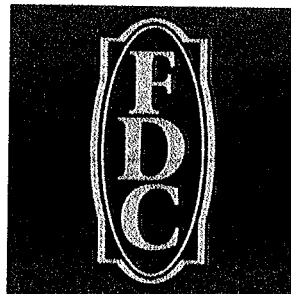


**FALL RIVER WATER USERS DISTRICT**  
**AUDITED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**



**Fenenga, DeSmet & Company, LLC**

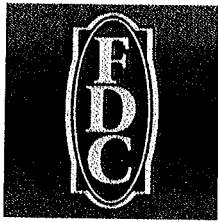
Certified Public Accountants

Winner, SD | Rapid City, SD

# FALL RIVER WATER USERS DISTRICT

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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  
Fall River Water Users District  
Oral, 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 the business-type activities of the Fall River Water Users District of Oral, South Dakota, (District) as of December 31, 2018 and 2017, and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 13, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audits 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 Fall River Water Users District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings and Management's Responses, we identified certain deficiencies in the internal control that we consider to be material weaknesses.

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 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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Management's Responses as items 2018-001 and 2018-002 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fall River Water Users District's financial statements are free of 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 audits 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*.

**District's Response to Findings**

The District's responses to the findings identified in our audits are described in the accompanying Schedule of Audit Findings and Management's Responses. The District's responses were not subject 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 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.



Fenenga, DeSmet & Company, LLC  
Rapid City, SD  
August 13, 2019

**FALL RIVER WATER USERS DISTRICT**  
**Schedule of Prior Audit Findings**  
**December 31, 2018**

**Prior Audit Findings – Financial Statement Audit**

Finding 2017-001

Material Weakness: Lack of Segregation of Duties

Condition: The lack of staff members does not allow the District to separate incompatible accounting functions or processes or provide appropriate oversight of accounting functions that is necessary under a properly designed system of internal controls.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the lack of segregation of duties. We recommend the District officials provide compensating controls when possible.

Current Status: Repeated as Finding 2018-001.

Finding 2017-002

Material Weakness: Internal Controls Related to Drafting Financial Statements

Condition: The small size of the District limits the ability of management to maintain adequate segregation of duties to prepare the financial statements and related notes to the financial statements that is required under a properly designed system of internal controls.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the District's auditor drafting the financial statements because of cost or other considerations. If the District chooses not to accept this risk, another accountant with appropriate knowledge, skill, and experience can be hired to either prepare or review the financial statements.

Current Status: Repeated as Finding 2018-002.

**FALL RIVER WATER USERS DISTRICT**  
**Schedule of Current Audit Findings and Management's Responses**  
**December 31, 2018**

**Findings – Financial Statement Audit**

Finding 2018-001

Material Weakness: Lack of Segregation of Duties

Condition: The lack of staff members does not allow the District to separate incompatible accounting functions or processes or provide appropriate oversight of accounting functions that is necessary under a properly designed system of internal controls.

Criteria: The District should have safeguards in place to separate accounting functions which is fundamental in a good system of internal controls. An ideal segregation of duties would separate who authorizes, records, reconciles, and has custody of assets.

Cause: The District has a small staff size. There are only two staff members who perform all of the accounting functions.

Effect: The Manager and Bookkeeper perform all accounting functions. The possibility of fraud or errors occurring and not being detected or corrected is present. There is a potential that intentional or unintentional errors could be made and not be detected.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the lack of segregation of duties. We recommend the District officials provide compensating controls when possible.

Management's Response: The District will have an outside accountant reconcile the monthly bank statements and prepare the payroll and related reports. The District will also have the outside accountant review transactions on a quarterly or semi-annual basis.

Finding 2018-002

Material Weakness: Internal Controls Related to Drafting Financial Statements

Condition: The small size of the District limits the ability of management to maintain adequate segregation of duties to prepare the financial statements and related notes to the financial statements that is required under a properly designed system of internal controls.

Criteria: Establishing internal controls over the preparation and drafting of the financial statements are the responsibility of management. The District should have an internal control system designed to provide for drafting the financial statements being audited.

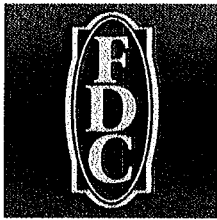
Cause: The condition exists due to small staff size within the finance function of the District. These issues are common in an organization of this size.

Finding 2087-002 (continued)

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

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the District's auditor drafting the financial statements because of cost or other considerations. If the District chooses not to accept this risk, another accountant with appropriate knowledge, skill, and experience can be hired to either prepare or review the financial statements.

Management's Response: The District has decided to accept the risk associated with this condition. The District's management and officials will review all adjustments and also review, approve, and accept responsibility for the financial statements prior to their issuance.



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Fall River Water Users District  
Oral, SD

We have audited the accompanying financial statements of Fall River Water Users District, as of and for the year ended December 31, 2018 and 2017, 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 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 the 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 opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fall River Water Users District, as of December 31, 2018 and 2017, and



the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2019 on our consideration of Fall River Water Users District's internal control over financial reporting and 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 and internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Audit Standards* in considering Fall River Water Users District's internal control over financial reporting and compliance. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record.

*Fenenga, DeSmet & Company LLC*

Fenenga, DeSmet & Company, LLC  
Rapid City, SD  
August 13, 2019

**FALL RIVER WATER USERS DISTRICT**  
**STATEMENTS OF NET POSITION**

	December 31,	
	2018	2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents		
Water service account	\$ 24,338	\$ 77,831
Restricted for debt service	169,284	169,284
Other cash accounts	94,231	35,708
Total cash and cash equivalents	287,853	282,823
Accounts receivable, less allowance for doubtful accounts	50,617	34,120
Prepaid expenses	5,364	4,320
Total Current Assets	343,834	321,263
<b>Capital Assets, Net of Depreciation</b>	11,414,082	11,688,770
<b>Total Assets</b>	<b>\$ 11,757,916</b>	<b>\$ 12,010,033</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 26,346	\$ 41,990
Current portion of long-term liabilities	97,901	94,846
Accrued interest	9,123	9,776
Other current liabilities	15,365	15,864
Total Current Liabilities	148,735	162,476
<b>Long-term Liabilities</b>		
State revolving fund loan, net of current portion	527,980	563,068
Other long-term debt, net of current portion	2,937,020	2,999,677
Total Long-Term Liabilities	3,465,000	3,562,745
<b>Total Liabilities</b>	3,613,735	3,725,221
<b>Net Position</b>		
Net investment in capital assets	7,851,180	8,031,179
Restricted for debt service	169,284	169,284
Unrestricted net position	123,717	84,349
<b>Total Net Position</b>	8,144,181	8,284,812
<b>Total Liabilities and Net Position</b>	<b>\$ 11,757,916</b>	<b>\$ 12,010,033</b>

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

**FALL RIVER WATER USERS DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**

	<b>For the Years</b>	
	<b>Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating Revenues</b>		
Water sales	\$ 687,453	\$ 705,418
Other operating revenues	60,800	69,663
Total Operating Revenues	748,253	775,081
<b>Operating Expenses</b>		
Cost of sales and service	150,765	173,362
Repairs, maintenance and supplies	195,996	87,134
Wages and benefits	202,526	160,946
Administrative related expenses	74,927	80,603
Depreciation expense	322,801	325,529
Total Operating Expenses	947,015	827,574
<b>Operating Income (Loss)</b>	(198,762)	(52,493)
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	885	580
Interest expense	(118,288)	(121,601)
Total Nonoperating Revenues (Expenses)	(117,403)	(121,021)
<b>Change in Net Position, Before Capital Contributions</b>	(316,165)	(173,514)
Capital contributions (distributions)	175,534	(29,985)
<b>Change in Net Position</b>	(140,631)	(203,499)
<b>Net Position - Beginning</b>	8,284,812	8,488,311
<b>Net Position - Ending</b>	\$ 8,144,181	\$ 8,284,812

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

**FALL RIVER WATER USERS DISTRICT**  
**STATEMENTS OF CASH FLOWS**

	<b>For the Years</b>	
	<b>Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows From Operating Activities</b>		
Cash receipts from customers	\$ 681,428	\$ 721,423
Cash payments to suppliers of goods and services	(438,375)	(345,649)
Cash payments to employees for services	(200,493)	(161,462)
Other cash receipts	47,795	59,812
Net Cash Provided by Operating Activities	<u>90,355</u>	<u>274,124</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase and construction of capital assets	(48,113)	(154,021)
Capital Contributions	175,534	-
Interest paid on capital debt	(118,941)	(121,924)
Principal paid on capital debt	(94,690)	(131,737)
Net Cash Used by Capital and Related Financing Activities	<u>(86,210)</u>	<u>(407,682)</u>
<b>Cash Flows from Investing Activities</b>		
Interest received	885	580
Net Cash Provided by Investing Activities	<u>885</u>	<u>580</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	5,030	(132,978)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>282,823</u>	<u>415,801</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 287,853</u>	<u>\$ 282,823</u>
<b>Reconciliation of Operating Income/(Loss) to Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ (198,762)	\$ (52,493)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	322,801	325,529
(Increase) decrease in accounts receivable	(16,497)	6,715
(Increase) decrease in inventory	-	734
(Increase) decrease in other current assets	(1,044)	(4,320)
Increase (decrease) in accounts payable	(15,644)	136
Increase (decrease) in other current liabilities	(499)	(2,177)
Net Cash Provided by Operating Activities	<u>\$ 90,355</u>	<u>\$ 274,124</u>

The accompanying notes are an integral part of these financial statements.

**FALL RIVER WATER USERS DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

**Note 1 - Summary of Significant Accounting Policies**

**Organization**

Fall River Water Users District (District) was organized in July of 1992 under the authority of Chapter 46A-9-16 of the South Dakota Codified Laws of 1967, as amended, as a water user district. The District was organized to construct or acquire a water system to conserve, control and distribute potable water to homes, pastures, feedlots, and elsewhere deemed feasible. The system consists of pumps, filtering and treatment plants, storage tanks, mains, pipelines, booster pumps and other water works deemed necessary to pump, filter, treat, store and distribute potable water.

The District provides water to users primarily in the Fall River County in South Dakota and has its office in Oral, South Dakota. An elected Board of Directors, consisting of seven directors, governs the District. The District is authorized to exercise the power of eminent domain, and is a political subdivision of the State of South Dakota.

**Basis of Presentation**

The District is considered a single enterprise fund for financial reporting purposes. The District's financial statements have been prepared on the accrual basis of accounting, consistent with the governmental proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through user charges for services. The District applies all applicable Government Accounting Standards Board (GASB) pronouncements.

Operating income includes revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues are user fees for water services. Principal operating expenses are the costs of providing water and maintaining system assets. Other revenues and expenses are classified as nonoperating in the financial statements.

**Measurement Focus and Basis of Accounting**

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

The financial statements are presented using the economic resources measurement focus, applied on the accrual basis 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).

**Revenue and Expense Classification**

In the Statements of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the 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 not reported as components of operating revenues and expenses.

**FALL RIVER WATER USERS DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Net Position 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 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* – Consists of all other net position that do not meet the definition of “restricted” or “investment in capital assets, net of related debt.”

**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 expense is incurred for purposes for which both restricted and unrestricted net position are available.

**Capital Assets**

Property, plant and equipment are stated at historical costs and/or cumulative cost of construction, which includes interest on construction in progress prior to the asset being put into service. No interest was capitalized during the years ending December 31, 2018 and 2017. The District’s primary asset is a water delivery system consisting of water mains, pumps and booster stations, wells, and storage tanks. Except for land, all assets greater than \$2,500 with a useful life of more than one year are depreciated using the straight-line method over their useful lives. Based on engineering estimates, the useful lives of the components for the water delivery system and other capital assets are as follows:

Water Mains	50 years
Pumps and Booster Stations	20 years
Wells and Storage Tanks	50 years
Vehicles and Office Equipment	5 years

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**FALL RIVER WATER USERS DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Deposits, Investments, and Cash Equivalents**

For the purpose of the District's Statement of Cash Flows, the District considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents, including restricted cash and cash equivalents. The District had no cash equivalents at December 31, 2018 and 2017. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

*Deposits* – The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 6-4A-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 better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

*Investments* – In general, SDCL 4-5-6 permits District funds to be invested 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 deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

*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.

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

**Accounts Receivable**

Accounts receivable are stated at face value net of allowance for doubtful accounts and consist of balances due from customers. Receivable detail at December 31 is as follows:

	2018	2017
Accounts Receivable	\$ 51,617	\$ 35,120
Allowance for Doubtful Accounts	(1,000)	(1,000)
Net Accounts Receivable	<u>\$ 50,617</u>	<u>\$ 34,120</u>

**FALL RIVER WATER USERS DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

**Note 2 – Changes in Capital Assets**

The following is a summary of major classifications of Capital Assets:

	<u>2018</u>	<u>2017</u>
Water delivery system	\$ 14,333,625	\$ 14,333,625
Building and leasehold improvements	108,257	108,258
Land	149,140	123,690
Office equipment and vehicles	266,483	261,756
Construction in progress	17,937	-
	<u>14,875,442</u>	<u>14,827,329</u>
Less accumulated depreciation	<u>(3,461,360)</u>	<u>(3,138,559)</u>
Capital Assets, Net	<u>\$ 11,414,082</u>	<u>\$ 11,688,770</u>

The following is a summary of changes Capital Assets for the year ended December 31, 2018:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Non-Depreciable Assets</b>				
Construction in progress	\$ -	\$ 17,937	\$ -	\$ 17,937
Land	123,690	25,450	-	149,140
Total non-depreciable assets	<u>\$ 123,690</u>	<u>\$ 43,387</u>	<u>\$ -</u>	<u>\$ 167,077</u>
<b>Depreciable Assets</b>				
Water delivery system	\$ 14,333,625	\$ -	\$ -	\$ 14,333,625
Buildings & improvements	108,258	-	-	108,258
Office equipment & vehicles	261,756	4,726	-	266,482
Total depreciable assets	<u>\$ 14,703,639</u>	<u>\$ 4,726</u>	<u>\$ -</u>	<u>\$ 14,708,365</u>
Accumulated Depreciation	<u>\$ 3,138,559</u>	<u>\$ 322,801</u>	<u>\$ -</u>	<u>\$ 3,461,360</u>

**Note 3 – Lease Commitments**

The District leases office space on a year to year basis with payments due bi-annually until terminated by either party. Lease expense for the year ended December 31, 2018 and 2017 totaled \$2,500 and \$2,500, respectively. This amount is included in the Statement of Revenue, Expenses, and Changes in Net Position.



**FALL RIVER WATER USERS DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

**Note 4 – Long-term Debt**

The District's long-term debt at December 31 is as follows:

	<u>2018</u>	<u>2017</u>
Note payable to the South Dakota Drinking Water State Revolving Loan Fund, quarterly payments of \$9,615 including interest of 3%, final payment due October 2031. Secured by substantially all assets.	\$ 412,756	\$ 438,352
Note payable to the South Dakota Drinking Water State Revolving Loan Fund, quarterly payments of \$3,098 including interest of 2.5%, final payment due April 2033. Secured by substantially all assets.	150,311	158,811
Note payable, USDA Rural Development, interest at 4%, payable \$3,163 per month, due March 2050, secured by substantially all assets.	590,282	604,320
Note payable, USDA Rural Development, interest at 3.75%, payable \$3,438 per month, due October 2050, secured by substantially all assets.	762,576	774,895
Note payable, USDA Rural Development, interest at 3.25%, payable \$2,904 per month, due July 2050, secured by substantially all assets.	685,116	697,412
Note payable, USDA Rural Development, interest at 2.75%, payable \$4,060 per month, due May 2054, secured by substantially all assets.	<u>961,860</u>	<u>983,801</u>
Total Long-term Debt	3,562,901	3,657,591
Less Current Maturities	<u>(97,901)</u>	<u>(94,846)</u>
Long-term Portion	<u>\$ 3,465,000</u>	<u>\$ 3,562,745</u>

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

	<u>Debt</u> <u>12/31/2017</u>	<u>New</u> <u>Debt</u>	<u>Retired</u>	<u>Debt</u> <u>12/31/2018</u>	<u>Due Within</u> <u>One Year</u>
State of SD -					
Revolving Fund	\$ 597,163	\$ -	\$ 34,096	\$ 563,067	\$ 35,087
USDA Rural					
Development	<u>3,060,428</u>	<u>-</u>	<u>60,595</u>	<u>2,999,833</u>	<u>62,814</u>
Total Debt	<u>\$ 3,657,591</u>	<u>\$ -</u>	<u>\$ 94,691</u>	<u>\$ 3,562,900</u>	<u>\$ 97,901</u>

**FALL RIVER WATER USERS DISTRICT**  
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**Note 4 – Long-term Debt (continued)**

Debt service is as follows:

	Interest	Principal	Total
2019	\$ 115,371	\$ 97,901	\$ 213,272
2020	112,715	100,917	213,632
2021	109,319	104,312	213,631
2022	105,951	107,680	213,631
2023	102,472	111,159	213,631
2024-2028	456,267	611,889	1,068,156
2029-2033	352,210	632,829	985,039
2034-2038	256,976	556,924	813,900
2039-2043	154,236	635,625	789,861
2044-2048	58,153	492,973	551,126
Thereafter	3,118	110,691	113,809
	<u>\$ 1,826,788</u>	<u>\$ 3,562,900</u>	<u>\$ 5,389,688</u>

**Note 5 – Pension Plan**

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

*Benefits Provided* – SDRS has three different classes of employees, Class A, Class B Public Safety and Class B Judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final three year average compensation times the employee's years of service. Employees with three years of service are eligible to retire at age 55. Class B Public Safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee's final average compensation. Class B Judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee's final average compensation. All Class B employees with three years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

**FALL RIVER WATER USERS DISTRICT**  
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**Note 5 – Pension Plan (continued)**

*Plan Information (continued)* - The annual increase in the amount of the SDRS benefits payable on each July 1<sup>st</sup> is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
  - 90.0% to 99.9% funded – 2.1% minimum and 2.8% maximum COLA
  - 80.0% to 90.0% funded – 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% - 2.1% COLA

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- 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 3<sup>rd</sup> quarter CPA-W, no less than .05% 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 3<sup>rd</sup> 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.

*Contributions* – Per SDCL 3-12, contribution requirements of the active employees and the participating employees 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. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of the contributions to the SDRS for the year ended December 31, 2017 was \$6,377, equal to the required contributions each year.

In 2016, the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68* became effective. The new standards require the District to record its share of the SDRS net pension asset or liability, related deferred balances and its share of net pension revenue or expense rather than recording the District's required retirement contributions, noted above. As of June 30, 2019, SDRS is 100.02 percent funded and accordingly has a net pension asset based on actuarial assumptions including inflation, investment return, mortality tables, and other factors. The District's share of the net pension asset at June 30, 2019 and 2018 was .004 %. Based on the overall insignificant impact to the financial statements, the District has elected not to record entries into its accounting records for the new pension standards. If the

**FALL RIVER WATER USERS DISTRICT**  
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**Note 5 – Pension Plan (continued)**

District had recorded the pension activity, a new pension asset totaling approximately \$150 would have been recorded along with deferred outflows of resources totaling approximately \$40,000 and deferred inflows of resources totaling approximately (\$11,000) for a net increase in assets at December 31, 2018 of \$29,150. In addition, a reduction to pension costs of approximately \$100 would have been recorded for the year ending December 31, 2018.

Therefore, the supplemental information and other note disclosures required by the above mentioned standards are not included in these financial statements.

**Note 6 – Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters. The District manages these risks by purchasing general liability, property, workers compensation, fidelity bond coverage, health and life coverage, and firm commercial coverage through private carriers. The District pays into the South Dakota Unemployment Compensation Fund to provide for unemployment insurance coverage.

The District believes such coverage is sufficient to preclude any significant uninsured losses to the District. There have been no settlements exceeding insurance coverage in any of the past three years.

**Note 7 – Restricted Cash**

Assets restricted for use for a specific purpose through segregation of balances in separate accounts include \$169,284 restricted for the purpose of satisfying debt covenants.

**Note 8 – Subsequent Events**

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