk Sanitary District (the District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 30, 2017, which was qualified because the District does not report donated land and land rights on its financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 were not identified. We consider the deficiencies described in the accompanying schedule of auditor's findings and recommendations as items 2016-001 and 2016-002 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, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

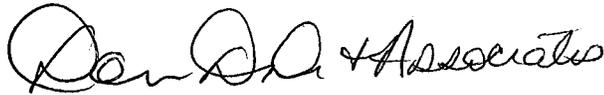
Black Hawk Sanitary District
November 30, 2017

Black Hawk Sanitary District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying response to auditor's findings and recommendations included on page 18. 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 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 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 South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Donna Denker & Associates
Certified Public Accountants

November 30, 2017

BLACK HAWK SANITARY DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016**

Prior Audit Findings:

Finding 2015-001 – Lack of Segregation of Duties

Condition: Due to the small organization there is a lack of segregation of duties over revenues and expenditures.

Recommendation: We recommended involvement of the entire Board of Directors to help ensure proper internal controls.

Current Status: This finding is repeated as current year **Finding 2016-001**.

Finding 2015-002 – Preparation of Financial Statements

Condition: The auditors prepared the draft financial statements and related footnotes.

Recommendation: The Board should review the draft financial statements and related footnotes and accept responsibility for their accuracy.

Current Status: This finding is repeated as current year **Finding 2016-002**.

BLACK HAWK SANITARY DISTRICT

**SCHEDULE OF AUDITOR'S FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2016**

MATERIAL WEAKNESSES

2016-001 - Lack of Segregation of Duties

Criteria: Proper segregation of duties should be in place to provide reasonable assurance that all financial transactions are properly recorded in the general ledger. In a small organization procedures should be documented to ensure continuity should there be a change in duties of Board members.

Condition: Due to the small organization there is a lack of segregation of duties over revenues and expenditures. One person is primarily responsible for billing accounts receivable and receipting, depositing and reconciling cash accounts. In addition, during testing we noted one insurance payment which was not included in the monthly listing of checks to the Board.

Cause: Due to the small size of the organization it is difficult to separate duties to achieve proper internal control. Volunteer Board members have limited time to provide Board services.

Effect: The lack of segregation of duties could result in errors in the accounting and record keeping function that may not be detected in a timely manner and also increases the potential for fraud to occur.

Recommendation: The involvement of the entire Board is necessary to help ensure proper internal controls. The Board's review of monthly financial statements and expenditures is a key component to the District's segregation of duties. In addition, the Board should review customer accounts for unusual activity. Bank reconciliations should be reviewed and agreed to the general ledger on a monthly basis by a designated Board member other than the preparer. To improve internal controls, the check signers should be limited to persons who are not involved in general ledger and bank reconciliation processes. All disbursements should be included in monthly Board reports.

Response: The District's responses are included in the response to auditor's findings and recommendations on page 18.

2016-002 - Preparation of Financial Statements

Criteria: The Board is responsible for the preparation of the financial statements and related footnotes.

Condition: The auditors prepared the draft financial statements and related footnotes. The Board accepted responsibility for the preparation and designated one Board member to be responsible for oversight of the financial statement preparation. Some year-end entries were proposed to adjust the records from cash to accrual basis. The entries were approved by the District prior to preparation of the financial statements.

Cause: Due to the size of the organization preparation of the financial statements would require hiring an outside accountant for assistance.

Effect: The financial statements could contain material errors and misstatements that would not be detected and corrected by the Board.

Recommendation: The Board should review the draft financial statements and related footnotes and accept responsibility for their accuracy.

Response: The District's responses are included in the response to auditor's findings and recommendations on page 18.

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Response to Auditor's Findings and Recommendations

2016-001 - Lack of Segregation of Duties

The District's activities are currently performed primarily by a single board member however; there has been increased cross training of other Board members in the District's procedures. The Board is aware of the importance of Board oversight and has many procedures in place to improve controls. There are no employees and hiring of employees is not economically feasible.

2016-002 - Preparation of Financial Statements

The Board is aware of their responsibility for reviewing the financial statements and accompanying notes and accepting responsibility for their accuracy. The Board reviews a draft of the financial statements and accompanying notes, as well as any journal entries during a Board meeting.