



RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2018 AND 2017



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

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RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Rapid Valley Sanitary District/Water Service
Rapid City, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of **RAPID VALLEY SANITARY DISTRICT/WATER SERVICE** (the District), which comprise the balance sheets as of December 31, 2018 and 2017, 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 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 **RAPID VALLEY SANITARY DISTRICT/WATER SERVICE** as of December 31, 2018 and 2017, and the changes in its financial 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 to 8, 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 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 financial statements, and other knowledge we obtained during our audit of the 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 a report dated May 13, 2019, on our consideration of the District's internal control over financial reporting and 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 the 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

May 13, 2019

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**MANAGEMENT’S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

This section of Rapid Valley Sanitary District/Water Service’s (the District) annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year ended on December 31, 2018. Please read it in conjunction with the District’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the District’s revenues generated from charges for services and other revenues were \$3,116,453 while cost of sales and operating expenses were \$2,874,078. This represents \$242,375 more in operating revenues than expenses.
- The service department continued to be proactive in replacing water service lines that were either already leaking or that had the potential for developing leaks. Projects completed in 2018 include: Highway 44 water main crossing, Legacy/Longview water main extension, installation of additional Nanostone filters, and the Skid B conversion. The District is also replacing aging water meters and 2018 was the second year of that program. The increase in new development within the District’s boundaries has continued, which will also contribute to an increase in income in 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management’s discussion and analysis (this section) and the financial statements. The financial statements offer short and long-term financial information about the activities of the District. The financial statements include notes that explain the financial statements and provide more detailed data.

The District operates similar to a private business. The required financial statements include the balance sheet, statement of revenues, expenses and changes in net position, and the statement 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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Balance Sheets

The District's net position increased as follows:

	2018	2017	2016
Current Assets	\$ 3,068,943	\$ 3,035,459	\$ 2,528,473
Net Capital Assets being Depreciated	20,322,057	19,708,071	19,779,304
Capital Assets not being Depreciated	1,824,430	1,786,630	1,786,630
Other Assets	474,321	428,097	386,516
Total Assets	\$ 25,689,751	\$ 24,958,257	\$ 24,480,923
Long-Term Debt Outstanding	\$ 7,631,642	\$ 7,825,117	\$ 8,024,789
Other Liabilities	172,594	162,730	160,085
Total Liabilities	\$ 7,804,236	\$ 7,987,847	\$ 8,184,874
Net Position:			
Net Investment in Capital Assets	\$ 14,514,845	\$ 13,669,584	\$ 13,541,145
Restricted for Debt Service	375,584	335,325	310,364
Unrestricted	2,995,086	2,965,501	2,444,540
Total Net Position	\$ 17,885,515	\$ 16,970,410	\$ 16,296,049
Beginning Net Position	\$ 16,970,410	\$ 16,296,049	\$ 15,785,607
Increase in Net Position	915,105	674,361	510,442
Percentage of Increase in Net Position	5.39%	4.14%	3.23%

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 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 average 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, consisting of a State Revolving Fund Loan, three Rural Economic and Community Development Loans, and one Bank loan have been reported in this manner on the Balance Sheets. The difference between the District's assets and liabilities is its net position.

Statements of Revenues, Expenses and Changes in Net Position

	2018	2017	2016
Operating Revenues	\$ 3,116,453	\$ 3,170,703	\$ 2,958,196
Non-Operating Income	301,050	299,903	309,625
Contributions from Developers/Others	682,552	287,403	233,463
Total Revenue	4,100,055	3,758,009	3,501,284
Cost of Sales	(697,819)	(696,133)	(682,390)
Operating Expenses	(2,176,259)	(2,059,874)	(1,971,224)
Non-Operating Expense	(310,872)	(327,641)	(337,228)
Total Expenses	(3,184,950)	(3,083,648)	(2,990,842)
Change in Net Position	\$ 915,105	\$ 674,361	\$ 510,442
Net Position	\$ 17,885,515	\$ 16,970,410	\$ 16,296,049

In 2018, operating revenue decreased by 1.71 percent to \$3,116,453 while expenditures increased by 3.29 percent to \$3,184,950. Factors contributing to these results included:

- The summer of 2018 was wetter than 2017. 2018 had approximately 14 percent less water consumption than 2017. In addition to the substantial decrease in water usage, the 1 percent increase in the minimum water charge and the 3 percent increase in the sewer minimum charge which went into effect January 1, 2018 contributed to the increase in operating revenue.
- Rapid Valley Sanitary District continues to administer the Green Valley Sanitary District's water system and billing.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

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

CAPITAL ASSET ADMINISTRATION

By the end of 2018, the District had invested \$32,218,670 in a broad range of capital assets, including, land, buildings, and various machinery and equipment (see table below). This amount represents a net increase (including additions and deductions) of \$1,012,827 or 3.25 percent over the last year.

	Balance December 31, 2018	Balance December 31, 2017	Balance December 31, 2016
<i>Capital Assets being Depreciated</i>			
Buildings	\$ 844,313	\$ 824,560	\$ 824,560
Water and Sewer Systems	29,195,015	28,220,162	27,823,000
Office Furniture	3,237	25,501	25,501
Equipment and Vehicles	351,675	348,990	348,990
	30,394,240	29,419,213	29,022,051
<i>Less Accumulated Depreciation</i>	10,072,183	9,711,142	9,242,747
Net Capital Assets being Depreciated	\$ 20,322,057	\$ 19,708,071	\$ 19,779,304
<i>Capital Assets not being Depreciated</i>			
Land	\$ 543,457	\$ 543,457	\$ 543,457
Water Rights	1,243,173	1,243,173	1,243,173
Construction in Progress	37,800	-	-
Total Capital Assets not being Depreciated	\$ 1,824,430	\$ 1,786,630	\$ 1,786,630

The District’s fiscal year 2019 capital budget projects include:

- Diamond Ridge booster station
- Tank sealing
- Scada upgrade at Water Treatment Plant
- Completion of the Skid B conversion
- Water Main extension for four houses on Murphy Rd.

LONG-TERM DEBT

The District continued making loan payments on the revenue bond and Rural Development and State Revolving Fund loans. The changes in long-term debt consisted of the following:

Balance -- December 31, 2016	\$ 8,024,789
Principal Repayments	(839,513)
Principal Borrowings	639,841
Balance -- December 31, 2017	7,825,117
Principal Repayments	(193,475)
Balance -- December 31, 2018	\$ 7,631,642

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2018

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position has shown little change. The District did approve an increase in the total property levy of \$248,199 that will be collected in calendar year 2019. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes by \$9,521. This year's property tax levy requests increased approximately 4 percent from 2018.

The District's adopted expense budget for the next fiscal year will increase less than one percent to \$3,145,954. It is anticipated that expenses should be comparable to 2018. Major increases in the cost of services, materials, etc. are not anticipated. Diligent monitoring of purchases will also contribute to keeping expenses down.

Based on the 2019 budget, the District expects that the results for 2019 will remain constant with the established rate increases for water and sewer which went into effect in January 2018. There was an increase in the monthly minimum charge for water and the monthly minimum charge for sewer effective January 1, 2019. The District continues to be pro-active in repairing and replacing water service lines, which will have a positive impact on the amount of water being produced and/or purchased. The District continues to use four S-30 Surveyor leak detectors which are being used systematically throughout the system for early detection of water leaks. The District is also utilizing a satellite imaging leak detection program through Utilis to locate and reduce water loss. The installation of MXU readers will also have a positive effect on water sales versus water loss as well as the installation of monitoring pits in key locations to get sales versus production. The District has started a large-scale water meter update program which will result in approximately 600 old meters being replaced with more efficient and accurate meters. This will also have a positive effect on water sales. The contract with Verizon to utilize a water tower for antennas will generate an additional \$32,780 annually for the District. This will be beneficial in helping to keep rates viable for our consumers.

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 Rapid Valley Sanitary District/Water Service, 4611 Teak Drive, Rapid City, SD 57703.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**BALANCE SHEETS
DECEMBER 31, 2018 AND 2017**

ASSETS (Note 7)	2018	2017
Current Assets		
Cash and Cash Equivalents (Note 7)	\$ 2,144,315	\$ 1,994,581
Investments (Note 2)	569,275	664,995
Accounts Receivable	120,296	143,788
Unbilled Accounts Receivable	167,656	167,656
Prepaid Expenses	67,401	64,439
Total Current Assets	3,068,943	3,035,459
Capital Assets being Depreciated (Note 6)		
Buildings	844,313	824,560
Water and Sewer Systems	29,195,015	28,220,162
Office Furniture	3,237	25,501
Equipment and Vehicles	351,675	348,990
	30,394,240	29,419,213
Less Accumulated Depreciation	10,072,183	9,711,142
	20,322,057	19,708,071
Capital Assets not being Depreciated (Note 6)		
Land	543,457	543,457
Construction in Progress	37,800	-
Water Rights	1,243,173	1,243,173
	1,824,430	1,786,630
Other Assets		
Restricted Cash and Cash Equivalents (Note 7)	375,584	335,325
Utility Investment	98,737	92,772
	474,321	428,097
TOTAL ASSETS	\$ 25,689,751	\$ 24,958,257

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION	2018	2017
Current Liabilities		
Current Portion of Long-Term Debt (Note 7)	\$ 194,298	\$ 191,072
Accrued Expenses	89,271	84,865
Meter Deposits	83,323	77,865
Total Current Liabilities	366,892	353,802
Long-Term Liabilities (Note 7)		
Long-Term Debt	7,631,642	7,825,117
Less Current Portion Shown Above	194,298	191,072
	7,437,344	7,634,045
Net Position		
Net Investment in Capital Assets	14,514,845	13,669,584
Restricted for Debt Service (Note 7)	375,584	335,325
Unrestricted	2,995,086	2,965,501
Total Net Position	17,885,515	16,970,410
TOTAL LIABILITIES AND NET POSITION	\$ 25,689,751	\$ 24,958,257

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Revenues		
Water Charges (Note 7)	\$ 1,607,480	\$ 1,733,642
Sewer Charges (Note 7)	1,329,351	1,274,897
Late Fees	81,552	83,615
Charges for Services and Fees (Net of Cost of Sales of \$-0- and \$518 for December 31, 2018 and 2017, Respectively)	81,320	70,049
Permits	16,750	8,500
Total Revenues	3,116,453	3,170,703
Costs of Sales		
Water Purchases	11,257	13,558
Sewer Treatment Expense	686,562	682,575
	697,819	696,133
Gross Margin	2,418,634	2,474,570
Operating Expenses		
Operating	1,071,306	990,494
Personnel (Note 5)	641,737	600,985
Depreciation	463,216	468,395
	2,176,259	2,059,874
Operating Income	242,375	414,696
Non-Operating Income (Expense)		
Property Taxes (Note 4)	241,594	234,142
Donated Systems	682,552	287,403
Lease Income	31,673	30,750
Loss on Disposal of Capital Assets	(8,497)	-
Investment Income	25,093	27,047
Miscellaneous Income	11,187	7,964
Interest Expense	(310,872)	(327,641)
	672,730	259,665
Change in Net Position	915,105	674,361
Net Position -- Beginning of Year	16,970,410	16,296,049
Net Position -- End of Year	\$ 17,885,515	\$ 16,970,410

The accompanying notes are an integral part of these statements.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Cash Flows From Operating Activities		
Receipts from Customers	\$ 3,145,403	\$ 3,159,831
Payments to Suppliers	(1,772,087)	(1,693,448)
Payments to Employees	(637,331)	(607,729)
Net Cash Flows Provided by Operating Activities	735,985	858,654
Cash Flows From Noncapital Financing Activities		
Miscellaneous Income	11,187	7,964
Lease Income	31,673	30,750
Property Taxes	241,594	234,142
Net Cash Flows Provided by Noncapital Financing Activities	284,454	272,856
Cash Flows From Capital and Related Financing Activities		
Repayments of Long-Term Debt	(193,475)	(839,513)
Borrowings of Long-Term Debt	-	639,841
Purchases of Capital Assets	(440,947)	(109,759)
Interest Paid	(310,872)	(327,641)
Net Cash Flows Used in Capital and Related Financing Activities	(945,294)	(637,072)
Cash Flows From Investing Activities		
Interest Received	25,093	27,047
Net Sales (Purchases) of Investments	95,720	(4,715)
Change in Utility Investment	(5,965)	(16,620)
Net Cash Flows Provided by Investing Activities	114,848	5,712
Net Increase in Cash and Cash Equivalents	189,993	500,150
Cash and Cash Equivalents -- Beginning of Year	2,329,906	1,829,756
Cash and Cash Equivalents -- End of Year	\$ 2,519,899	\$ 2,329,906
Reconciliation of Operating Income to Net Cash Flows		
Provided by Operating Activities:		
Operating Income	\$ 242,375	\$ 414,696
<i>Adjustments to Reconcile Operating Income to Net Cash Flows</i>		
<i>Provided by Operating Activities:</i>		
Depreciation	463,216	468,395
<i>Changes in Assets and Liabilities:</i>		
Accounts Receivable	23,492	(20,261)
Prepaid Expenses	(2,962)	(6,821)
Accounts Payable and Accrued Expenses	4,406	(6,744)
Meter Deposits	5,458	9,389
Net Cash Flows Provided by Operating Activities	\$ 735,985	\$ 858,654
Supplemental Disclosures of Noncash Activities		
Capital Assets Donated	\$ 682,552	\$ 287,403
Loss on Disposal of Capital Assets	(8,497)	-

The accompanying notes are an integral part of these statements.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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

Operations

Rapid Valley Sanitary District/Water Service (the District) provides water and sewer services to the residents of the Rapid Valley subdivisions in Rapid City, South Dakota. The District collects monthly water and sewer payments and maintains the water and sewer systems. The District obtains its water primarily from its water treatment plant.

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, revenues and expenses are classified in a manner consistent with how they are classified in the Statements 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 or expenses.

Capital Assets

Property and equipment purchases over \$1,000 are capitalized at cost. Donated water and sewer systems are recorded as contributions and capitalized at the developer's cost. Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Buildings	60 Years
Water and Sewer Systems	10-100 Years
Office Furniture	7 Years
Equipment and Vehicles	5-15 Years

The District has purchased water rights for use in operating its water treatment facility. The water rights are considered to have an indefinite life; therefore, amortization is not being recorded in accordance with accounting principles generally accepted in the United States of America. The assets are instead subject to an annual impairment test. At December 31, 2018, the District does not consider the assets to be impaired.

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.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

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

Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, the District considers cash in the bank, including restricted cash, and all temporary investments with original maturities of three months or less to be cash equivalents.

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.

The District has a minimum fund balance policy of \$1,800,000 in addition to funds that are restricted by loan or other agreements for emergency and/or unexpected projects.

Emerging Standard

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the terms of the lease. The statement requires a lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The District has not yet determined the specific impact of this statement on the financial statements. The statement is effective for the District's year ending December 31, 2020.

(2) Deposits and Investments

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, 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, NCUA, and SIPC. 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 must be "AA" or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

(2) Deposits and Investments (Continued)

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

The District’s cash and cash equivalents consisted of checking and savings accounts, certificates of deposit, and money market accounts. Investments on the Balance Sheets consist of certificates of deposit at December 31, 2018, and 2017. All of these accounts are insured or collateralized in the District’s name.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The negotiable certificates of deposit are measured as a Level 2 recurring fair value measurement. The money market balances are measured at a Level 1 measurement.

Interest Rate, Credit, Concentration, and Custodial Risk:

The District has a formal investment policy that limits investments to meet South Dakota codified law as stipulated above, and limits investment balances to be insured directly or indirectly by the federal government.

The District’s investments consist of the following at December 31:

	Credit Rating	Maturity	Fair Value at 2018	Fair Value at 2017
<i>Investments exceeding five percent:</i>				
MS Bank Certificate of Deposit	Unrated	3-18 months	\$ 51,819	\$ -
MS Bank Certificate of Deposit	Unrated	3-18 months	51,819	-
State Bank Ind Certificate of Deposit	Unrated	3-18 months	50,881	49,896
State Bank Ind Certificate of Deposit	Unrated	3-18 months	50,881	49,896
Ally BK Certificate of Deposit	Unrated	3-18 months	-	49,983
Ally BK Certificate of Deposit	Unrated	3-18 months	-	49,982
Ally BK Certificate of Deposit	Unrated	3-18 months	-	49,941
Ally BK Certificate of Deposit	Unrated	3-18 months	-	49,941
Nonnegotiable Certificates of Deposit			362,620	359,942
<i>Investments less than five percent:</i>				
Money Market			1,255	5,414
			\$ 569,275	\$ 664,995

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

(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 omission; injuries to employees; and natural disasters. The District manages its risks by purchasing from a commercial insurance carrier health insurance for its employees, liability and property insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials, and 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) 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 they are budgeted. Accordingly, taxes levied in October 2018, have not been recorded as a receivable in the accompanying Balance Sheets as the use of such has been budgeted for the 2019 fiscal year.

(5) Retirement Plan

All employees, except for certified employees working less than 20 hours per week, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established 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 by writing to SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

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

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

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

(5) Retirement Plan (Continued)

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The District's share of contributions to the SDRS for the calendar years ended December 31, 2018, 2017, and 2016, equal to the required contributions each year, were **\$25,820**, **\$23,404**, and **\$22,627**, respectively.

Generally accepted accounting principles 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, 2018, 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 was **.0193** percent at June 30, 2018 and 2017. Based on the overall insignificant impact to the financial statements, the District has elected not to record the pension standards. For the year ended December 31, 2018, if the District had recorded the pension activity, a net pension asset totaling approximately **\$450** would have been recorded along with deferred outflows of resources totaling approximately **\$97,221** for a net increase in assets of **\$97,671**. For the year ended December 31, 2017, if the District had recorded the pension activity, a net pension asset totaling approximately \$1,752 would have been recorded along with deferred outflows of resources totaling approximately \$130,442 for a net increase in assets at December 31, 2017 of \$132,195. In addition, an increase to pension revenue of approximately **\$58,454** and \$39,557 would have been recorded for the years ending December 31, 2018 and 2017, respectively.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

(6) Changes in Capital Assets

Changes in capital assets were as follows during the years ended December 31, 2018 and 2017:

	Balance December 31, 2016	Additions	Transfers/ Dispositions	Balance December 31, 2017
<i>Capital Assets being Depreciated</i>				
Buildings	\$ 824,560	\$ -	\$ -	\$ 824,560
Water and Sewer Systems	27,823,000	397,162	-	28,220,162
Office Furniture	25,501	-	-	25,501
Equipment and Vehicles	348,990	-	-	348,990
	29,022,051	397,162	-	29,419,213
<i>Less Accumulated Depreciation</i>	9,242,747	468,395	-	9,711,142
Net Capital Assets being Depreciated	\$ 19,779,304	\$ (71,233)	\$ -	\$ 19,708,071
<i>Capital Assets not being Depreciated</i>				
Land	\$ 543,457	\$ -	\$ -	\$ 543,457
Construction in Progress	-	87,636	(87,636)	-
Water Rights	1,243,173	-	-	1,243,173
Net Capital Assets not being Depreciated	\$ 1,786,630	\$ 87,636	\$ (87,636)	\$ 1,786,630
	Balance December 31, 2017	Additions	Transfers/ Dispositions	Balance December 31, 2018
<i>Capital Assets being Depreciated</i>				
Buildings	\$ 824,560	\$ 21,148	\$ (1,395)	\$ 844,313
Water and Sewer Systems	28,220,162	1,027,295	(52,442)	29,195,015
Office Furniture	25,501	3,237	(25,501)	3,237
Equipment and Vehicles	348,990	34,019	(31,334)	351,675
	29,419,213	1,085,699	(110,672)	30,394,240
<i>Less Accumulated Depreciation</i>	9,711,142	463,217	(102,176)	10,072,183
Net Capital Assets being Depreciated	\$ 19,708,071	\$ 622,482	\$ (8,496)	\$ 20,322,057
<i>Capital Assets not being Depreciated</i>				
Land	\$ 543,457	\$ -	\$ -	\$ 543,457
Construction in Progress	-	37,800	-	37,800
Water Rights	1,243,173	-	-	1,243,173
Net Capital Assets not being Depreciated	\$ 1,786,630	\$ 37,800	\$ -	\$ 1,824,430

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

(7) Long-Term Debt

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

Balance -- December 31, 2016	\$ 8,024,789
Principal Repayments	(839,513)
Principal Borrowings	639,841
Balance -- December 31, 2017	7,825,117
Principal Repayments	(193,475)
Balance -- December 31, 2018	\$ 7,631,642

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

	<u>2018</u>	<u>2017</u>
Revenue bond, due to Rural Development in monthly installments of \$11,615, including interest at 3.75 percent, maturing in January 2049, secured by the water system and pledge of water revenues. The debt is paid out of the water department.	\$ 2,548,638	\$ 2,591,570
Revenue bond, due to Rural Development in monthly installments of \$12,752, including interest at 4.375 percent, maturing January 2048, secured by the water system and a pledge of water revenues. The debt is paid out of the water department.	2,461,541	2,505,821
Revenue bond, due to Rural Development in monthly installments of \$8,520 including interest at 4.125 percent, maturing January 2048, secured by the water system and a pledge of water revenues. The debt is paid out of the water department.	1,721,785	1,752,317
State Revolving Fund Loan, due in quarterly installments of \$6,907, including interest at 3.00 percent, maturing February 2035, secured by water system and pledge of water revenues. The debt is paid out of the water department.	354,291	370,975
Loan due in monthly installments of \$6,479, including interest at 4.00 percent, maturing in March 2027, secured by a pledge of water revenues, all deposit accounts, and all equipment. This debt is paid out of the water department.	545,387	600,131
Debt Paid off in 2018	-	4,303
	7,631,642	7,825,117
Less Current Portion	194,298	191,072
	\$ 7,437,344	\$ 7,634,045

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

(7) Long-Term Debt (Continued)

The annual requirements to amortize debt outstanding are as follows:

	<u>Principal</u>	<u>Interest</u>
2019	\$ 194,298	\$ 305,727
2020	200,478	299,547
2021	207,391	289,102
2022	217,156	282,869
2023	225,925	274,100
2024 - 2028	1,133,293	1,230,607
2029 - 2033	1,093,003	1,018,352
2034- 2038	1,223,409	784,343
2039 - 2043	1,459,484	513,736
2044 - 2048	1,472,628	191,980
2049 - 2053	204,577	50,953
Total	<u><u>\$ 7,631,642</u></u>	<u><u>\$ 5,241,316</u></u>

A debt reserve is maintained in accordance with debt covenants for **\$400,159** and \$379,561 at December 31, 2018 and 2017, which exceeds the current year minimum requirement of **\$375,584** and \$335,324, respectively, required by the related debt agreements, and is reported as Restricted for Debt Service in the accompanying Balance Sheets.

The District has pledged future revenues associated with various debt agreements. All debt secured by pledged revenues 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 each debt issue have been pledged through the maturity date listed above for each debt issue. Below is a comparison, by department, of principal and interest payments and total pledged revenues for the current year.

	<u>Water</u>	<u>Sewer</u>
Current Year Principal and Interest	\$ 500,025	\$ 4,322
Pledged Revenue	1,607,480	1,329,351

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

(8) Segment Information

Summarized financial information for the water and sewer departments is presented below:

Balance Sheets at December 31:

	Water		Sewer		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current Assets						
Cash and Cash						
Equivalents	\$ 1,022,352	\$ 924,461	\$ 1,121,963	\$ 1,070,120	\$ 2,144,315	\$ 1,994,581
Investments	103,327	152,707	465,948	512,288	569,275	664,995
Other Current Assets	189,780	209,395	165,573	166,488	355,353	375,883
Net Capital Assets,						
Depreciated	15,060,399	14,648,437	5,261,658	5,059,634	20,322,057	19,708,071
Net Capital Assets, Not						
Depreciated	1,552,702	1,514,902	271,728	271,728	1,824,430	1,786,630
Other Assets	49,368	46,386	49,369	46,386	98,737	92,772
Restricted Cash and Cash						
Equivalents	375,584	335,325	-	-	375,584	335,325
Total Assets	\$ 18,353,512	\$ 17,831,613	\$ 7,336,239	\$ 7,126,644	\$ 25,689,751	\$ 24,958,257
Liabilities						
Current Liabilities						
	\$ 340,110	\$ 324,039	\$ 26,782	\$ 29,763	\$ 366,892	\$ 353,802
Noncurrent Liabilities						
	7,437,344	7,634,045	-	-	7,437,344	7,634,045
Total Liabilities	7,777,454	7,958,084	26,782	29,763	7,804,236	7,987,847
Net Position						
Net Investment in Capital						
Assets	8,981,459	8,342,525	5,533,386	5,327,059	14,514,845	13,669,584
Restricted for Debt Service	375,584	335,325	-	-	375,584	335,325
Unrestricted	1,219,015	1,195,679	1,776,071	1,769,822	2,995,086	2,965,501
Total Net Position	10,576,058	9,873,529	7,309,457	7,096,881	17,885,515	16,970,410
Total Liabilities and Net Position						
	\$ 18,353,512	\$ 17,831,613	\$ 7,336,239	\$ 7,126,644	\$ 25,689,751	\$ 24,958,257

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

(8) Segment Information (Continued)

Statements of Revenues, Expenses and Changes in Net Position for the years ended December 31:

	Water		Sewer		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
User Charges	\$ 1,607,480	\$ 1,733,642	\$ 1,329,351	\$ 1,274,897	\$ 2,936,831	\$ 3,008,539
Late Fees	72,796	41,808	8,756	41,807	81,552	83,615
Charges for Services and Fees, Net	40,660	58,026	40,660	12,023	81,320	70,049
Permits	-	-	16,750	8,500	16,750	8,500
Total Revenues	1,720,936	1,833,476	1,395,517	1,337,227	3,116,453	3,170,703
Costs of Sales	11,257	13,558	686,562	682,575	697,819	696,133
Gross Margin	1,709,679	1,819,918	708,955	654,652	2,418,634	2,474,570
Depreciation Expense	350,024	351,878	113,192	116,517	463,216	468,395
Other Operating Expenses						
Salaries and Wages	304,361	279,859	130,440	119,940	434,801	399,799
Maintenance Supplies	112,305	64,164	48,131	27,499	160,436	91,663
Utilities and Telephone	106,268	98,331	45,543	42,141	151,811	140,472
Insurance - Health	103,512	103,277	44,362	44,262	147,874	147,539
Repairs	137,765	101,694	1,260	22,771	139,025	124,465
Chemical Supplies - Water	120,743	150,913	-	-	120,743	150,913
Office Supplies/Equipment	50,818	37,712	50,818	37,711	101,636	75,423
Engineering Costs	80,999	74,585	6,723	7,729	87,722	82,314
Meters and Equipment	79,999	99,043	823	1,315	80,822	100,358
Miscellaneous	18,333	8,636	18,333	8,636	36,666	17,272
Taxes - Payroll	23,270	21,169	9,973	9,073	33,243	30,242
Insurance - Umbrella	22,948	23,834	9,835	10,214	32,783	34,048
Contract Agreements	20,544	17,001	8,805	7,286	29,349	24,287
Retirement Plan Funding	18,074	16,383	7,746	7,021	25,820	23,404
Sewer Main Cleaning	-	-	24,436	30,231	24,436	30,231
Dues, Donations, and Subscriptions	14,818	16,504	6,350	7,073	21,168	23,577
Professional Fees	12,831	13,469	8,315	8,119	21,146	21,588
Trustee Fees	10,463	10,553	10,463	10,553	20,926	21,106
Truck and Equipment Expense	11,194	12,679	4,797	5,434	15,991	18,113
Trustee Travel	5,315	4,541	5,315	4,541	10,630	9,082
Conference and Travel	6,791	4,943	2,910	2,118	9,701	7,061
Public Relations	2,839	3,113	2,839	3,114	5,678	6,227
Advertising	198	105	198	105	396	210
Investment Expense	240	50	-	170	240	220
Master Plan	-	5,932	-	5,933	-	11,865
Total Other Operating Expenses	1,264,628	1,168,490	448,415	422,989	1,713,043	1,591,479
Operating Income	95,027	299,550	147,348	115,146	242,375	414,696

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2018 AND 2017**

(8) Segment Information (Concluded)

Statements of Revenues, Expenses and Changes in Net Position for the years ended December 31 (Continued):

	Water		Sewer		Total	
	2018	2017	2018	2017	2018	2017
Non-Operating Income (Expense)						
Property Taxes	-	-	241,594	234,142	241,594	234,142
Donated Systems	392,289	190,682	290,263	96,721	682,552	287,403
Lease Income	31,673	30,750	-	-	31,673	30,750
Loss on Disposals of Capital Assets	(4,248)	-	(4,249)	-	(8,497)	-
Miscellaneous Income	5,593	3,982	5,594	3,982	11,187	7,964
Interest Expense	(310,853)	(325,976)	(19)	(1,665)	(310,872)	(327,641)
Total Non-Operating Income (Expense)	114,454	(100,562)	533,183	333,180	647,637	232,618
Income before Investment Income	209,481	198,988	680,531	448,326	890,012	647,314
Investment Income	10,009	6,346	15,084	20,701	25,093	27,047
Income Before Transfers	219,490	205,334	695,615	469,027	915,105	674,361
Transfers	483,039	2,108	(483,039)	(2,108)	-	-
Change in Net Position	702,529	207,442	212,576	466,919	915,105	674,361
Beginning Net Position	9,873,529	9,666,087	7,096,881	6,629,962	16,970,410	16,296,049
Ending Net Position	\$ 10,576,058	\$ 9,873,529	\$ 7,309,457	\$ 7,096,881	\$ 17,885,515	\$ 16,970,410

Statements of Cash Flows for the years ended December 31:

	Water		Sewer		Total	
	2018	2017	2018	2017	2018	2017
Net Cash Flows From Operating Activities	\$ 473,209	\$ 635,705	\$ 262,776	\$ 222,949	\$ 735,985	\$ 858,654
Net Cash Flows From Noncapital Financing Activities	520,304	36,840	(235,850)	236,016	284,454	272,856
Net Cash Flows From Capital and Related Financing Activities	(911,770)	(585,194)	(33,524)	(51,878)	(945,294)	(637,072)
Net Cash Flows From Investing Activities	56,407	(3,381)	58,441	9,093	114,848	5,712
Net Change in Cash and Cash Equivalents	138,150	83,970	51,843	416,180	189,993	500,150
Cash and Cash Equivalents -- Beginning	1,259,786	1,175,816	1,070,120	653,940	2,329,906	1,829,756
Cash and Cash Equivalents -- Ending	\$ 1,397,936	\$ 1,259,786	\$ 1,121,963	\$ 1,070,120	\$ 2,519,899	\$ 2,329,906

OTHER REPORTS



Ketel Thorstenson, LLP

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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 Trustees
Rapid Valley Sanitary District/Water Service
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 financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **RAPID VALLEY SANITARY DISTRICT/WATER SERVICE** (the District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 13, 2019.

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 #2018-001 and #2018-002 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 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 Corrective Action Plan. 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.

Board of Trustees

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

May 13, 2019

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**SCHEDULE OF FINDINGS
DECEMBER 31, 2018**

CURRENT YEAR AUDIT FINDINGS

Material Weaknesses in Internal Control

2018-001 Finding: Audit Adjustments:

Condition and Cause: As in prior years, we were requested to make adjustments to reclassify principal borrowings and repayments of long-term debt, adjust capital assets and related depreciation balances, record donated water and sewer systems, and adjust accounts receivable, accounts payable, accrued vacation, and capital credits balances. Total adjustments resulted in a \$310,960 increase in reported net income.

Criteria and Effect: The District maintains its books on a cash-basis of accounting throughout the year and has processes in place to review monthly financial statements in this format, which is consistent with the budgeting process. Material audit adjustments were necessary to prepare the financial statements according to accounting principles generally accepted in the United States of America.

Recommendation: We recommend management continue to provide information necessary to prepare accrual-based financial statements at year end as part of the audit and to review all audit adjustments posted for propriety. We suggest the District review its capitalization policy. Management should track capital asset purchases throughout the year, including date of purchase, asset description, total cost, and expense account charged.

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

2018-002 Finding: 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 the 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 districts of your size.

Criteria and Effect: It is our responsibility to inform the Board that this deficiency could result in a material misstatement to the financial statements that would have not been prevented or detected by the District's management.

Recommendation: As in prior years, we have instructed management to review a draft of the auditor-prepared financial statements 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 the appropriate steps have been taken to provide the District with complete financial statements. It is the District's responsibility to make the ultimate decision 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.

RAPID VALLEY SANITARY DISTRICT/WATER



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RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2018

Rapid Valley Sanitary District/Water Service 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.

Finding No. 2017-001: Audit Adjustments

Status: The District made efforts to record all year-end entries, but several audit adjustments were made.

Initial Year Report: Originally issued years ago.

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

Finding No. 2017-002: 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 years ago.

Reasons for Recurrence and Corrective Action Plan: As the District has accept the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2018, see Corrective Action Plan.



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RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

CORRECTIVE ACTION PLAN DECEMBER 31, 2018

Rapid Valley Sanitary District/Water Service respectfully submits the following corrective action plan regarding findings from the December 31, 2018 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

2018-001 Finding: Audit Adjustments:

- Rusty, Schmidt, the General Manager, is responsible for the annual review of these adjustments.
- 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.
- On-going

2018-002 Finding: Financial Statement Preparation:

- Rusty Schmidt, the General Manager is responsible for the corrective action plan for this finding.
- At this time, the District will accept the degree of risk 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.
- On-going