



COLONIAL PINE HILLS SANITARY DISTRICT

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2019 AND 2018



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

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COLONIAL PINE HILLS SANITARY DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Colonial Pine Hills Sanitary District
Rapid City, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of **COLONIAL PINE HILLS SANITARY DISTRICT** (the District), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe 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 financial position of **COLONIAL PINE HILLS SANITARY DISTRICT** as of December 31, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 7 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 July 21, 2020 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 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 the District's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

July 21, 2020

COLONIAL PINE HILLS SANITARY DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2019 AND 2018**

This section of Colonial Pine Hills Sanitary District’s (the District) annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal years ended on December 31, 2019 and 2018. Please read it in conjunction with the District’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District’s net position increased in 2019 by \$58,755 over 2018 and increased by \$7,613 in 2018 over 2017. Expenses increased in 2018 as a result of abandoning the pipeline loop project and getting the new office building fully operational.
- Operating revenue decreased by \$16,901 from 2018 to 2019 and decreased \$32,593 from 2017 to 2018. The decreases in both years were, in part, due to decreases in water sales due to cool and wet weather in both 2019 and 2018 from 2017. Variations in water sales is directly related to the type of weather; if it is dry the District sells more water, if wet the District sells less. Most other revenue is constant.

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 basic financial statements offer short- and long-term financial information about the District’s activities.

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

The District operates similar to a private business. The required financial statements include balance sheets, statements of revenue, expenses, and changes in net position, and the statements of cash flows. The District applies the accrual basis of accounting and an economic resources measurement focus. Inflows and outflows include all revenues and expenses during the year, regardless of when cash is received or paid. (The Financial Analysis section of the management’s discussion and analysis explains the structure and contents of the statements.)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Balance Sheet

The District’s net position changed as follows:

	2019	2018	2017
Current Assets	\$ 254,649	\$ 240,672	\$ 465,066
Capital Assets	3,530,532	3,602,349	3,531,256
Total Assets	\$ 3,785,181	\$ 3,843,021	\$ 3,996,322
Long-Term Debt Outstanding	\$ 1,520,677	\$ 1,642,622	\$ 1,760,795
Other Liabilities	51,517	46,167	88,908
Total Liabilities	\$ 1,572,194	\$ 1,688,789	\$ 1,849,703
Net Position:			
Net Investment in Capital Assets	\$ 2,009,855	\$ 1,959,727	\$ 1,725,897
Unrestricted	203,132	194,505	420,722
Total Net Position	\$ 2,212,987	\$ 2,154,232	\$ 2,146,619
Beginning Net Position	\$ 2,154,232	\$ 2,146,619	\$ 2,051,507
Change in Net Position	58,755	7,613	95,112
Percentage of Change in Net Position	2.73%	0.35%	4.64%

COLONIAL PINE HILLS SANITARY DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
DECEMBER 31, 2019 AND 2018**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The balance sheet reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District have been reported in this manner on the Balance Sheet. The difference between the District's assets and liabilities is its net position.

Statement of Revenues, Expenses, and Changes in Net Position

	2019	2018	2017
Operating Revenues	\$ 346,533	\$ 363,434	\$ 396,027
Non-Operating Revenue	122,666	124,473	123,345
Total Revenue	469,199	487,907	519,372
Operating Expenses	(361,660)	(392,308)	(368,044)
Non-Operating Expense	(48,784)	(87,986)	(56,216)
Total Expenses	(410,444)	(480,294)	(424,260)
Change in Net Position	\$ 58,755	\$ 7,613	\$ 95,112
Net Position -- End of Year	\$ 2,212,987	\$ 2,154,232	\$ 2,146,619

Operating expenses increased \$24,264 from 2017 to 2018 while 2019 operating expense remained comparable to 2017. The increase in 2018 is due largely to the additional expenses incurred to get the new office building operational.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

CAPITAL ASSET ADMINISTRATION

During 2018, the District completed the new office building and in 2019 the District made improvements to well systems. Capital investments totaled \$323,819 for the two periods.

	2019	2018	2017
<i>Capital Assets Being Depreciated</i>			
Buildings	\$ 392,216	\$ 392,216	\$ 64,180
Machinery and Equipment	247,742	229,140	225,220
Well Systems	4,769,047	4,719,922	4,719,922
	5,409,005	5,341,278	5,009,322
<i>Less Accumulated Depreciation</i>	1,990,455	1,850,911	1,705,339
Net Capital Assets Being Depreciated	\$ 3,418,550	\$ 3,490,367	\$ 3,303,983
<i>Capital Assets Not Being Depreciated</i>			
Land	\$ 111,982	\$ 111,982	\$ 111,982
Construction in Progress	-	-	115,291
Total Capital Assets Not Being Depreciated	\$ 111,982	\$ 111,982	\$ 227,273

COLONIAL PINE HILLS SANITARY DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
DECEMBER 31, 2019 AND 2018**

LONG-TERM DEBT

During 2019 and 2018, the District did not add any new debt. Changes in long-term debt consisted of principal repayments on existing loans with the State Revolving Fund. The following is a summary of the changes in long-term debt:

Balance -- December 31, 2017	\$ 1,760,795
Principal Repayments	(118,173)
Balance -- December 31, 2018	1,642,622
Principal Repayments	(121,945)
Balance -- December 31, 2019	<u>\$ 1,520,677</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position is good and is expected to improve in 2020 and 2021. As of December 31, 2019, the District had cash reserves of \$222,965. The board also sets aside money for repayment of two SRF loans. The District collects a \$6 surcharge applied monthly to every water billing statement for the repayment of a third SRF. The District also collects approximately \$120,000 annually from property taxes, which is first dedicated to repayment a fourth SRF loan with excess property taxes collected being used for any funding purpose the board of directors desire. Additional cash is held for emergency equipment repairs and/or maintenance.

Our Long Range Strategic Plan contains several projects that will be of great benefit to the District and its customers. This includes pipeline looping and GPS mapping of our distribution assets. These future projects will be prioritized as funds become available.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Colonial Pine Hills Sanitary District, 7806 Croyle Avenue, Rapid City, SD 57702.

COLONIAL PINE HILLS SANITARY DISTRICT

**BALANCE SHEETS
DECEMBER 31, 2019 AND 2018**

ASSETS	2019	2018
Current Assets		
Cash and Cash Equivalents	\$ 194,507	\$ 179,373
Accounts Receivable and Unbilled Receivables	30,037	31,673
Investments (Note 2)	28,458	27,979
Well Supplies	1,647	1,647
Total Current Assets	254,649	240,672
Capital Assets Being Depreciated (Note 4)		
Buildings	392,216	392,216
Machinery and Equipment	247,742	229,140
Well Systems	4,769,047	4,719,922
	5,409,005	5,341,278
Less Accumulated Depreciation	1,990,455	1,850,911
Net Capital Assets Being Depreciated	3,418,550	3,490,367
Capital Assets Not Being Depreciated (Note 4)		
Land	111,982	111,982
Total Capital Assets Not Being Depreciated	111,982	111,982
TOTAL ASSETS	\$ 3,785,181	\$ 3,843,021
LIABILITIES AND NET POSITION		
Current Liabilities		
Current Maturities of Long-Term Debt (Note 5)	\$ 125,405	\$ 121,945
Accounts Payable	6,830	3,002
Accrued Expenses	6,910	6,103
Meter Deposits	37,777	37,062
Total Current Liabilities	176,922	168,112
Long-Term Debt, Net of Current Maturities (Note 5)	1,395,272	1,520,677
Net Position		
Net Investment in Capital Assets	2,009,855	1,959,727
Unrestricted	203,132	194,505
	2,212,987	2,154,232
TOTAL LIABILITIES AND NET POSITION	\$ 3,785,181	\$ 3,843,021

The accompanying notes are an integral part of these statements.

COLONIAL PINE HILLS SANITARY DISTRICT

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Revenue		
Water Sales (Note 5)	\$ 304,620	\$ 330,381
State Revolving Fund IV Surcharge (Note 5)	28,831	28,925
Fees and Miscellaneous Income	11,641	2,688
Septic Fees	1,441	1,440
Total Revenue	346,533	363,434
Operating Expenses		
Depreciation	139,544	149,572
Salaries	77,551	69,942
Electric Charges	48,855	52,032
Repairs and Maintenance	31,604	32,295
Chemicals	9,687	10,172
Insurance	9,421	10,349
Professional Fees	8,599	19,695
Telephone	8,076	8,342
Office Expenses	6,338	17,214
Payroll Taxes	6,147	5,661
Tools and Equipment	4,361	1,309
Trustee Fees	4,150	3,980
Travel and Transportation	3,738	3,771
Printing and Publications	1,615	2,365
Water Testing	971	5,221
Dues and Subscriptions	843	202
Miscellaneous	160	186
Total Operating Expenses	361,660	392,308
Operating Loss	(15,127)	(28,874)
Non-Operating Revenue (Expense)		
Property Taxes (Note 6)	120,782	121,762
Interest Income	1,884	1,911
Gain on Sale of Property	-	800
Loss on Disposal of Capital Assets (Note 4)	-	(35,427)
Interest Expense	(48,784)	(52,559)
Total Non-Operating Revenue	73,882	36,487
Change in Net Position	58,755	7,613
Net Position -- Beginning of Year	2,154,232	2,146,619
Net Position -- End of Year	\$ 2,212,987	\$ 2,154,232

The accompanying notes are an integral part of these statements.

COLONIAL PINE HILLS SANITARY DISTRICT

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
Cash Flows From Operating Activities		
Receipts from Customers	\$ 348,884	\$ 365,020
Payments to Suppliers	(140,737)	(214,676)
Payments to Employees	(76,744)	(71,191)
Net Cash Flows Provided by Operating Activities	131,403	79,153
Cash Flows Provided by Noncapital Financing Activities		
Property Taxes	120,782	121,762
Cash Flows From Capital and Related Financing Activities		
Proceeds from Sale of Assets	-	800
Purchases of Capital Assets	(67,727)	(256,092)
Repayments on Long-Term Debt	(121,945)	(118,173)
Interest Expense	(48,784)	(52,559)
Net Cash Flows Used in Capital and Related Financing Activities	(238,456)	(426,024)
Cash Flows From Investing Activities		
Interest Received	1,884	1,911
Net Increase (Decrease) in Cash and Investments	15,613	(223,198)
Cash and Investments -- Beginning of Year	207,352	430,550
Cash and Investments -- End of Year	\$ 222,965	\$ 207,352
Reconciliation of Operating Loss to Net Cash Flows Provided by Operating Activities		
Operating Loss	\$ (15,127)	\$ (28,874)
<i>Adjustments to Reconcile Operating Loss to Net Cash Flows Provided by Operating Activities:</i>		
Depreciation	139,544	149,572
<i>Changes to Working Capital Increasing (Decreasing) Cash:</i>		
Accounts Receivable and Unbilled Receivables	1,636	1,196
Accounts Payable	3,828	(41,882)
Accrued Expenses	807	(1,249)
Meter Deposits	715	390
Net Cash Flows Provided by Operating Activities	\$ 131,403	\$ 79,153
Noncash Investing, Capital and Financing Activities:		
Gain on Sale of Capital Asset Not Affecting Operating Income	\$ -	\$ (800)
Loss on Disposal of Capital Assets Not Affecting Operating Income	-	35,427

The accompanying notes are an integral part of these statements.

COLONIAL PINE HILLS SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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

Operations

Colonial Pine Hills Sanitary District (the District) provides water to the residents of the Countryside South (CSS) and Whispering Pines (WP) subdivisions in Rapid City, South Dakota. The District collects monthly water payments and maintains the water systems. The District also charges a monthly septic administration fee for maintenance of the sewer system.

Use of Estimates

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

Method of Accounting

The District uses the accrual method of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests). The accounting policies of the District conform to generally accepted accounting principles applicable to enterprise funds of a government entity. In the Statements of Revenues, Expenses, and Changes in Net Position, revenue 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, non-capital financing activities, or investing activities are reported as components of operating revenues or expenses.

Capital Assets

Capital assets are stated at cost. Donated property and equipment (Countryside South Water System) is stated at the estimated fair value at the date of the donation. The District capitalizes assets purchased over \$500 and expenses all others. Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Buildings	15-39 Years
Machinery and Equipment	5-10 Years
Well Systems	5-75 Years

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.

Cash and Cash Equivalents

The District considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. As of December 31, 2019 and 2018, the District's cash and cash equivalents consisted only of checking, savings, certificates of deposit and money market accounts.

Deposits and Investments

All of the District's accounts are insured or collateralized in the District's name. The District does not have an investment policy that would limit credit risk, custodial credit risk, and interest rate risk. Investments consist of certificates of deposit and are classified as cash and cash equivalents on the balance sheet. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

COLONIAL PINE HILLS SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019 AND 2018

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

Deposits and Investments (Continued)

Deposits - The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC 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 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 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.

Accounts Receivable

Accounts receivable are recorded at the time revenue is earned and are billed monthly. No interest is accrued on accounts receivable. Receivables older than 30 days are considered delinquent. Management considers all receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is recorded at December 31, 2019 or 2018.

Well Supplies

Well supplies consist of sleeves, pipe, extensions, and wire. The well supplies are stated at the lower of cost or market value.

Equity Classifications

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

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

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

COLONIAL PINE HILLS SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018**

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

Subsequent Events

Subsequent events have been evaluated through July 21, 2020, the date which the financial statements were available to be issued.

(2) Investments

The District's investments consist of a certificate of deposit with a local financial institution, which is recorded at cost plus accrued interest.

(3) Risk Management

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

(4) Changes in Capital Assets

Changes in capital assets were as follows during the year ended December 31, 2018:

	Balance December 31, 2017	Additions	Transfers/ Disposals	Balance December 31, 2018
<i>Capital Assets Being Depreciated</i>				
Buildings	\$ 64,180	\$ -	\$ 328,036	\$ 392,216
Machinery and Equipment	225,220	7,920	(4,000)	229,140
Well Systems	4,719,922	-	-	4,719,922
	<u>5,009,322</u>	<u>7,920</u>	<u>324,036</u>	<u>5,341,278</u>
<i>Less Accumulated Depreciation</i>	<u>1,705,339</u>	<u>149,572</u>	<u>4,000</u>	<u>1,850,911</u>
Net Capital Assets Being Depreciated	\$ 3,303,983	\$ (141,652)	\$ 320,036	\$ 3,490,367
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 111,982	\$ -	\$ -	\$ 111,982
Construction in Progress	115,291	248,172	363,463	-
Total Capital Assets Not Being Depreciated	\$ 227,273	\$ 248,172	\$ 363,463	\$ 111,982

COLONIAL PINE HILLS SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018**

(4) Changes in Capital Assets (Continued)

Changes in capital assets were as follows during the year ended December 31, 2019:

	Balance December 31, 2018	Additions	Transfers/ Disposals	Balance December 31, 2019
<i>Capital Assets Being Depreciated</i>				
Buildings	\$ 392,216	\$ -	\$ -	\$ 392,216
Machinery and Equipment	229,140	18,602	-	247,742
Well Systems	4,719,922	49,125	-	4,769,047
	<u>5,341,278</u>	<u>67,727</u>	<u>-</u>	<u>5,409,005</u>
<i>Less Accumulated Depreciation</i>	1,850,911	139,544	-	1,990,455
Net Capital Assets Being Depreciated	\$ 3,490,367	\$ (71,817)	\$ -	\$ 3,418,550
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 111,982	\$ -	\$ -	\$ 111,982
Total Capital Assets Not Being Depreciated	\$ 111,982	\$ -	\$ -	\$ 111,982

During 2018, the District evaluated the feasibility of the pipeline loop project included in the construction in progress account for \$35,427. The District concluded this project was not recoverable and the entire balance was impaired. The amount was written off during 2018 and is included in the Loss on Disposal of Capital Assets on the Statements of Revenues, Expenses and Changes in Net Position. During the year ended December 31, 2018, the District incurred expenditures for construction of a new district office building which became operational in May 2018.

(5) Long-Term Debt

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

Balance -- December 31, 2017	\$ 1,760,795
Principal Repayments	(118,173)
Balance -- December 31, 2018	1,642,622
Principal Repayments	(121,945)
Balance -- December 31, 2019	\$ 1,520,677

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

	2019	2018
State Revolving Fund Loan, due in quarterly installments of \$11,071 including interest accruing at 3.5 percent, maturing in 2022, secured by a pledge of net water revenue.	\$ 125,593	\$ 164,623
State Revolving Fund Loan, due in quarterly installments of \$12,561 including interest accruing at 3.0 percent, maturing in 2031, secured by a pledge of net water revenue.	478,248	513,483
State Revolving Fund Loan, due in semi annual installments of \$24,766 including interest accruing at 3.0 percent, maturing in 2034, secured by a pledge of property tax revenue.	578,932	610,385

COLONIAL PINE HILLS SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2019 AND 2018**

(5) Long-Term Debt (Continued)

	<u>2019</u>	<u>2018</u>
State Revolving Fund Loan, due in quarterly installments of \$6,667 including interest accruing at 3.0 percent, maturing in 2036, secured by a monthly surcharge.	337,904	354,131
	1,520,677	1,642,622
Less: Current Portion	125,405	121,945
	\$ 1,395,272	\$ 1,520,677

The annual requirements to amortize all debt outstanding are as follows:

	<u>Principal</u>	<u>Interest</u>
2020	\$ 125,405	\$ 45,324
2021	129,421	41,309
2022	133,070	37,073
2023	92,496	33,494
2024	95,315	30,675
2025-2029	518,176	108,005
2030-2034	394,194	32,295
2035-2036	32,600	737
	\$ 1,520,677	\$ 328,912

The District has pledged future revenues associated with its debt agreements. The debt funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Pledged revenues associated with the debt issue have been pledged through the maturity dates listed above. The 2019 principal and interest on the debt was **\$170,729** while the pledged revenue totaled **\$333,451**. The debt agreements require certain financial ratios to be met. At December 31, 2019, the District was in compliance with these debt covenants.

(6) Property Tax

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

Property taxes are recorded as receivables in the year that the enforceable legal claim to property taxes arises or when the resources are received, whichever occurs first. Property tax revenue is recognized in the year for which the taxes are levied. Accordingly, taxes levied in October 2018 and October 2019, have not been recorded as a receivable or revenue in the accompanying Balance Sheets and Statements of Revenue, Expenses and Changes in Net Position as the legal claim to the assets and resources were not received until the 2019 and 2020 calendar years, respectively.

(7) Subsequent Event

Subsequent to year-end, the District has been negatively impacted by the effects of the world-wide coronavirus pandemic. The District is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the District's financial position is not known.

OTHER REPORTS



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

To the Board of Directors
Colonial Pine Hills Sanitary District
Rapid City, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of **Colonial Pine Hills Sanitary District** (the District) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 21, 2020.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as 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 the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests resulted in no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

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

Colonial Pine Hills Sanitary District

Purpose of this Report

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



KETEL THORSTENSON, LLP
Certified Public Accountants

July 21, 2020

COLONIAL PINE HILLS SANITARY DISTRICT

**SCHEDULE OF FINDINGS
DECEMBER 31, 2019 AND 2018**

Material Weaknesses in Internal Control

2019-001: Financial Statement Preparation

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

Criteria and Effect: This deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the District's management.

Repeat Finding from Prior Year: Yes, prior year finding 2017-001.

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

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

2019-002: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed material audit adjustments that resulted in a \$116,279 and \$180,257 decrease in reported net income for 2019 and 2018, respectively. Adjustments included recording accrued payroll, accounts payable, capital asset activity, loan classifications, and recording receivables and sales in the correct period.

Criteria and Effect: These adjustments were not identified as a result of the District's existing internal controls, and therefore, could have resulted in a material misstatement of the District's financial statements.

Repeat Finding from Prior Year: Yes, prior year finding 2017-002.

Recommendation: We recommend management review the entries for accuracy.

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

COLONIAL PINE HILLS SANITARY DISTRICT

**SCHEDULE OF FINDINGS (CONTINUED)
DECEMBER 31, 2019 AND 2018**

Material Weaknesses in Internal Control (Continued):

2019-003: Lack of Segregation of Duties

Condition and Cause: The District has a general lack of segregation of duties due to the limited number of staff.

Criteria and Effect: As a result of the inadequate segregation of duties a material misstatement to the financial statements may not be prevented or detected by the District's management.

Repeat Finding from Prior Year: Yes, prior year finding 2017-003.

Recommendation: This is not an uncommon problem in an organization of this size. A proper system of segregation of duties and functions assures adequate internal control over the safeguarding of assets and the reliability of financial records and reporting. Without proper segregation of duties, the likelihood of detection is reduced. We recommend the board designate an individual, the President or the Treasurer, to review the general ledger detail and bank statements, to include the cancelled check images, on a monthly basis. We recommend the District strive for as much segregation of duties as possible with the limited number of personnel.

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

MANAGEMENT RESPONSE



Colonial Pine Hills Sanitary District

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2019 AND 2018

Colonial Pine Hills Sanitary District respectfully submits the following summary schedule of prior audit findings from the December 31, 2017 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2017 Schedule of Findings.

2017-001: Financial Statement Preparation

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

Initial Year Report: Originally issued in 2005.

Reasons for Recurrence and Corrective Action Plan: As the District has accepted the risk associated with the auditor's preparation of the financial statements, it will be repeated in 2019. See Corrective Action Plan.

2017-002: Audit Adjustments

Status: The District operates on a cash basis throughout the year. The District provides supporting documentation for accounts receivable, accounts payable, and accrued payroll to adjust accrual balances. The District reviews the audit adjustments for propriety.

Initial Year Report: Originally issued in 2005.

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

2017-003: Lack of Segregation of Duties

Status: The District has a general lack of segregation of duties due to the continued limited number of staff.

Initial Year Report: Originally issued in 2005.

Reasons for Recurrence and Corrective Action Plan: The District has accepted the risk associated with this deficiency and has implemented internal control measures, as best suited, for an organization of their size. See Corrective Action Plan.



Colonial Pine Hills Sanitary District

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CORRECTIVE ACTION PLAN DECEMBER 31, 2019 AND 2018

Colonial Pine Hills Sanitary District respectfully submits the following corrective action plan regarding findings from the December 31, 2019 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

2019-001: Financial Statement Preparation

Responsible Individuals: Jim Martin, District Manager

Corrective Action Plan: At this time, the District will accept the degree of risk that is associated with this condition. For future audits, we will continue to monitor the financial statement preparation and determine if any modification can be done to the procedure.

Anticipated Completion Date: Ongoing

2019-002: Audit Adjustments

Responsible Individuals: Jim Martin, District Manager

Corrective Action Plan: At this time, the District will accept the degree of risk that is associated with this condition. The District maintains its records on a cash basis throughout the year for budgetary comparison reasons. The District annually reviews the year-end adjustments provided by the auditors and posts the entries to the general ledger. The District Manager is responsible for the annual review of these adjustments.

Anticipated Completion Date: Ongoing

2019-003: Lack of Segregation of Duties

Responsible Individuals: Jim Martin, District Manager

Corrective Action Plan: At this time, the District is aware of the segregation of duties limitations and will evaluate internal controls from time to time as changes in personnel or procedures occur.

Anticipated Completion Date: Ongoing