

BLACK HAWK WATER USER DISTRICT

INDEPENDENT AUDITOR'S REPORTS
AND FINANCIAL STATEMENTS

DECEMBER 31, 2019

CASEY  PETERSON
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

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December 31, 2019**

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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
Black Hawk Water User District
Black Hawk, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Black Hawk Water User District, which comprise the statement of financial position - modified cash basis as of December 31, 2019, and the related statements of revenues, expenses, and changes in net position - modified cash basis and cash flows - modified cash basis, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 11, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Black Hawk Water User District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Black Hawk Water User District's internal control. Accordingly, we do not express an opinion on the effectiveness of Black Hawk Water User 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 2019-001, 2019-002, and 2019-003 that we consider to be material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Black Hawk Water User 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*.

Black Hawk Water User District's Response to Findings

Black Hawk Water User District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Management's Responses. Black Hawk Water User District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Casey Peterson, Ltd.

Rapid City, South Dakota

June 11, 2020

Black Hawk Water User District
Schedule of Findings and Management's Responses
December 31, 2019

FINDINGS - FINANCIAL STATEMENTS AUDIT

Material Weakness

Internal Control over Financial Reporting

Drafting the Financial Statements and Related Notes

2019-001 *Condition:* The expertise and qualifications of the District's staff limits the ability of the business office to prepare financial statements being audited which would be required under a properly designed system of internal controls.

Criteria: The District should have an internal control system designed for drafting the financial statements being audited.

Cause: The District does not have an internal control system in place to prepare the financial statements and related notes. This condition is common in an organization of this size due to the limited number of office staff.

Effect: The District engages its auditor to draft the financial statements and related notes to the financial statements. The possibility of fraud or errors occurring and not being detected or correct is present.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to decide whether to accept the degree of risk associated with the District's auditor drafting the financial statements and related notes, because of cost or other considerations.

Management's Response: Management agrees with the finding and will accept the risk associated with this finding.

Material Weakness

Internal Control over Financial Reporting

Segregation of Duties

2019-002 *Condition:* There is a weakness in internal controls in place at Black Hawk Water User District caused by a general lack of segregation of duties over the revenue, expenditure, payroll, and journal entry functions.

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, the District should implement additional review and monitoring as a safeguard.

Cause: These conditions are not uncommon for small water districts. The cause of this condition is related to the limited number of staff in the business office and lack of involvement of other business office employees and Board members in the finance function of the District.

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

Black Hawk Water User District

Schedule of Findings and Management's Responses

December 31, 2019

Auditor's Recommendation: The Board should take an active role in the review of financial activities including monthly financial statements. Customer accounts should be reviewed for unusual adjustments, and past due accounts should be reviewed and appropriate action taken. Bank reconciliations should be reviewed for propriety and agreed to the general ledger on a monthly basis by someone other than the reconciliation preparer. All expenditures should be reviewed and approved by the Board.

Management's Response: The District has implemented new controls with the change in staff. Management understands the finding, and it is expected that it will be resolved in 2020.

Material Weakness

Internal Control over Financial Reporting

Lack of Reconciliations and Year-end Entries

2019-003 *Condition:* The District lacks an appropriate system of internal control to ensure that reconciliations and year-end entries are performed.

Criteria: Reconciliations and closing entries should be performed by the bookkeeper and reviewed by a member of management or the Board capable of identifying errors. Performing an adequate closing process at month-end and year-end results in accurate financial reporting.

Cause: This District is not performing all year-end entries and reconciliations. We identified the following adjustments/errors:

- An entry was proposed to record the change in investment balances.
- An entry was proposed to record property and equipment additions.
- An entry was proposed to record depreciation expense and accumulated depreciation.
- An entry was proposed to correct beginning equity and cash due to prior entries not posted.

Effect: There were various corrections necessary to properly state amounts presented within the financial statements.

Auditor's Recommendation: We recommend that management develop a system of internal controls to ensure year-end entries and reconciliations are performed. We suggest comparing prior year and current year balances to ensure the analytic is reasonable and comparing the depreciation schedule to amounts recorded in the accounting records to ensure ending balances are accurate and obtaining all necessary support to perform reconciliations.

Management's Response: Management agrees with the finding, but with the hiring of a new accountant, the finding is expected to be resolved. The District has implemented new processes and reconciliations are being performed.

Independent Auditor's Report

Board of Directors
Black Hawk Water User District
Black Hawk, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Black Hawk Water User District which comprise the statement of financial position - modified cash basis as of December 31, 2019, and the related statements of revenues, expenses, and changes in net position - modified cash basis and cash flows - modified cash basis for the year then ended, and the related notes to the 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of Black Hawk Water User District as of December 31, 2019, and the respective changes in its modified cash basis net position and its modified cash basis cash flows for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 11, 2020, on our consideration of Black Hawk Water User 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 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 Black Hawk Water User District's internal control over financial reporting and compliance.



Casey Peterson, Ltd.

Rapid City, South Dakota
June 11, 2020

FINANCIAL STATEMENTS

Black Hawk Water User District
Statement of Net Position - Proprietary Fund - Modified Cash Basis
December 31, 2019

ASSETS

Current Assets:

| | |
|---------------------------|------------------|
| Cash and Cash Equivalents | \$ 312,174 |
| Investments | <u>2,043,188</u> |
| Total Current Assets | <u>2,355,362</u> |

Noncurrent Assets:

Capital Assets:

| | |
|-----------------------------------|--------------------|
| Land | 8,756 |
| Buildings | 59,009 |
| Improvements Other Than Buildings | 3,983,109 |
| Machinery and Equipment | 799,320 |
| Less: Accumulated Depreciation | <u>(2,818,227)</u> |
| | 2,031,967 |
| Construction in Progress | <u>72,876</u> |
| Total Noncurrent Assets | <u>2,104,843</u> |

TOTAL ASSETS

4,460,205

LIABILITIES

| | |
|-----------------------------------|----------------|
| Amounts Due in One Year | 62,371 |
| Amounts Due in More than One Year | <u>592,488</u> |

TOTAL LIABILITIES

654,859

NET POSITION

| | |
|----------------------------------|------------------|
| Net Investment in Capital Assets | 1,449,984 |
| Restricted for Customer Deposits | 353,101 |
| Unrestricted | <u>2,002,261</u> |

TOTAL NET POSITION

3,805,346

TOTAL LIABILITIES AND NET POSITION

\$ 4,460,205

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

Black Hawk Water User District
Statement of Revenues, Expenses, and Changes in Net Position -
Modified Cash Basis
For the Year Ended December 31, 2019

| | |
|---------------------------------------|----------------------------|
| OPERATING REVENUE | |
| Revenue Dedicated to Servicing Debt | \$ 713,192 |
| Miscellaneous | <u>113</u> |
| Total Operating Revenue | <u>713,305</u> |
| OPERATING EXPENSES | |
| Depreciation | 187,841 |
| Personal Services | 183,956 |
| Water System Maintenance | 95,140 |
| Professional Fees | 54,636 |
| Office Expenses | 29,310 |
| Insurance | 13,956 |
| Directors Fees | 9,690 |
| Contract Labor | 6,875 |
| Travel | 1,207 |
| Vehicle Expense | <u>1,032</u> |
| Total Operating Expenses | <u>583,643</u> |
| Operating Income | <u>129,662</u> |
| NONOPERATING REVENUE (EXPENSE) | |
| Interest Income | 42,533 |
| Interest Expense | <u>(23,790)</u> |
| Total Nonoperating Revenue (Expense) | <u>18,743</u> |
| CHANGE IN NET POSITION | 148,405 |
| NET POSITION - BEGINNING | <u>3,656,941</u> |
| NET POSITION - ENDING | <u><u>\$ 3,805,346</u></u> |

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

Black Hawk Water User District
Statement of Cash Flows - Modified Cash Basis
For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|------------------|
| Cash Receipts from Customers | \$ 713,192 |
| Other Operating Cash Receipts | 113 |
| Cash Payments to Employees for Services | (193,646) |
| Cash Payments to Suppliers of Goods and Services | <u>(202,156)</u> |
| Net Cash Provided by Operating Activities | <u>317,503</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|------------------|
| Principal Paid on Long-term Debt | (89,295) |
| Purchase of Capital Assets | (58,987) |
| Interest Paid on Long-term Debt | <u>(23,790)</u> |
| Net Cash Used by Capital and Related Financing Activities | <u>(172,072)</u> |

CASH FLOW FROM INVESTING ACTIVITIES

| | |
|---|---------------|
| Purchase of Investment Securities | (2,727,637) |
| Proceeds from Sales and Maturities of Investments | 2,685,125 |
| Cash Received for Interest | <u>42,533</u> |
| Net Cash Provided by Investing Activities | <u>21</u> |

NET INCREASE IN CASH

145,452

BALANCE - BEGINNING OF YEAR

166,722

BALANCE - END OF YEAR

\$ 312,174

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

| | |
|---|----------------|
| Operating Income | \$ 129,662 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Depreciation Expense | <u>187,841</u> |

NET CASH PROVIDED BY OPERATING ACTIVITIES

\$ 317,503

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

Black Hawk Water User District Notes to the Financial Statements December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP) as described within this note. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. REPORTING ENTITY

Black Hawk Water User District (District) was formed under Chapter 46-16 of the South Dakota Codified Laws of 1967. The basic operations of the District are financed by water service charges and hook-up fees. These operations are accounted for, and reported as, an enterprise fund.

The reporting entity of the Black Hawk Water User District includes all accounts of the District.

Board members of the District are elected by the members of the District and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. In addition, 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.

Enterprise Funds - Enterprise funds may be used to report any activity for which a fee is charged to external users for goods and 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.
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 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.

Measurement Focus

All activities of the District are presented using the economic resources measurement focus, applied on the modified cash basis of accounting.

Black Hawk Water User District
Notes to the Financial Statements
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and or/cash equivalents are received or disbursed, and assets and liabilities are recognized to the extent that cash has been received or disbursed.

Modifications to the cash basis of accounting include recording investments arising from cash transactions, property and equipment, depreciation on property and equipment, and long-term debt. Under this method, revenue is recorded when received rather than when earned and expenses are recorded when paid rather than when the obligation is incurred.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, the District considers all highly liquid investments or deposits with a term to maturity of three months or less, at the date of acquisition, to be cash equivalents. Money market funds held as a portion of the District's investment portfolio are classified as short-term investments and are not considered to be cash equivalents for purposes of the Statement of Cash Flows.

E. CAPITAL ASSETS

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

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 used in business-type activities/proprietary fund's operations; construction period interest is capitalized in accordance with U.S. GAAP.

Depreciation of all exhaustible capital assets is recorded as an expense and accumulated depreciation is reported on the Statement of Net Position.

**Black Hawk Water User District
Notes to the Financial Statements
December 31, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are as follows:

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|-----------------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Land and Land Rights | \$ 1 | N/A | N/A |
| Improvements Other Than Buildings | 500 | Straight-line | 5 - 20 years |
| Buildings | 500 | Straight-line | 39 years |
| Machinery and Equipment | 500 | Straight-line | 3 - 20 years |

Land is an inexhaustible capital asset and is not depreciated.

F. LONG-TERM LIABILITIES

All long-term liabilities are reported as liabilities in the financial statements. Liabilities consist of revenue bonds payable.

G. REVENUE RECEIVED IN ADVANCE

Under the modified cash basis of accounting, cash may have been received in advance of the District's providing a good or service to a customer. These amounts are reported in the financial statements at the time of receipt, as applicable.

H. RECEIPTS AND DISBURSEMENTS CLASSIFICATION

Operating receipts and disbursements result from providing services and producing and delivering goods and services.

I. EQUITY CLASSIFICATIONS

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

Net Investment in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position - Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted Net Position - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

J. APPLICATION OF NET POSITION

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

**Black Hawk Water User District
Notes to the Financial Statements
December 31, 2019**

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

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

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% of the public deposit accounts which exceed deposit insurance such as FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments

In general, SDCL 4-5-6 permits District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2019, the District had the following investments:

| Investment | Credit Rating | Cost Basis | Maturities | | |
|---------------------------------------|---------------|---------------------|-------------------|-------------------|-------------------|
| | | | < 1 Year | 1 - 5 Years | > 5 Years |
| Government Bonds | AA or Better | \$ 340,444 | \$ - | \$ 125,160 | \$ 215,284 |
| Marketable Certificates of Deposit | FDIC Insured | 1,699,756 | 970,000 | 395,000 | 334,756 |
| Money Market | Not Rated | 2,988 | 2,988 | - | - |
| | | <u>\$ 2,043,188</u> | <u>\$ 972,988</u> | <u>\$ 520,160</u> | <u>\$ 550,040</u> |

Fair Value Measurement

The District reports its investment on cash paid for such investments and not the fair market value.

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.

Custodial Credit Risk - Investments - The risk that, in the event of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of December 31, 2019, all of the District's investments were held by its agents.

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

Black Hawk Water User District
Notes to the Financial Statements
December 31, 2019

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

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.

NOTE 3 - CHANGES IN GENERAL CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2019 is as follows:

| | Balance 12/31/2018 | Increase | Decrease | Balance 12/31/2019 |
|------------------------------------|-----------------------|---------------------|-------------|-----------------------|
| Non-depreciable Capital Assets: | | | | |
| Land | \$ 8,756 | \$ - | \$ - | \$ 8,756 |
| Construction in Progress | 17,207 | 55,669 | - | 72,876 |
| Subtotal | <u>25,963</u> | <u>55,669</u> | <u>-</u> | <u>81,632</u> |
| Depreciable Capital Assets: | | | | |
| Buildings and Structures | 58,290 | 719 | - | 59,009 |
| Improvements Other than Buildings | 3,983,109 | - | - | 3,983,109 |
| Machinery and Equipment | 796,721 | 2,599 | - | 799,320 |
| Subtotal | <u>4,838,120</u> | <u>3,318</u> | <u>-</u> | <u>4,841,438</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Structures | (27,932) | (1,331) | - | (29,263) |
| Improvements Other than Buildings | (1,889,201) | (143,646) | - | (2,032,847) |
| Machinery and Equipment | (713,253) | (42,864) | - | (756,117) |
| Subtotal | <u>(2,630,386)</u> | <u>(187,841)</u> | <u>-</u> | <u>(2,818,227)</u> |
| Net Capital Assets | <u>\$ 2,233,697</u> | <u>\$ (128,854)</u> | <u>\$ -</u> | <u>\$ 2,104,843</u> |

During the year ended December 31, 2019, the District started the planning phases of the Elm Street and Well 6 projects. The District incurred engineering costs in the amount of \$72,876 related to these projects. The estimated cost of these projects is over \$4 million. The District has signed agreements related to the Elm Street project in the amount of \$686,702. The Elm Street construction is expected to be completed in the Fall of 2020. This project and the Well 6 project are being funded with a \$3.8 million loan and cash reserves. The Well 6 project has not been bid out at this time.

NOTE 4 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities is as follows:

| | Balance 12/31/2018 | Increase | Decrease | Balance 12/31/2019 | Amount Due in One Year |
|-----------------------------|-----------------------|-------------|--------------------|-----------------------|---------------------------|
| Bonds Payable: | | | | | |
| SRF Revenue Bond | \$ 48,503 | \$ - | \$ (38,548) | \$ 9,955 | \$ 9,955 |
| DWSRF Revenue Bond | 695,651 | - | (50,747) | 644,904 | 52,416 |
| Total Long-term Liabilities | <u>\$ 744,154</u> | <u>\$ -</u> | <u>\$ (89,295)</u> | <u>\$ 654,859</u> | <u>\$ 62,371</u> |

**Black Hawk Water User District
Notes to the Financial Statements
December 31, 2019**

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

Debt payable at December 31, 2019 is comprised of the following:

| | |
|---|------------|
| 1999 Water Revenue Bond payable to the State Revolving Fund bearing a fixed interest rate of 5.25%. Payable in quarterly installments of \$10,086. Matures in January 2020. Collateralized by all assets and revenue. | \$ 9,955 |
| Drinking Water - SRF Revenue Bond payable to the State Revolving Fund bearing a fixed interest rate of 3.25%. Payable in quarterly installments of \$18,185. Matures in April 2030. Collateralized by all assets and revenue. | 644,904 |
| | \$ 654,859 |

The annual requirements to amortize all debt outstanding as of December 31, 2019 are as follows:

| For the Year Ending December 31, | DWSRF Revenue Bond | | SRF Revenue Bond | |
|-------------------------------------|--------------------------|------------|------------------------|----------|
| | Principal | Interest | Principal | Interest |
| | 2020 | \$ 52,416 | \$ 20,325 | \$ 9,955 |
| 2021 | 54,140 | 18,600 | - | - |
| 2022 | 55,921 | 16,819 | - | - |
| 2023 | 57,761 | 14,980 | - | - |
| 2024 | 59,661 | 13,079 | - | - |
| 2025 - 2029 | 329,068 | 34,632 | - | - |
| 2030 - 2031 | 35,937 | 439 | - | - |
| | \$ 644,904 | \$ 118,874 | \$ 9,955 | \$ 131 |

The District has pledged future water revenues, net of specified operating expenses, to repay the water revenue bonds.

NOTE 5 - RETIREMENT 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 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 South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained 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.

Black Hawk Water User District
Notes to the Financial Statements
December 31, 2019

NOTE 5 - RETIREMENT PLAN (CONTINUED)

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 who 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 who 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% joint and survivor benefit, or a 100% 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% of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

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, 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.

**Black Hawk Water User District
Notes to the Financial Statements
December 31, 2019**

NOTE 5 - RETIREMENT PLAN (CONTINUED)

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 fiscal years ended December 31, 2019, 2018, and 2017 was \$7,364, \$6,783, and \$6,462, respectively, equal to the required contributions each year.

Pension Liabilities (Assets)

At June 30, 2019, SDRS is 100.09% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System, for the District as of the measurement period ending June 30, 2019 and reported by the District as of December 31, 2019 are as follows:

| | |
|---|-----------------|
| Proportionate Share of Pension Liability | \$ 677,371 |
| Less: Proportionate Share of Net Position Restricted for Pension Benefits | <u>677,947</u> |
| Proportionate Share of Net Pension Liability (Asset) | <u>\$ (576)</u> |

At December 31, 2019, the District reported a liability (asset) of (\$576) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2019 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, 2019 the District's proportion was .00543540% which is an increase of 0.0001538% from its proportion measured as of June 30, 2018.

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2019 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 pension plan investment expense |
| Future COLAs | 1.88% |

Mortality rates were based on 97% of the RP-2014 Employee Mortality Table, adjusted to 2006 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, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period o July 1, 2011 to June 30, 2016.

**Black Hawk Water User District
Notes to the Financial Statements
December 31, 2019**

NOTE 5 - RETIREMENT PLAN (CONTINUED)

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for the 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 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 for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (see 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% | 4.7% |
| Fixed Income | 30.0 | 1.7 |
| Real Estate | 10.0 | 4.3 |
| Cash | 2.0 | 0.9 |
| | <u>100.0%</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 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>\$ 95,605</u> | <u>\$ (576)</u> | <u>\$ (78,946)</u> |

Pension Plan Fiduciary Net Position

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

Black Hawk Water User District
Notes to the Financial Statements
December 31, 2019

NOTE 6 - 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, 2019, the District managed its risks as follows:

Liability Insurance

The District purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

The District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

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 7 - COMMITMENTS AND CONTINGENCIES

As explained in Note 3, the District began water system improvements for a facility plan project. The District awarded bids for portions of the project during the year ended December 31, 2019. However, remaining portions of the project have not yet been bid out.

NOTE 8 - SUBSEQUENT EVENTS

Subsequent to year-end, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. There have been mandates from state and local authorities requiring forced closures of various schools, businesses, and other facilities and organizations. The extent of the impact of COVID-19 on the District's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on their customers, employees, and vendors, all of which are uncertain and cannot be predicted. The financial impact cannot be estimated at this time.

In May 2020, the District awarded a bid for the Elm Street project in the amount of \$686,702. The estimated cost of the project is \$687,000, which will be funded by a loan through the South Dakota Department of Environment and Natural Resources. The SRF Loan was approved for the amount of \$3,810,000, with a 2.5% interest rate and a maturity date of 20 years. The District can make draws on the loan as eligible costs are incurred. The Elm Street project is estimated to be complete in Fall 2020.

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.