



RAPID VALLEY SANITARY DISTRICT/WATER SERVICE
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2015 AND 2014



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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, 2015 and 2014, 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, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages three through six, 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 April 6, 2016, 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

April 6, 2016

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2015

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, 2015. 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 \$2,786,537 while cost of sales and operating expenses were \$2,483,831. This represents \$302,706 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 2015 include: Summerfield/Cadillac, Copper Lane Court, Howie/Meadowland, and the Degeest service upgrade. The slight increase in new development within the District's boundaries has continued, which will also contribute to an increase in income in 2016.

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:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current Assets	\$ 2,593,270	\$ 2,393,978	\$ 2,135,386
Net Capital Assets being Depreciated	19,456,791	19,191,082	18,509,653
Capital Assets not being Depreciated	1,786,630	1,849,211	1,992,690
Other Assets	342,560	297,057	259,870
Total Assets	\$ 24,179,251	\$ 23,731,328	\$ 22,897,599
Long-Term Debt Outstanding	\$ 8,234,485	\$ 8,431,226	\$ 8,193,795
Other Liabilities	159,159	206,259	172,770
Total Liabilities	\$ 8,393,644	\$ 8,637,485	\$ 8,366,565
Net Position:			
Net Investment in Capital Assets	\$ 13,008,936	\$ 12,557,142	\$ 12,290,448
Restricted for Debt Service	270,104	229,844	189,584
Unrestricted	2,506,567	2,306,857	2,051,002
Total Net Position	\$ 15,785,607	\$ 15,093,843	\$ 14,531,034
Beginning Net Position	\$ 15,093,843	\$ 14,531,034	\$ 14,412,404
Increase in Net Position	691,764	562,809	118,630
Percentage of Increase in Net Position	4.58%	3.87%	0.82%

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015**

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 one revenue bond, two State Revolving Fund Loans and four Rural Economic and Community Development Loans 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

	2015	2014	2013
Operating Revenues	\$ 2,786,537	\$ 2,679,906	\$ 2,759,413
Non-Operating Income	241,646	239,212	224,907
Contributions from Developers/Others	494,469	399,163	-
Total Revenue	3,522,652	3,318,281	2,984,320
Cost of Sales	(670,628)	(682,960)	(694,639)
Operating Expenses	(1,813,203)	(1,730,151)	(1,820,749)
Non-Operating Expense	(347,057)	(342,361)	(350,302)
Total Expenses	(2,830,888)	(2,755,472)	(2,865,690)
Change in Net Position	\$ 691,764	\$ 562,809	\$ 118,630
Net Position	\$ 15,785,607	\$ 15,093,843	\$ 14,531,034

In 2015, operating revenue increased by 3.98 percent to \$2,786,537 while expenditures increased by 2.74 percent to \$2,830,888. Factors contributing to these results included:

- A water rate increase, as well as a sewer rate increase, went into effect on January 1, 2015; resulting in additional revenue. The summer of 2015 was relatively similar in terms of weather to 2014. 2015 had approximately 8% more water consumption than 2014.
- 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, 2015**

CAPITAL ASSET ADMINISTRATION

By the end of 2015, the District had invested \$30,043,106 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 \$668,467 or 2.28% over the last year.

	Balance December 31, 2015	Balance December 31, 2014	Balance December 31, 2013
<i>Capital Assets being Depreciated</i>			
Buildings	\$ 824,560	\$ 824,560	\$ 824,560
Water and Sewer Systems	27,174,990	26,449,024	25,344,487
Office Furniture	27,015	27,015	24,590
Equipment and Vehicles	229,911	224,829	225,836
	28,256,476	27,525,428	26,419,473
<i>Less Accumulated Depreciation</i>	8,799,685	8,334,346	7,909,820
Net Capital Assets being Depreciated	\$ 19,456,791	\$ 19,191,082	\$ 18,509,653
<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	-	62,581	206,060
Total Capital Assets not being Depreciated	\$ 1,786,630	\$ 1,849,211	\$ 1,992,690

The District's fiscal year 2016 capital budget projects include:

- Valley Drive
- Lancer Drive

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, 2013	\$ 8,193,795
Principal Repayments	(176,936)
Principal Borrowings	414,367
Balance -- December 31, 2014	8,431,226
Principal Repayments	(196,741)
Balance -- December 31, 2015	\$ 8,234,485

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2015

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 \$223,869 that will be collected in calendar year 2016. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes by \$3,810. This year's property tax levy requests increased approximately 1.7% from 2015.

The District's adopted expense budget for the next fiscal year will increase approximately 0.02% to \$2,726,821. It is anticipated that expenses should be comparable to 2015. 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 2016 budget, the District expects that the results for 2016 will remain constant with the established rate increases for water and sewer which went into effect in January 2015. 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 three S-30 Surveyor leak detectors which are being used systematically throughout the system for early detection of water leaks. 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 also negotiated a contract with Verizon to utilize a water tower for antennas, which will generate an additional \$30,000 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, 2015 AND 2014**

ASSETS (Note 6)	2015	2014
Current Assets		
Cash and Cash Equivalents (Note 1)	\$ 1,743,708	\$ 1,715,003
Investments (Note 1)	520,948	320,108
Accounts Receivable	120,542	62,509
Unbilled Accounts Receivable	154,753	248,494
Prepaid Expenses	53,319	47,864
Total Current Assets	2,593,270	2,393,978
Capital Assets being Depreciated (Note 5)		
Buildings	824,560	824,560
Water and Sewer Systems	27,174,990	26,449,024
Office Furniture	27,015	27,015
Equipment and Vehicles	229,911	224,829
	28,256,476	27,525,428
Less Accumulated Depreciation	8,799,685	8,334,346
	19,456,791	19,191,082
Capital Assets not being Depreciated (Note 5)		
Land	543,457	543,457
Water Rights	1,243,173	1,243,173
Construction in Progress	-	62,581
	1,786,630	1,849,211
Other Assets		
Restricted Cash and Cash Equivalents (Note 6)	270,104	229,844
Utility Investment	72,456	67,213
	342,560	297,057
TOTAL ASSETS	\$ 24,179,251	\$ 23,731,328

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION	2015	2014
Current Liabilities		
Current Portion of Long-Term Debt (Note 6)	\$ 207,224	\$ 196,479
Accounts Payable - Construction	-	51,925
Accounts Payable - Operations	16,359	434
Accrued Expenses	75,242	86,730
Meter Deposits	67,558	67,170
Total Current Liabilities	366,383	402,738
Long-Term Liabilities (Note 6)		
Long-Term Debt	8,234,485	8,431,226
Less Current Portion Shown Above	207,224	196,479
	8,027,261	8,234,747
Net Position		
Net Investment in Capital Assets	13,008,936	12,557,142
Restricted for Debt Service (Note 6)	270,104	229,844
Unrestricted	2,506,567	2,306,857
Total Net Position	15,785,607	15,093,843
TOTAL LIABILITIES AND NET POSITION	\$ 24,179,251	\$ 23,731,328

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Revenues		
Water Charges (Note 6)	\$ 1,448,195	\$ 1,378,731
Sewer Charges (Note 6)	1,183,592	1,178,162
Charges for Services and Fees (Net of Cost of Sales of \$11,394 and \$9,476 - December 31, 2015 and 2014, Respectively)	52,817	54,649
Late Fees	89,183	61,614
Permits	12,750	6,750
Total Revenues	2,786,537	2,679,906
Costs of Sales		
Water Purchases	12,215	11,108
Sewer Treatment Expense	658,413	671,852
	670,628	682,960
Gross Margin	2,115,909	1,996,946
Operating Expenses		
Operating	753,433	717,011
Personnel (Note 4)	594,431	566,692
Depreciation	465,339	446,448
	1,813,203	1,730,151
Operating Income	302,706	266,795
Non-Operating Income (Expense)		
Donated Systems	494,469	399,163
Property Taxes (Note 3)	223,590	221,263
Miscellaneous Income	9,080	12,140
Investment Income	8,976	809
Gain on Capital Asset Disposal	-	5,000
Interest Expense	(347,057)	(342,361)
	389,058	296,014
Change in Net Position	691,764	562,809
Net Position -- Beginning of Year	15,093,843	14,531,034
Net Position -- End of Year	\$ 15,785,607	\$ 15,093,843

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, 2015 AND 2014

	2015	2014
Cash Flows From Operating Activities		
Receipts from Customers	\$ 2,834,032	\$ 2,712,151
Payments to Suppliers	(1,625,212)	(1,597,018)
Payments to Employees	(405,697)	(379,667)
Net Cash Flows Provided by Operating Activities	803,123	735,466
Cash Flows From Noncapital Financing Activities		
Miscellaneous Income	9,080	12,140
Property Taxes	223,590	221,263
Net Cash Flows Provided by Noncapital Financing Activities	232,670	233,403
Cash Flows From Capital and Related Financing Activities		
Repayments of Long-Term Debt	(196,741)	(176,936)
Purchases of Capital Assets	(173,998)	(100,843)
Payment of Construction Accounts Payable	(51,925)	(18,100)
Interest Paid	(347,057)	(342,361)
Net Cash Flows Used in Capital and Related Financing Activities	(769,721)	(638,240)
Cash Flows From Investing Activities		
Interest Received	8,976	809
Proceeds (Purchases) of Investments	(200,840)	93,576
Change in Utility Investment	(5,243)	3,073
Net Cash Flows Provided by (Used in) Investing Activities	(197,107)	97,458
Net Increase in Cash and Cash Equivalents	68,965	428,087
Cash and Cash Equivalents -- Beginning of Year	1,944,847	1,516,760
Cash and Cash Equivalents -- End of Year	\$ 2,013,812	\$ 1,944,847
Reconciliation of Operating Income to Net Cash Flows		
Provided by Operating Activities:		
Operating Income	\$ 302,706	\$ 266,795
<i>Adjustments to Reconcile Operating Income to Net Cash Flows</i>		
<i>Provided by Operating Activities:</i>		
Depreciation	465,339	446,448
<i>Changes in Assets and Liabilities:</i>		
Accounts Receivable	(58,033)	18,274
Unbilled Accounts Receivable	93,741	3,903
Prepaid Expenses	(5,455)	382
Accounts Payable and Accrued Expenses	4,437	(928)
Meter Deposits	388	592
Net Cash Flows Provided by Operating Activities	\$ 803,123	\$ 735,466
Supplemental Disclosures of Noncash Activities		
Capital Asset Purchases Included in Accounts Payable	\$ -	\$ 51,925
Capital Asset Purchases Financed by Long-Term Debt	-	414,367
Capital Assets Donated	494,469	399,163

The accompanying notes are an integral part of these statements.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

(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

The District capitalizes all property and equipment over \$1,000, and records capital assets 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. Certain engineering costs associated with the purchases have been capitalized. 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, 2015, 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, 2015 AND 2014**

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

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.

The District's cash and cash equivalents consisted only 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, 2015, and 2014. All of these accounts are insured or collateralized in the District's name.

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:

	Credit Rating	Maturity	Fair Value at December 31, 2015
<i>Investments exceeding five percent:</i>			
Certificate of Deposit	Unrated	3-18 months	\$ 107,215
Certificate of Deposit	Unrated	3-18 months	100,329
Certificate of Deposit	Unrated	3-18 months	50,107
Certificate of Deposit	Unrated	3-18 months	50,107
Certificate of Deposit	Unrated	3-18 months	50,084
Certificate of Deposit	Unrated	3-18 months	50,084
Certificate of Deposit	Unrated	3-18 months	49,876
Certificate of Deposit	Unrated	3-18 months	49,876
<i>Investments not exceeding five percent:</i>			
Certificate of Deposit	Unrated	3-18 months	13,270
			\$ 520,948

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

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

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.

(2) 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.

(3) 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.

As required by Governmental Accounting Standards Board (GASB) Statement No. 34, property taxes are recorded as receivables in the year they are budgeted. Accordingly, taxes levied in October 2015, have not been recorded as a receivable in the accompanying Balance Sheets as the use of such has been budgeted for the 2016 fiscal year.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

(4) 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.

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute at eight percent and nine percent, respectively. 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 fiscal years ended December 31, 2015, 2014, and 2013, was **\$25,032**, \$22,901, and \$21,991, respectively.

In 2015, the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* became effective. The new standards require the District to record its share of the SDRS net pension asset or liability, related deferred balances and its share of net pension revenue or expense rather than recording the District's required retirement contributions, noted above. As of June 30, 2015, SDRS is 104.1 percent funded and accordingly has a net pension asset based on actuarial assumptions including inflation, investment return, mortality tables, and other factors. The District's share of the net pension asset at June 30, 2015 was .0214 percent. Based on the overall insignificant impact to the financial statements, the District has elected not to record the new pension standards. If the District had recorded the pension activity, a net pension asset totaling approximately \$90,000 would have been recorded along with deferred outflows of resources totaling approximately \$145,000, and deferred inflows of resources totaling approximately (\$135,000) for a net increase in assets at December 31, 2015 of \$100,000. In addition, a reduction to pension costs of approximately \$14,000 would have been recorded for the year ending December 31, 2015.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

(5) Changes in Capital Assets

Changes in capital assets were as follows during the years ended December 31, 2015 and 2014:

	Balance December 31, 2013	Additions	Transfers/ Dispositions	Balance December 31, 2014
<i>Capital Assets being Depreciated</i>				
Buildings	\$ 824,560	\$ -	\$ -	\$ 824,560
Water and Sewer Systems	25,344,487	455,344	649,193	26,449,024
Office Furniture	24,590	2,425	-	27,015
Equipment and Vehicles	225,836	20,915	(21,922)	224,829
	26,419,473	478,684	627,271	27,525,428
<i>Less Accumulated Depreciation</i>	7,909,820	446,448	(21,922)	8,334,346
Net Capital Assets being Depreciated	\$ 18,509,653	\$ 32,236	\$ 649,193	\$ 19,191,082

<i>Capital Assets not being Depreciated</i>				
Land	\$ 543,457	\$ -	\$ -	\$ 543,457
Water Rights	1,243,173	-	-	1,243,173
Construction in Progress	206,060	505,714	(649,193)	62,581
Net Capital Assets not being Depreciated	\$ 1,992,690	\$ 505,714	\$ (649,193)	\$ 1,849,211

	Balance December 31, 2014	Additions	Transfers/ Dispositions	Balance December 31, 2015
<i>Capital Assets being Depreciated</i>				
Buildings	\$ 824,560	\$ -	\$ -	\$ 824,560
Water and Sewer Systems	26,449,024	725,966	-	27,174,990
Office Furniture	27,015	-	-	27,015
Equipment and Vehicles	224,829	5,082	-	229,911
	27,525,428	731,048	-	28,256,476
<i>Less Accumulated Depreciation</i>	8,334,346	465,339	-	8,799,685
Net Capital Assets being Depreciated	\$ 19,191,082	\$ 265,709	\$ -	\$ 19,456,791

<i>Capital Assets not being Depreciated</i>				
Land	\$ 543,457	\$ -	\$ -	\$ 543,457
Water Rights	1,243,173	-	-	1,243,173
Construction in Progress	62,581	199,010	(261,591)	-
Net Capital Assets not being Depreciated	\$ 1,849,211	\$ 199,010	\$ (261,591)	\$ 1,786,630

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

(6) Long-Term Debt

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

Balance -- December 31, 2013	\$ 8,193,795
Principal Repayments	(176,936)
Principal Borrowings	414,367
Balance -- December 31, 2014	8,431,226
Principal Repayments	(196,741)
Balance -- December 31, 2015	\$ 8,234,485

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

	<u>2015</u>	<u>2014</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.	\$ 2,672,759	\$ 2,711,130
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.	2,588,783	2,627,626
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.	1,809,737	1,836,721
Revenue bond, due in semi-annual installments of \$28,737, including interest at 5.36 percent, maturing in November 2026, secured by the water system and a pledge of water revenues. The debt is paid out of the water department.	473,017	503,891
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.	402,884	414,367
Revenue bond, due to Rural Development in monthly installments of \$1,275, including interest at 5.5 percent, maturing in January 2036, secured by a pledge of water revenues and substantially all District assets. This debt is paid out of the water department.	185,138	190,106
State Revolving Fund Loan, due in monthly installments of \$4,323, including interest at 5.25 percent, maturing in January 2018, secured by a pledge of sewer revenues. This debt is paid out of the sewer department.	102,167	147,385
	8,234,485	8,431,226
Less Current Portion	207,224	196,479
	\$ 8,027,261	\$ 8,234,747

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

(6) Long-Term Debt (Continued)

The annual requirements to amortize debt outstanding are as follows:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 207,224	\$ 339,700
2017	217,015	329,909
2018	178,371	320,996
2019	181,663	313,383
2020	187,997	307,048
2021 - 2025	1,072,656	1,402,572
2026 - 2030	1,057,684	1,187,646
2031 - 2035	1,249,673	944,478
2036 - 2040	1,292,355	680,865
2041 - 2045	1,585,581	387,639
2046 - 2049	1,004,266	104,352
Total	<u><u>\$ 8,234,485</u></u>	<u><u>\$ 6,318,588</u></u>

A debt reserve is maintained in accordance with debt covenants for **\$338,467** and \$287,980 at December 31, 2015 and 2014, which exceeds the current year minimum requirement of **\$270,104** and \$229,844, 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	\$ 491,919	\$ 51,879
Pledged Revenue	1,448,195	1,183,592

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

(7) Segment Information

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

Balance Sheets at December 31:

	Water		Sewer		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current Assets						
Cash and Cash						
Equivalents	\$ 882,528	\$ 860,913	\$ 861,180	\$ 854,090	\$ 1,743,708	\$ 1,715,003
Investments	250,396	100,018	270,552	220,090	520,948	320,108
Other Current Assets	180,477	196,968	148,137	161,899	328,614	358,867
Net Capital Assets,						
Depreciated	14,457,923	14,281,593	4,998,868	4,909,489	19,456,791	19,191,082
Net Capital Assets, Not						
Depreciated	1,514,902	1,577,482	271,728	271,729	1,786,630	1,849,211
Other Assets	36,228	33,607	36,228	33,606	72,456	67,213
Restricted Cash and Cash						
Equivalents	270,104	229,844	-	-	270,104	229,844
Total Assets	\$ 17,592,558	\$ 17,280,425	\$ 6,586,693	\$ 6,450,903	\$ 24,179,251	\$ 23,731,328
Liabilities						
Current Liabilities						
	\$ 294,523	\$ 331,280	\$ 71,860	\$ 71,458	\$ 366,383	\$ 402,738
Noncurrent Liabilities						
	7,972,745	8,132,581	54,516	102,166	8,027,261	8,234,747
Total Liabilities	8,267,268	8,463,861	126,376	173,624	8,393,644	8,637,485
Net Position						
Net Investment in Capital						
Assets	7,840,507	7,523,309	5,168,429	5,033,833	13,008,936	12,557,142
Restricted for Debt Service	270,104	229,844	-	-	270,104	229,844
Unrestricted	1,214,679	1,063,411	1,291,888	1,243,446	2,506,567	2,306,857
Total Net Position	9,325,290	8,816,564	6,460,317	6,277,279	15,785,607	15,093,843
Total Liabilities and						
Net Position	\$ 17,592,558	\$ 17,280,425	\$ 6,586,693	\$ 6,450,903	\$ 24,179,251	\$ 23,731,328

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

(7) Segment Information (Continued)

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

	Water		Sewer		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
User Charges	\$ 1,448,195	\$ 1,378,731	\$ 1,183,592	\$ 1,178,162	\$ 2,631,787	\$ 2,556,893
Charges for Services and Fees, Net	50,422	47,771	2,395	6,878	52,817	54,649
Late Fees	44,592	30,807	44,591	30,807	89,183	61,614
Permits	-	-	12,750	6,750	12,750	6,750
Total Revenues	1,543,209	1,457,309	1,243,328	1,222,597	2,786,537	2,679,906
Costs of Sales	12,215	11,108	658,413	671,852	670,628	682,960
Gross Margin	1,530,994	1,446,201	584,915	550,745	2,115,909	1,996,946
Depreciation Expense	361,420	344,483	103,919	101,965	465,339	446,448
Other Operating Expenses						
Salaries and Wages	283,988	265,767	121,709	113,900	405,697	379,667
Insurance - Health	92,042	93,623	39,446	40,124	131,488	133,747
Chemical Supplies - Water	123,650	127,807	-	-	123,650	127,807
Utilities and Telephone	82,753	79,997	35,465	34,284	118,218	114,281
Repairs	79,283	91,511	2,572	2,455	81,855	93,966
Office Supplies/Equipment	29,792	27,026	29,791	27,026	59,583	54,052
Maintenance Supplies	41,048	45,688	17,592	19,581	58,640	65,269
Master Plan	18,712	-	18,713	-	37,425	-
Taxes - Payroll	22,550	21,261	9,664	9,112	32,214	30,373
Engineering Costs	26,418	16,457	2,748	7,306	29,166	23,763
Insurance - Umbrella	20,405	22,675	8,745	9,718	29,150	32,393
Sewer Main Cleaning	-	-	28,453	25,998	28,453	25,998
Contract Agreements	19,395	17,628	8,312	7,555	27,707	25,183
Miscellaneous	14,709	14,417	11,345	13,088	26,054	27,505
Retirement Plan Funding	17,522	16,031	7,510	6,870	25,032	22,901
Professional Fees	15,553	14,332	8,740	9,130	24,293	23,462
Meters and Equipment	22,160	13,271	1,826	380	23,986	13,651
Dues, Donations, and Subscriptions	16,703	16,792	7,158	7,196	23,861	23,988
Trustee Fees	10,425	10,950	10,425	10,950	20,850	21,900
Truck and Equipment Expense	13,463	13,908	5,770	5,961	19,233	19,869
Trustee Travel	3,785	4,176	3,785	4,176	7,570	8,352
Public Relations	3,510	3,781	3,511	3,781	7,021	7,562
Conference and Travel	4,282	4,605	1,835	1,974	6,117	6,579
Investment Expense	231	788	229	363	460	1,151
Advertising	70	142	71	142	141	284
Total Other Operating Expenses	962,449	922,633	385,415	361,070	1,347,864	1,283,703
Operating Income	207,125	179,085	95,581	87,710	302,706	266,795

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

(7) Segment Information (Concluded)

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

	Water		Sewer		Total	
	2015	2014	2015	2014	2015	2014
Non-Operating Income (Expense)						
Donated Systems	296,182	278,323	198,287	120,840	494,469	399,163
Property Taxes	-	-	223,590	221,263	223,590	221,263
Miscellaneous Income	4,540	6,070	4,540	6,070	9,080	12,140
Gain on Capital Asset Disposal	-	2,500	-	2,500	-	5,000
Interest Expense	(327,378)	(333,393)	(19,679)	(8,968)	(347,057)	(342,361)
Total Non-Operating Income (Expense)	(26,656)	(46,500)	406,738	341,705	380,082	295,205
Income before Investment Income (Loss)	180,469	132,585	502,319	429,415	682,788	562,000
Investment Income (Loss)	1,269	1,143	7,707	(334)	8,976	809
Income Before Transfers	181,738	133,728	510,026	429,081	691,764	562,809
Transfers	326,988	301,697	(326,988)	(301,697)	-	-
Change in Net Position	508,726	435,425	183,038	127,384	691,764	562,809
Beginning Net Position	8,816,564	8,381,139	6,277,279	6,149,895	15,093,843	14,531,034
Ending Net Position	\$ 9,325,290	\$ 8,816,564	\$ 6,460,317	\$ 6,277,279	\$ 15,785,607	\$ 15,093,843

Statements of Cash Flows for the years ended December 31:

	Water		Sewer		Total	
	2015	2014	2015	2014	2015	2014
Net Cash Flows From Operating Activities	\$ 591,891	\$ 552,417	\$ 211,232	\$ 183,049	\$ 803,123	\$ 735,466
Net Cash Flows From Noncapital Financing Activities	331,528	307,767	(98,858)	(74,364)	232,670	233,403
Net Cash Flows From Capital and Related Financing Activities	(709,814)	(591,639)	(59,907)	(46,601)	(769,721)	(638,240)
Net Cash Flows From Investing Activities	(151,730)	94,334	(45,377)	3,124	(197,107)	97,458
Net Change in Cash and Cash Equivalents	61,875	362,879	7,090	65,208	68,965	428,087
Cash and Cash Equivalents -- Beginning	1,090,757	727,878	854,090	788,882	1,944,847	1,516,760
Cash and Cash Equivalents -- Ending	\$ 1,152,632	\$ 1,090,757	\$ 861,180	\$ 854,090	\$ 2,013,812	\$ 1,944,847

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2015 AND 2014**

(8) Emerging Accounting Standards

In February 2015, GASB issued statement No. 72, *Fair Value Measurement and Application*, which requires measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This guidance is effective for the District's year ending December 31, 2016, with early implementation permitted.

OTHER REPORTS



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

To the Board of 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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 6, 2016.

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.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiencies described in the accompanying Auditor's Comments Part B as Findings #2015-001 and #2015-002 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 Auditor's Comments. 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

April 6, 2016

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

AUDITOR'S FINDINGS DECEMBER 31, 2015

A. STATEMENT OF PRIOR AUDIT FINDINGS

Several year-end accruals and annual adjustments were posted in the current and prior years as part of the audit process. Finding #2014-001 will be repeated in the current year as Finding #2015-001.

The District does not consider the additional costs of preparing its financial statements to be necessary. Finding #2014-002 will be repeated in the current year as Finding #2015-002.

The District has implemented control processes and policies to mitigate risks surrounding technology. Finding #2014-003 is not repeated in the current year.

B. CURRENT YEAR AUDIT FINDINGS

Material Weaknesses in Internal Control

2015-001 Finding: Internal Control over Significant Accounts:

Condition and Cause: As in prior years, we were requested to make adjustments to reclassify principal borrowings and repayments of long-term debt, adjust the year-end accounts payable and accrued balances, adjust capital asset and related depreciation balances, record donated water and sewer systems, and adjust accounts receivable balances. Total adjustments resulted in a \$202,075 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.

Response: 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.

2015-002 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.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**AUDITOR'S FINDINGS (CONTINUED)
DECEMBER 31, 2015**

B. CURRENT YEAR AUDIT FINDINGS (CONTINUED)

Material Weaknesses in Internal Control (Continued)

2015-002 Finding: Financial Statement Preparation (Continued):

Response: 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.