

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2020 AND 2019



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ktllp.com

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, 2020 and 2019, 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, 2020 and 2019, 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.

Board of Trustees

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 12, 2021, 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 12, 2021

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020

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, 2020. 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 \$3,458,208 while cost of sales and operating expenses were \$3,034,766. This represents \$423,442 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 detected with the use of satellite leak detection. Projects completed in 2020 include: Skid A upgrade of 46 Nanostone modules/tanks for Skid A as well as pumps and the Diamond Ridge Booster station. The District is also replacing aging water meters, however with the COVID-19 pandemic concerns, progress has been reduced to an "as needed" basis. The increase in new development within the District's boundaries which contribute to an increase in income in 2020.

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:

| | 2020 | 2019 | 2018 |
|--|----------------------|----------------------|----------------------|
| Current Assets | \$ 3,654,623 | \$ 3,604,001 | \$ 3,068,943 |
| Net Capital Assets being Depreciated | 21,668,788 | 20,814,127 | 20,322,057 |
| Capital Assets not being Depreciated | 2,056,293 | 1,786,630 | 1,824,430 |
| Other Assets | 520,488 | 502,363 | 474,321 |
| Total Assets | \$ 27,900,192 | \$ 26,707,121 | \$ 25,689,751 |
| Long-Term Debt Outstanding | \$ 7,320,039 | \$ 7,592,482 | \$ 7,631,642 |
| Other Liabilities | 196,468 | 187,066 | 172,594 |
| Total Liabilities | \$ 7,516,507 | \$ 7,779,548 | \$ 7,804,236 |
| Net Position: | | | |
| Net Investment in Capital Assets | \$ 16,405,042 | \$ 15,008,275 | \$ 14,514,845 |
| Restricted for Debt Service | 405,150 | 392,893 | 375,584 |
| Unrestricted | 3,573,493 | 3,526,405 | 2,995,086 |
| Total Net Position | \$ 20,383,685 | \$ 18,927,573 | \$ 17,885,515 |
| Beginning Net Position | \$ 18,927,573 | \$ 17,885,515 | \$ 16,970,410 |
| Increase in Net Position | 1,456,112 | 1,042,058 | 915,105 |
| Percentage of Increase in Net Position | 7.69% | 5.83% | 5.39% |

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
DECEMBER 31, 2020**

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, two revenue bonds, 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

| | 2020 | 2019 | 2018 |
|--------------------------------------|----------------------|---------------|---------------|
| Operating Revenues | \$ 3,458,208 | \$ 3,131,270 | \$ 3,116,453 |
| Non-Operating Income | 326,328 | 345,799 | 301,050 |
| Contributions from Developers/Others | 933,606 | 831,839 | 682,552 |
| Total Revenue | 4,718,142 | 4,308,908 | 4,100,055 |
| Cost of Sales | (681,037) | (676,238) | (697,819) |
| Operating Expenses | (2,353,728) | (2,156,062) | (2,176,259) |
| Non-Operating Expense | (227,265) | (434,550) | (310,872) |
| Total Expenses | (3,262,030) | (3,266,850) | (3,184,950) |
| Change in Net Position | \$ 1,456,112 | \$ 1,042,058 | \$ 915,105 |
| Net Position | \$ 20,383,685 | \$ 18,927,573 | \$ 17,885,515 |

In 2020, operating revenue increased by 10.44 percent to \$3,458,208 while expenditures increased by 7.15 percent to \$3,034,765. Factors contributing to these results included:

- The 1 percent increase in the minimum water charge and the 3 percent per 1,000 gallon charge with a 2 percent minimum increase on sewer, and a 2 percent increase in the sewer per 1,000 gallon charge which went into effect January 1, 2020 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 (UNAUDITED) (CONTINUED)
DECEMBER 31, 2020**

CAPITAL ASSET ADMINISTRATION

By the end of 2020, the District had invested \$34,643,858 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 \$1,492,966 or 4.50 percent over the last year.

| | Balance December 31, 2020 | Balance December 31, 2019 | Balance December 31, 2018 |
|---|--|------------------------------|------------------------------|
| <i>Capital Assets being Depreciated</i> | | | |
| Buildings | \$ 844,313 | \$ 844,313 | \$ 844,313 |
| Water and Sewer Systems | 31,339,406 | 30,116,103 | 29,195,015 |
| Office Furniture | 3,237 | 3,237 | 3,237 |
| Equipment and Vehicles | 400,609 | 400,609 | 351,675 |
| | 32,587,565 | 31,364,262 | 30,394,240 |
| <i>Less Accumulated Depreciation</i> | 10,918,777 | 10,550,135 | 10,072,183 |
| Net Capital Assets being Depreciated | \$ 21,668,788 | \$ 20,814,127 | \$ 20,322,057 |
| <i>Capital Assets not being Depreciated</i> | | | |
| Land | \$ 813,120 | \$ 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 | \$ 2,056,293 | \$ 1,786,630 | \$ 1,824,430 |

The District's fiscal year 2020 capital projects include:

- Skid A 46 module conversion and Diamond Ridge Booster station.

LONG-TERM DEBT

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

| | |
|-------------------------------------|---------------------|
| Balance -- December 31, 2018 | \$ 7,631,642 |
| Principal Refinance | 4,060,000 |
| Principal Repayments | (4,302,060) |
| Bond Premium | 202,900 |
| Balance -- December 31, 2019 | 7,592,482 |
| Principal Repayments | (272,443) |
| Balance -- December 31, 2020 | \$ 7,320,039 |

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONCLUDED) DECEMBER 31, 2020

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 \$273,007 that will be collected in calendar year 2020. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes by \$9,668. This year's property tax levy requests increased approximately 6.07 percent from 2020.

The District's adopted expense budget for the next fiscal year will increase 8.5 percent to \$3,406,434. It is anticipated that expenses should be higher than 2020. Major increases are sewer treatment from the City of Rapid and the cost of services, materials, etc. are anticipated to rise. Diligent monitoring of purchases will also contribute to keeping expenses down.

Based on the 2021 budget, the District expects that the results for 2021 will remain constant with the established rate increases for water and sewer which went into effect in January 2021. There was an increase in the monthly minimum charge for water and the monthly minimum charge for sewer effective January 1, 2021. 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 an 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 \$29,964 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, 2020 AND 2019**

| ASSETS (Note 7) | 2020 | 2019 |
|--|----------------------|----------------------|
| Current Assets | | |
| Cash and Cash Equivalents | \$ 2,590,778 | \$ 2,560,548 |
| Investments (Note 2) | 693,714 | 682,809 |
| Accounts Receivable | 126,930 | 129,057 |
| Unbilled Accounts Receivable | 167,656 | 167,656 |
| Prepaid Expenses | 75,545 | 63,931 |
| Total Current Assets | 3,654,623 | 3,604,001 |
| Capital Assets being Depreciated (Note 6) | | |
| Buildings | 844,313 | 844,313 |
| Water and Sewer Systems | 31,339,406 | 30,116,103 |
| Office Furniture | 3,237 | 3,237 |
| Equipment and Vehicles | 400,609 | 400,609 |
| | 32,587,565 | 31,364,262 |
| Less Accumulated Depreciation | 10,918,777 | 10,550,135 |
| | 21,668,788 | 20,814,127 |
| Capital Assets not being Depreciated (Note 6) | | |
| Land | 813,120 | 543,457 |
| Water Rights | 1,243,173 | 1,243,173 |
| | 2,056,293 | 1,786,630 |
| Other Assets | | |
| Restricted Cash and Cash Equivalents (Note 7) | 405,150 | 392,893 |
| Utility Investment | 115,338 | 109,470 |
| | 520,488 | 502,363 |
| TOTAL ASSETS | \$ 27,900,192 | \$ 26,707,121 |

The accompanying notes are an integral part of these statements.

| LIABILITIES AND NET POSITION | 2020 | 2019 |
|--|----------------------|----------------------|
| Current Liabilities | | |
| Current Portion of Long-Term Debt (Note 7) | \$ 272,177 | \$ 272,154 |
| Accrued Expenses | 103,432 | 98,500 |
| Meter Deposits | 93,036 | 88,566 |
| Total Current Liabilities | 468,645 | 459,220 |
| | | |
| Long-Term Liabilities (Note 7) | | |
| Long-Term Debt | 7,320,039 | 7,592,482 |
| Less: Current Portion Shown Above | 272,177 | 272,154 |
| | 7,047,862 | 7,320,328 |
| | | |
| Net Position | | |
| Net Investment in Capital Assets | 16,405,042 | 15,008,275 |
| Restricted for Debt Service (Note 7) | 405,150 | 392,893 |
| Unrestricted | 3,573,493 | 3,526,405 |
| Total Net Position | 20,383,685 | 18,927,573 |
| | | |
| TOTAL LIABILITIES AND NET POSITION | \$ 27,900,192 | \$ 26,707,121 |

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Revenues | | |
| Water Charges (Note 7) | \$ 1,871,652 | \$ 1,566,271 |
| Sewer Charges | 1,400,330 | 1,370,822 |
| Late Fees | 54,540 | 80,565 |
| Charges for Services and Fees (Net of Cost of Sales of \$-0- December 31, 2020 and 2019) | 104,186 | 94,112 |
| Permits | 27,500 | 19,500 |
| Total Revenues | 3,458,208 | 3,131,270 |
| Costs of Sales | | |
| Water Purchases | 14,230 | 13,062 |
| Sewer Treatment Expense | 666,807 | 663,176 |
| Total Cost of Sales | 681,037 | 676,238 |
| Gross Margin | 2,777,171 | 2,455,032 |
| Operating Expenses | | |
| Operating | 1,150,433 | 971,383 |
| Personnel (Note 5) | 726,101 | 706,725 |
| Depreciation | 477,194 | 477,954 |
| Total Operating Expenses | 2,353,728 | 2,156,062 |
| Operating Income | 423,443 | 298,970 |
| Non-Operating Income (Expense) | | |
| Donated Systems | 933,606 | 831,839 |
| Property Taxes (Note 4) | 268,298 | 253,417 |
| Lease Income | 33,601 | 32,623 |
| Miscellaneous Income | 14,876 | 19,184 |
| Loss on Disposal of Capital Assets | (14,692) | - |
| Investment Income | 24,245 | 40,575 |
| Debt Issuance Cost | - | (139,994) |
| Interest Expense | (227,265) | (294,556) |
| Total Non-Operating Income (Expense) | 1,032,669 | 743,088 |
| Change in Net Position | 1,456,112 | 1,042,058 |
| Net Position -- Beginning of Year | 18,927,573 | 17,885,515 |
| Net Position -- End of Year | \$ 20,383,685 | \$ 18,927,573 |

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, 2020 AND 2019**

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Receipts from Customers | \$ 3,464,805 | \$ 3,127,752 |
| Payments to Suppliers | (1,843,084) | (1,644,151) |
| Payments to Employees | (721,169) | (697,496) |
| Net Cash Flows Provided by Operating Activities | 900,552 | 786,105 |
| Cash Flows From Noncapital Financing Activities | | |
| Miscellaneous Income | 14,876 | 19,184 |
| Lease Income | 33,601 | 32,623 |
| Property Taxes | 268,298 | 253,417 |
| Net Cash Flows Provided by Noncapital Financing Activities | 316,775 | 305,224 |
| Cash Flows From Capital and Related Financing Activities | | |
| Repayments of Long-Term Debt | (272,443) | (4,302,060) |
| Borrowings of Long-Term Debt | - | 4,060,000 |
| Long-Term Debt Premium | - | 202,900 |
| Purchases of Capital Assets | (682,604) | (100,385) |
| Debt Issuance Cash Paid | - | (139,994) |
| Interest Paid | (227,265) | (294,556) |
| Net Cash Flows Used in Capital and Related Financing Activities | (1,182,312) | (574,095) |
| Cash Flows From Investing Activities | | |
| Interest Received | 24,245 | 40,575 |
| Net Purchases of Investments | (10,905) | (113,534) |
| Change in Utility Investment | (5,868) | (10,733) |
| Net Cash Flows Provided by (Used in) Investing Activities | 7,472 | (83,692) |
| Net Increase in Cash and Cash Equivalents | 42,487 | 433,542 |
| Cash and Cash Equivalents -- Beginning of Year | 2,953,441 | 2,519,899 |
| Cash and Cash Equivalents -- End of Year | \$ 2,995,928 | \$ 2,953,441 |
| Reconciliation of Operating Income to Net Cash Flows | | |
| Provided by Operating Activities: | | |
| Operating Income | \$ 423,443 | \$ 298,970 |
| <i>Adjustments to Reconcile Operating Income to Net Cash Flows</i> | | |
| <i>Provided by Operating Activities:</i> | | |
| Depreciation | 477,194 | 477,954 |
| <i>Changes in Assets and Liabilities:</i> | | |
| Accounts Receivable | 2,127 | (8,761) |
| Prepaid Expenses | (11,614) | 3,470 |
| Accrued Expenses | 4,932 | 9,229 |
| Meter Deposits | 4,470 | 5,243 |
| Net Cash Flows Provided by Operating Activities | \$ 900,552 | \$ 786,105 |
| Supplemental Disclosures of Noncash Activities | | |
| Capital Assets Donated | \$ 933,606 | \$ 831,839 |
| Loss on Disposal of Capital Assets | (14,692) | - |

The accompanying notes are an integral part of these statements.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(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 \$5,000 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, 2020, 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.

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.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020 AND 2019

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

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, 2022.

(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.

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.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020 AND 2019

(2) Deposits and Investments (Continued)

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, 2020, and 2019. 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 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 nonnegotiable certificates of deposit of **\$693,714** and \$682,809 at December 31, 2020 and 2019, respectively.

(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 2019, have not been recorded as a receivable in the accompanying Balance Sheets as the use of such has been budgeted for the 2020 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.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020 AND 2019

(5) Retirement Plan (Continued)

Benefits Provided:

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

Members 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.

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, 2020, 2019, and 2018, equal to the required contributions each year, were **\$30,124**, \$29,089, and \$25,820, 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, 2020, SDRS is 100.04 percent funded and accordingly has a net pension asset based on actuarial assumptions including inflation, investment return, mortality tables, and other factors.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

(5) Retirement Plan (Concluded)

The District's share of the net pension asset was .0227 percent and .0215 percent at June 30, 2020 and 2019, respectively. 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, 2020, if the District had recorded the pension activity, a net pension asset totaling approximately \$1,000 would have been recorded along with deferred outflows of resources totaling approximately \$13,400 for a net increase in assets of approximately \$14,400. For the year ended December 31, 2019, if the District had recorded the pension activity, a net pension asset totaling approximately \$2,300 would have been recorded along with deferred outflows of resources totaling approximately \$55,800 for a net increase in assets at December 31, 2019 of approximately \$58,100. In addition, an increase to pension expense (revenue) of approximately \$29,200 and \$39,600 would have been recorded for the years ending December 31, 2020 and 2019, respectively.

(6) Changes in Capital Assets

Changes in capital assets were as follows during the years ended December 31, 2020 and 2019:

| | Balance December 31, 2019 | Additions | Transfers/ Dispositions | Balance December 31, 2020 |
|---|------------------------------|-------------------|----------------------------|------------------------------|
| <i>Capital Assets being Depreciated</i> | | | | |
| Buildings | \$ 844,313 | \$ - | \$ - | \$ 844,313 |
| Water and Sewer Systems | 30,116,103 | 1,071,635 | 151,668 | 31,339,406 |
| Office Furniture | 3,237 | - | - | 3,237 |
| Equipment and Vehicles | 400,609 | - | - | 400,609 |
| | 31,364,262 | 1,071,635 | 151,668 | 32,587,565 |
| <i>Less Accumulated Depreciation</i> | 10,550,135 | 477,194 | (108,552) | 10,918,777 |
| Net Capital Assets being Depreciated | \$ 20,814,127 | \$ 594,441 | \$ 260,220 | \$ 21,668,788 |

| | | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| <i>Capital Assets not being Depreciated</i> | | | | |
| Land | \$ 543,457 | \$ 269,663 | \$ - | \$ 813,120 |
| Construction in Progress | - | 761,168 | (761,168) | - |
| Water Rights | 1,243,173 | - | - | 1,243,173 |
| Net Capital Assets not being Depreciated | \$ 1,786,630 | \$ 1,030,831 | \$ (761,168) | \$ 2,056,293 |

| | Balance December 31, 2018 | Additions | Transfers/ Dispositions | Balance December 31, 2019 |
|---|------------------------------|-------------------|----------------------------|------------------------------|
| <i>Capital Assets being Depreciated</i> | | | | |
| Buildings | \$ 844,313 | \$ - | \$ - | \$ 844,313 |
| Water and Sewer Systems | 29,195,015 | 831,839 | 89,249 | 30,116,103 |
| Office Furniture | 3,237 | - | - | 3,237 |
| Equipment and Vehicles | 351,675 | 48,934 | - | 400,609 |
| | 30,394,240 | 880,773 | 89,249 | 31,364,262 |
| <i>Less Accumulated Depreciation</i> | 10,072,183 | 477,952 | - | 10,550,135 |
| Net Capital Assets being Depreciated | \$ 20,322,057 | \$ 402,821 | \$ 89,249 | \$ 20,814,127 |

| | | | | |
|---|---------------------|------------------|---------------------|---------------------|
| <i>Capital Assets not being Depreciated</i> | | | | |
| Land | \$ 543,457 | \$ - | \$ - | \$ 543,457 |
| Construction in Progress | 37,800 | 76,480 | (114,280) | - |
| Water Rights | 1,243,173 | - | - | 1,243,173 |
| Net Capital Assets not being Depreciated | \$ 1,824,430 | \$ 76,480 | \$ (114,280) | \$ 1,786,630 |

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

(7) Long-Term Debt

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

| | Revenue Bonds | Note Payable | State Revolving Loan | Total |
|-----------------------------|---------------------|-------------------|----------------------------|---------------------|
| Balance - December 31, 2018 | \$ 6,731,964 | \$ 545,387 | \$ 354,291 | \$ 7,631,642 |
| Principal Refinance | 4,060,000 | - | - | 4,060,000 |
| Principal Repayments | (4,227,896) | (56,973) | (17,191) | (4,302,060) |
| Bond Premium | 202,900 | - | - | 202,900 |
| Balance - December 31, 2019 | 6,766,968 | 488,414 | 337,100 | 7,592,482 |
| Principal Repayments | (195,493) | (59,238) | (17,712) | (272,443) |
| Balance - December 31, 2020 | \$ 6,571,475 | \$ 429,176 | \$ 319,388 | \$ 7,320,039 |

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

| | 2020 | 2019 |
|---|---------------------|--------------|
| 2019 Revenue bonds, due to in annual installments of varying amounts including interest at 3.00 percent, maturing November 2041, secured by the water system and a pledge of water revenues. The debt is paid out of the water department. | \$ 3,920,000 | \$ 4,060,000 |
| 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. | 2,457,797 | 2,504,068 |
| Note payable 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. | 429,177 | 488,414 |
| 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. | 319,388 | 337,100 |
| Unamortized Revenue bond premium | 193,677 | 202,900 |
| | 7,320,039 | 7,592,482 |
| Less Current Portion | 272,177 | 272,154 |
| | \$ 7,047,862 | \$ 7,320,328 |

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

(7) Long-Term Debt (Continued)

The annual requirements to amortize debt outstanding are as follows:

| | Revenue Bonds | | Note Payable | | State Revolving Loan | | Total | |
|--------------|---------------------|---------------------|-------------------|------------------|----------------------|------------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2021 | \$ 192,222 | \$ 210,705 | \$ 61,705 | \$ 16,048 | \$ 18,249 | \$ 9,378 | \$ 272,176 | \$ 236,131 |
| 2022 | 199,054 | 204,824 | 64,219 | 13,535 | 18,803 | 8,824 | 282,076 | 227,183 |
| 2023 | 205,955 | 198,723 | 66,835 | 10,918 | 19,374 | 8,253 | 292,164 | 217,894 |
| 2024 | 212,685 | 192,643 | 69,533 | 8,221 | 19,961 | 7,666 | 302,179 | 208,530 |
| 2025 | 219,968 | 185,860 | 72,391 | 5,362 | 20,567 | 7,060 | 312,926 | 198,282 |
| 2026-2030 | 1,198,175 | 823,664 | 94,493 | 2,542 | 112,582 | 25,553 | 1,405,250 | 851,759 |
| 2031-2035 | 1,397,444 | 625,445 | - | - | 109,852 | 28,284 | 1,507,296 | 653,729 |
| 2036-2040 | 1,629,831 | 390,526 | - | - | - | - | 1,629,831 | 390,526 |
| 2041-2045 | 806,575 | 157,360 | - | - | - | - | 806,575 | 157,360 |
| 2046-2049 | 509,566 | 187,334 | - | - | - | - | 509,566 | 187,334 |
| Total | \$ 6,571,475 | \$ 3,177,084 | \$ 429,176 | \$ 56,626 | \$ 319,388 | \$ 95,018 | \$ 7,320,039 | \$ 3,328,728 |

A debt reserve is maintained in accordance with debt covenants for **\$405,760** and \$400,676 at December 31, 2020 and 2019, which exceeds the current year minimum requirement of **\$405,150** and \$392,893, 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> |
| Current Year Principal and Interest | \$ 499,708 |
| Pledged Revenue | 1,871,652 |

(8) Current Economic Conditions

The global and local economy has been impacted by the worldwide coronavirus pandemic. The District's revenue relies on the overall strength of the economy and lending environment. The District wrote off approximately 3 months of late fees during the start of the pandemic in an attempt to alleviate the financial pressures endured by their customers. The District is closely monitoring operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

(9) Segment Information

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

Balance Sheets at December 31:

| | Water | | Sewer | | Total | |
|------------------------------|----------------------|----------------------|---------------------|---------------------|----------------------|----------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Assets | | | | | | |
| Current Assets | | | | | | |
| Cash and Cash | | | | | | |
| Equivalents | \$ 1,145,367 | \$ 1,029,212 | \$ 1,445,411 | \$ 1,531,336 | \$ 2,590,778 | \$ 2,560,548 |
| Investments | - | - | 693,714 | 682,809 | 693,714 | 682,809 |
| Other Current Assets | 197,077 | 190,783 | 173,054 | 169,861 | 370,131 | 360,644 |
| Net Capital Assets, | | | | | | |
| Depreciated | 15,983,925 | 15,297,529 | 5,684,863 | 5,516,598 | 21,668,788 | 20,814,127 |
| Net Capital Assets, Not | | | | | | |
| Depreciated | 1,649,733 | 1,514,902 | 406,560 | 271,728 | 2,056,293 | 1,786,630 |
| Other Assets | 57,669 | 54,735 | 57,669 | 54,735 | 115,338 | 109,470 |
| Restricted Cash and Cash | | | | | | |
| Equivalents | 405,150 | 392,893 | - | - | 405,150 | 392,893 |
| Total Assets | \$ 19,438,921 | \$ 18,480,054 | \$ 8,461,271 | \$ 8,227,067 | \$ 27,900,192 | \$ 26,707,121 |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| | \$ 437,615 | \$ 429,669 | \$ 31,030 | \$ 29,551 | \$ 468,645 | \$ 459,220 |
| Noncurrent Liabilities | | | | | | |
| | 7,047,862 | 7,320,328 | - | - | 7,047,862 | 7,320,328 |
| Total Liabilities | 7,485,477 | 7,749,997 | 31,030 | 29,551 | 7,516,507 | 7,779,548 |
| Net Position | | | | | | |
| Net Investment in Capital | | | | | | |
| Assets | 10,313,619 | 9,219,950 | 6,091,423 | 5,788,325 | 16,405,042 | 15,008,275 |
| Restricted for Debt Service | 405,150 | 392,893 | - | - | 405,150 | 392,893 |
| Unrestricted | 1,234,675 | 1,117,214 | 2,338,818 | 2,409,191 | 3,573,493 | 3,526,405 |
| Total Net Position | 11,953,444 | 10,730,057 | 8,430,241 | 8,197,516 | 20,383,685 | 18,927,573 |
| Total Liabilities and | | | | | | |
| Net Position | \$ 19,438,921 | \$ 18,480,054 | \$ 8,461,271 | \$ 8,227,067 | \$ 27,900,192 | \$ 26,707,121 |

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019

(9) Segment Information (Continued)

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

| | Water | | Sewer | | Total | |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Revenues | | | | | | |
| User Charges | \$ 1,871,652 | \$ 1,566,271 | \$ 1,400,330 | \$ 1,370,822 | \$ 3,271,982 | \$ 2,937,093 |
| Late Fees | 27,270 | 40,283 | 27,270 | 40,282 | 54,540 | 80,565 |
| Charges for Services and Fees, Net | 94,073 | 82,333 | 10,113 | 11,779 | 104,186 | 94,112 |
| Permits | - | - | 27,500 | 19,500 | 27,500 | 19,500 |
| Total Revenues | 1,992,995 | 1,688,887 | 1,465,213 | 1,442,383 | 3,458,208 | 3,131,270 |
| Costs of Sales | 14,230 | 13,062 | 666,807 | 663,176 | 681,037 | 676,238 |
| Gross Margin | 1,978,765 | 1,675,825 | 798,406 | 779,207 | 2,777,171 | 2,455,032 |
| Depreciation Expense | 355,815 | 361,118 | 121,379 | 116,836 | 477,194 | 477,954 |
| Other Operating Expenses | | | | | | |
| Salaries and Wages | 302,974 | 294,020 | 201,983 | 196,014 | 504,957 | 490,034 |
| Meters and Equipment | 35,968 | 66,951 | 226,312 | 1,773 | 262,280 | 68,724 |
| Utilities and Telephone | 107,324 | 101,949 | 45,996 | 43,692 | 153,320 | 145,641 |
| Insurance - Health | 91,550 | 90,139 | 61,033 | 60,093 | 152,583 | 150,232 |
| Repairs | 133,088 | 111,797 | 4,370 | 910 | 137,458 | 112,707 |
| Chemical Supplies - Water | 111,169 | 120,849 | - | - | 111,169 | 120,849 |
| Maintenance Supplies | 75,046 | 65,680 | 32,163 | 28,149 | 107,209 | 93,829 |
| Office Supplies/Equipment | 51,073 | 53,776 | 51,073 | 53,776 | 102,146 | 107,552 |
| Miscellaneous | 31,870 | 5,379 | 31,870 | 5,379 | 63,740 | 10,758 |
| Taxes - Payroll | 23,062 | 22,422 | 15,374 | 14,948 | 38,436 | 37,370 |
| Insurance - Umbrella | 23,713 | 28,684 | 10,163 | 12,293 | 33,876 | 40,977 |
| Retirement Plan Funding | 18,075 | 17,453 | 12,050 | 11,636 | 30,125 | 29,089 |
| Contract Agreements | 20,273 | 19,462 | 8,689 | 8,341 | 28,962 | 27,803 |
| Sewer Main Cleaning | - | - | 26,750 | 22,509 | 26,750 | 22,509 |
| Professional Fees | 11,125 | 15,667 | 11,125 | 8,786 | 22,250 | 24,453 |
| Dues, Donations, and Subscriptions | 14,828 | 14,991 | 6,355 | 6,425 | 21,183 | 21,416 |
| Trustee Fees | 9,050 | 10,806 | 9,050 | 10,806 | 18,100 | 21,612 |
| Engineering Costs | 10,513 | 16,544 | 4,826 | 12,444 | 15,339 | 28,988 |
| Master Plan | 6,736 | 20,054 | 6,736 | 20,054 | 13,472 | 40,108 |
| Truck and Equipment Expense | 8,768 | 10,050 | 3,758 | 4,307 | 12,526 | 14,357 |
| Conference and Travel | 6,288 | 4,695 | 2,695 | 2,012 | 8,983 | 6,707 |
| Public Relations | 3,195 | 3,971 | 3,195 | 3,971 | 6,390 | 7,942 |
| Trustee Travel | 2,477 | 3,175 | 2,477 | 3,175 | 4,954 | 6,350 |
| Advertising | 163 | 1,547 | 163 | 1,547 | 326 | 3,094 |
| Tank Cleaning and Equipment | - | 44,520 | - | - | - | 44,520 |
| Investment Expense | - | - | - | 487 | - | 487 |
| Total Other Operating Expenses | 1,098,328 | 1,144,581 | 778,206 | 533,527 | 1,876,534 | 1,678,108 |
| Operating Income (Expense) | 524,622 | 170,126 | (101,179) | 128,844 | 423,443 | 298,970 |

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2020 AND 2019**

(9) Segment Information (Concluded)

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

| | Water | | Sewer | | Total | |
|--|----------------------|---------------|---------------------|--------------|----------------------|---------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Non-Operating Income (Expense) | | | | | | |
| Donated Systems | 643,961 | 484,530 | 289,645 | 347,309 | 933,606 | 831,839 |
| Property Taxes | - | - | 268,298 | 253,417 | 268,298 | 253,417 |
| Lease Income | 33,601 | 32,623 | - | - | 33,601 | 32,623 |
| Miscellaneous Income | 7,438 | 9,592 | 7,438 | 9,592 | 14,876 | 19,184 |
| Loss on Disposals of Capital Assets | (7,346) | - | (7,346) | - | (14,692) | - |
| Debt Issuance Cost | - | (139,994) | - | - | - | (139,994) |
| Interest Expense | (227,265) | (294,556) | - | - | (227,265) | (294,556) |
| Total Non-Operating Income | 450,389 | 92,195 | 558,035 | 610,318 | 1,008,424 | 702,513 |
| Income before Investment Income | 975,011 | 262,321 | 456,856 | 739,162 | 1,431,867 | 1,001,483 |
| Investment Income | 12,619 | 19,260 | 11,626 | 21,315 | 24,245 | 40,575 |
| Income Before Transfers | 987,630 | 281,581 | 468,482 | 760,477 | 1,456,112 | 1,042,058 |
| Transfers | 235,757 | (127,582) | (235,757) | 127,582 | - | - |
| Change in Net Position | 1,223,387 | 153,999 | 232,725 | 888,059 | 1,456,112 | 1,042,058 |
| Beginning Net Position | 10,730,057 | 10,576,058 | 8,197,516 | 7,309,457 | 18,927,573 | 17,885,515 |
| Ending Net Position | \$ 11,953,444 | \$ 10,730,057 | \$ 8,430,241 | \$ 8,197,516 | \$ 20,383,685 | \$ 18,927,573 |

Statements of Cash Flows for the years ended December 31:

| | Water | | Sewer | | Total | |
|--|---------------------|--------------|---------------------|--------------|---------------------|--------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Net Cash Flows From Operating Activities | \$ 882,066 | \$ 541,947 | \$ 18,486 | \$ 244,158 | \$ 900,552 | \$ 786,105 |
| Net Cash Flows From Noncapital Financing Activities | 276,796 | (85,367) | 39,979 | 390,591 | 316,775 | 305,224 |
| Net Cash Flows From Capital and Related Financing Activities | (1,040,135) | (549,631) | (142,177) | (24,464) | (1,182,312) | (574,095) |
| Net Cash Flows From Investing Activities | 9,685 | 117,220 | (2,213) | (200,912) | 7,472 | (83,692) |
| Net Change in Cash and Cash Equivalents | 128,412 | 24,169 | (85,925) | 409,373 | 42,487 | 433,542 |
| Cash and Cash Equivalents -- Beginning | 1,422,105 | 1,397,936 | 1,531,336 | 1,121,963 | 2,953,441 | 2,519,899 |
| Cash and Cash Equivalents -- Ending | \$ 1,550,517 | \$ 1,422,105 | \$ 1,445,411 | \$ 1,531,336 | \$ 2,995,928 | \$ 2,953,441 |

OTHER REPORTS



810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

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, 2020, 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 12, 2021.

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) as a basis for designing 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 #2020-001 and #2020-002 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 financial statements. 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 12, 2021

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

SCHEDULE OF FINDINGS DECEMBER 31, 2020

CURRENT YEAR AUDIT FINDINGS

Material Weaknesses in Internal Control

2020-001 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 \$519,345 increase in reported change in net position.

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. 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.

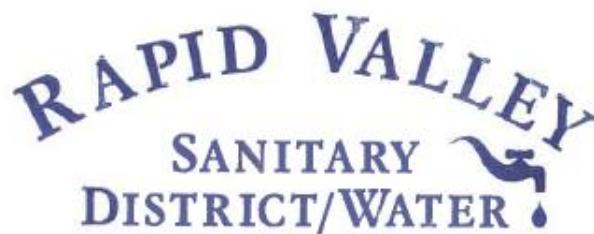
2020-002 Finding: Financial Statement Preparation

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.



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2020

Rapid Valley Sanitary District/Water Service respectfully submits the following summary schedule of prior audit findings from the December 31, 2019 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2019 Schedule of Findings.

Finding No. 2019-001: Audit Adjustments

Status: The District maintains its books on a cash basis. However, the District maintains supporting documentation for receivables, capital assets and other accruals. The District reviews the audit adjustments for propriety each year.

Initial Year Report: Originally issued years ago.

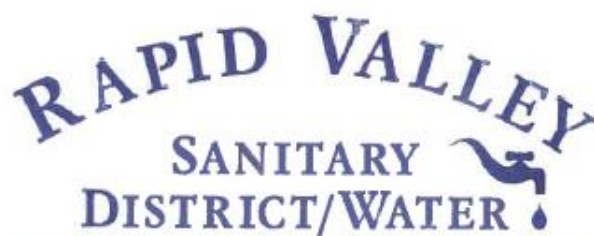
Reasons for Recurrence and Corrective Action Plan: District management and the board of directors prefers to review financial activity throughout the year on a cash basis. Management and the board are comfortable with review of the accrual basis adjustments at the end of each year. Therefore, the finding is repeated in the Schedule of Findings. See Corrective Action Plan.

Finding No. 2019-002: 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 accepted the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2020, see Corrective Action Plan.



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**CORRECTIVE ACTION PLAN
DECEMBER 31, 2020**

Rapid Valley Sanitary District/Water Service respectfully submits the following corrective action plan regarding findings from the December 31, 2020 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

2020-001 Finding: Audit 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. The General Manager is responsible for the annual review of these adjustments.

2020-002 Finding: Financial Statement Preparation:

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. The General Manager is responsible for the corrective action plan for this finding.