

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2021 AND 2020



**Ketel Thorstenson, LLP**

Certified Public Accountants/Business & Personal Consultants

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**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **RAPID VALLEY SANITARY DISTRICT/WATER SERVICE** (the District), which comprise the balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2021 and 2020, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and there is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as a fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain other internal control matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5-8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the District's 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 9, 2022

## RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2021

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, 2021. 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 \$4,117,956 while cost of sales and operating expenses were \$3,333,588. This represents \$784,368 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 2021 include: Crane/Carlin water mains and Carlin extension as well as building addition to the District's office/shop. The District is continuing to replacing aging water meters. The increase in new development within the District's boundaries and a dry year contributed to 16.7% higher water sales than expected in 2021.

#### 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>2021</u>	<u>2020</u>	<u>2019</u>
Current Assets	\$ 3,846,294	\$ 3,654,623	\$ 3,604,001
Net Capital Assets being Depreciated	23,954,830	21,668,788	20,814,127
Capital Assets not being Depreciated	2,304,115	2,056,293	1,786,630
Other Assets	514,975	520,488	502,363
<b>Total Assets</b>	<b>\$ 30,620,214</b>	<b>\$ 27,900,192</b>	<b>\$ 26,707,121</b>
Long-Term Debt Outstanding	\$ 7,047,821	\$ 7,320,039	\$ 7,592,482
Other Liabilities	211,999	196,468	187,066
<b>Total Liabilities</b>	<b>\$ 7,259,820</b>	<b>\$ 7,516,507</b>	<b>\$ 7,779,548</b>
Net Position:			
Net Investment in Capital Assets	\$ 19,211,124	\$ 16,405,042	\$ 15,008,275
Restricted for Debt Service	405,150	405,150	392,893
Unrestricted	3,744,120	3,573,493	3,526,405
<b>Total Net Position</b>	<b>\$ 23,360,394</b>	<b>\$ 20,383,685</b>	<b>\$ 18,927,573</b>
Beginning Net Position	\$ 20,383,685	\$ 18,927,573	\$ 17,885,515
Increase in Net Position	2,976,709	1,456,112	1,042,058
Percentage of Increase in Net Position	14.60%	7.69%	5.83%

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
DECEMBER 31, 2021**

**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*

	<b>2021</b>	2020	2019
Operating Revenues	\$ <b>4,117,956</b>	\$ 3,458,208	\$ 3,131,270
Non-Operating Income	<b>347,663</b>	326,328	345,799
Contributions from Developers/Others	<b>2,071,546</b>	933,606	831,839
<b>Total Revenue</b>	<b>6,537,165</b>	4,718,142	4,308,908
Cost of Sales	<b>(702,857)</b>	(681,037)	(676,238)
Operating Expenses	<b>(2,630,731)</b>	(2,353,728)	(2,156,062)
Non-Operating Expense	<b>(226,868)</b>	(227,265)	(434,550)
<b>Total Expenses</b>	<b>(3,560,456)</b>	(3,262,030)	(3,266,850)
<b>Change in Net Position</b>	<b>\$ 2,976,709</b>	\$ 1,456,112	\$ 1,042,058
<b>Net Position</b>	<b>\$ 23,360,394</b>	\$ 20,383,685	\$ 18,927,573

In 2021, operating revenue increased by 19.08 percent while expenditures increased by 9.85 percent. Factors contributing to these results included:

- The 3 percent increase in the minimum water charge and the 3 percent per 1,000 gallon charge with a 19 percent minimum increase on sewer, and a 10 percent increase in the sewer per 1,000 gallon charge which went into effect January 1, 2021 contributed to the increase in operating revenue and higher volume of water sales due to a dry year.
- 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, 2021**

**CAPITAL ASSET ADMINISTRATION**

By the end of 2021, the District had invested \$37,659,150 in a broad range of capital assets, including, land, buildings, and various machinery and equipment (see table below).

	<b>Balance</b> <b>December 31, 2021</b>	Balance December 31, 2020	Balance December 31, 2019
<i>Capital Assets being Depreciated</i>			
Buildings	\$ 923,177	\$ 844,313	\$ 844,313
Water and Sewer Systems	33,999,139	31,339,406	30,116,103
Office Furniture	3,237	3,237	3,237
Equipment and Vehicles	429,482	400,609	400,609
	<b>35,355,035</b>	32,587,565	31,364,262
<i>Less Accumulated Depreciation</i>	<b>11,400,205</b>	10,918,777	10,550,135
<b>Net Capital Assets being Depreciated</b>	<b>\$ 23,954,830</b>	<b>\$ 21,668,788</b>	<b>\$ 20,814,127</b>
<i>Capital Assets not being Depreciated</i>			
Land	\$ 1,060,942	\$ 813,120	\$ 543,457
Water Rights	1,243,173	1,243,173	1,243,173
Construction in Progress	-	-	-
<b>Total Capital Assets not being Depreciated</b>	<b>\$ 2,304,115</b>	<b>\$ 2,056,293</b>	<b>\$ 1,786,630</b>

The District's fiscal year 2021 capital projects include:

- Orchard Lift St. and Orchard Meadows Tract L
- Hillsvie Phase 2
- Murphy Ranch and Phase 8
- Diamond Phase 3
- Crane and Carlin, and Carlin Extension
- 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, 2019	\$ 7,592,482
Principal Repayments	(272,443)
<b>Balance -- December 31, 2020</b>	<b>7,320,039</b>
Principal Repayments	(272,218)
<b>Balance -- December 31, 2021</b>	<b>\$ 7,047,821</b>

## **RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONCLUDED) DECEMBER 31, 2021**

#### **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 \$289,468 that will be collected in calendar year 2022. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes by \$16,461. This year's property tax levy requests increased approximately 6.8 percent from 2021.

The District's adopted expense budget for the next fiscal year will increase 12.4 percent to \$3,831,461. It is anticipated that expenses should be higher than 2021. Major increases are sewer treatment from the City of Rapid (60 percent increase) 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 2022 budget, the District expects that the results for 2022 will remain constant with the established rate increases for water and sewer which went into effect in January 2022. There was an increase in the monthly minimum charge for water and the monthly minimum charge for sewer effective January 1, 2022. 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 \$28,692 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, 2021 AND 2020**

<b>ASSETS (Note 7)</b>	<b>2021</b>	<b>2020</b>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 2,623,039	\$ 2,590,778
Investments (Note 2)	696,489	693,714
Accounts Receivable	266,910	126,930
Unbilled Accounts Receivable	167,656	167,656
Prepaid Expenses	92,200	75,545
<b>Total Current Assets</b>	<b>3,846,294</b>	<b>3,654,623</b>
<b>Capital Assets being Depreciated (Note 6)</b>		
Buildings	923,177	844,313
Water and Sewer Systems	33,999,139	31,339,406
Office Furniture	3,237	3,237
Equipment and Vehicles	429,482	400,609
	<b>35,355,035</b>	<b>32,587,565</b>
Less Accumulated Depreciation	<b>11,400,205</b>	<b>10,918,777</b>
	<b>23,954,830</b>	<b>21,668,788</b>
<b>Capital Assets not being Depreciated (Note 6)</b>		
Land	1,060,942	813,120
Water Rights	1,243,173	1,243,173
	<b>2,304,115</b>	<b>2,056,293</b>
<b>Other Assets</b>		
Restricted Cash and Cash Equivalents (Note 7)	405,150	405,150
Utility Investment	109,825	115,338
	<b>514,975</b>	<b>520,488</b>
<b>TOTAL ASSETS</b>	<b>\$ 30,620,214</b>	<b>\$ 27,900,192</b>

The accompanying notes are an integral part of these statements.

<b>LIABILITIES AND NET POSITION</b>	<b>2021</b>	<b>2020</b>
<b>Current Liabilities</b>		
Current Portion of Long-Term Debt (Note 7)	\$ 282,076	\$ 272,177
Accrued Expenses	109,891	103,432
Meter Deposits	102,108	93,036
<b>Total Current Liabilities</b>	<b>494,075</b>	<b>468,645</b>
<b>Long-Term Liabilities (Note 7)</b>		
Long-Term Debt	7,047,821	7,320,039
Less: Current Portion Shown Above	282,076	272,177
	<b>6,765,745</b>	<b>7,047,862</b>
<b>Net Position</b>		
Net Investment in Capital Assets	19,211,124	16,405,042
Restricted for Debt Service (Note 7)	405,150	405,150
Unrestricted	3,744,120	3,573,493
<b>Total Net Position</b>	<b>23,360,394</b>	<b>20,383,685</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 30,620,214</b>	<b>\$ 27,900,192</b>

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>Revenues</b>		
Water Charges (Note 7)	\$ 2,042,820	\$ 1,871,652
Sewer Charges	1,645,370	1,400,330
Late Fees	100,337	54,540
Charges for Services and Fees (Net of Cost of Sales of \$-0- December 31, 2021 and 2020)	237,279	104,186
Permits	92,150	27,500
<b>Total Revenues</b>	<b>4,117,956</b>	<b>3,458,208</b>
<b>Costs of Sales</b>		
Water Purchases	15,727	14,230
Sewer Treatment Expense	687,130	666,807
<b>Total Cost of Sales</b>	<b>702,857</b>	<b>681,037</b>
<b>Gross Margin</b>	<b>3,415,099</b>	<b>2,777,171</b>
<b>Operating Expenses</b>		
Operating	1,363,797	1,150,433
Personnel (Note 5)	785,506	726,101
Depreciation	481,428	477,194
<b>Total Operating Expenses</b>	<b>2,630,731</b>	<b>2,353,728</b>
<b>Operating Income</b>	<b>784,368</b>	<b>423,443</b>
<b>Non-Operating Income (Expense)</b>		
Donated Systems	2,071,546	933,606
Property Taxes (Note 4)	288,226	268,298
Lease Income	29,542	33,601
Miscellaneous Income	14,858	14,876
Loss on Disposal of Capital Assets	-	(14,692)
Investment Income	15,037	24,245
Interest Expense	(226,868)	(227,265)
<b>Total Non-Operating Income (Expense)</b>	<b>2,192,341</b>	<b>1,032,669</b>
<b>Change in Net Position</b>	<b>2,976,709</b>	<b>1,456,112</b>
<b>Net Position -- Beginning of Year</b>	<b>20,383,685</b>	<b>18,927,573</b>
<b>Net Position -- End of Year</b>	<b>\$ 23,360,394</b>	<b>\$ 20,383,685</b>

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, 2021 AND 2020**

	2021	2020
<b>Cash Flows From Operating Activities</b>		
Receipts from Customers	\$ 3,987,048	\$ 3,464,805
Payments to Suppliers	(2,083,309)	(1,843,084)
Payments to Employees	(779,047)	(721,169)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>1,124,692</b>	<b>900,552</b>
<b>Cash Flows From Noncapital Financing Activities</b>		
Miscellaneous Income	14,858	14,876
Lease Income	29,542	33,601
Property Taxes	288,226	268,298
<b>Net Cash Flows Provided by Noncapital Financing Activities</b>	<b>332,626</b>	<b>316,775</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Repayments of Long-Term Debt	(272,218)	(272,443)
Purchases of Capital Assets	(943,746)	(682,604)
Interest Paid	(226,868)	(227,265)
<b>Net Cash Flows Used in Capital and Related Financing Activities</b>	<b>(1,442,832)</b>	<b>(1,182,312)</b>
<b>Cash Flows From Investing Activities</b>		
Interest Received	15,037	24,245
Net Purchases of Investments	(2,775)	(10,905)
Change in Utility Investment	5,513	(5,868)
<b>Net Cash Flows Provided by Investing Activities</b>	<b>17,775</b>	<b>7,472</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>32,261</b>	<b>42,487</b>
<b>Cash and Cash Equivalents and Restricted Cash -- Beginning of Year</b>	<b>2,995,928</b>	<b>2,953,441</b>
<b>Cash and Cash Equivalents and Restricted Cash -- End of Year</b>	<b>\$ 3,028,189</b>	<b>\$ 2,995,928</b>
<b>Reconciliation of Operating Income to Net Cash Flows</b>		
<b>Provided by Operating Activities:</b>		
Operating Income	\$ 784,368	\$ 423,443
<i>Adjustments to Reconcile Operating Income to Net Cash Flows</i>		
<i>Provided by Operating Activities:</i>		
Depreciation	481,428	477,194
<i>Changes in Assets and Liabilities:</i>		
Accounts Receivable	(139,980)	2,127
Prepaid Expenses	(16,655)	(11,614)
Accrued Expenses	6,459	4,932
Meter Deposits	9,072	4,470
<b>Net Cash Flows Provided by Operating Activities</b>	<b>\$ 1,124,692</b>	<b>\$ 900,552</b>
<b>Supplemental Disclosures of Noncash Activities</b>		
Capital Assets Donated	\$ 2,071,546	\$ 933,606
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, 2021 AND 2020**

#### **(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, 2021, 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, 2021 AND 2020**

#### **(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, 2021 AND 2020**

#### **(2) Deposits and Investments (Continued)**

The District's cash and cash equivalents consist of checking and savings accounts, nonnegotiable certificates of deposit, and money market accounts. The District's investments consist of nonnegotiable certificates of deposit. 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.

#### **(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 2020, have not been recorded as a receivable in the accompanying Balance Sheets as the use of such has been budgeted for the 2021 fiscal year.

#### **(5) Retirement Plan**

All employees, working more than 20 hours per week during the year, 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 at <http://www.sdrs.sd.gov/publications/> or by writing to the 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, 2021 AND 2020

#### (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, 2021, 2020, and 2019, equal to the required contributions each year, were **\$32,361**, \$30,124, and \$29,089, 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, 2021, SDRS is 105.52 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, 2021 AND 2020**

**(5) Retirement Plan (Concluded)**

The District's share of the net pension asset was .0228 percent and .0227 percent at June 30, 2021 and 2020, respectively. Based on the overall insignificant impact to the financial statements, the District has elected not to record the pension activity. For the year ended December 31, 2021, if the District had recorded the pension activity, a net pension asset totaling approximately **\$175,000** would have been recorded along with deferred inflows of resources totaling approximately **\$114,000**. 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. In addition, pension expense would have decreased approximately **\$46,000** and increased approximately \$47,000 for the years ending December 31, 2021 and 2020, respectively.

**(6) Changes in Capital Assets**

Changes in capital assets were as follows during the years ended December 31, 2021 and 2020:

	Balance December 31, 2020	Additions	Transfers/ Dispositions	Balance December 31, 2021
<i>Capital Assets being Depreciated</i>				
Buildings	\$ 844,313	\$ -	\$ 78,864	\$ 923,177
Water and Sewer Systems	31,339,406	2,071,546	588,187	33,999,139
Office Furniture	3,237	-	-	3,237
Equipment and Vehicles	400,609	28,873	-	429,482
	32,587,565	2,100,419	667,051	35,355,035
<i>Less Accumulated Depreciation</i>	10,918,777	481,428	-	11,400,205
<b>Net Capital Assets being Depreciated</b>	<b>\$ 21,668,788</b>	<b>\$ 1,618,991</b>	<b>\$ 667,051</b>	<b>\$ 23,954,830</b>

<i>Capital Assets not being Depreciated</i>				
Land	\$ 813,120	\$ 247,822	\$ -	\$ 1,060,942
Construction in Progress	-	815,474	(815,474)	-
Water Rights	1,243,173	-	-	1,243,173
<b>Net Capital Assets not being Depreciated</b>	<b>\$ 2,056,293</b>	<b>\$ 1,063,296</b>	<b>\$ (815,474)</b>	<b>\$ 2,304,115</b>

	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
<b>Net Capital Assets being Depreciated</b>	<b>\$ 20,814,127</b>	<b>\$ 594,441</b>	<b>\$ 260,220</b>	<b>\$ 21,668,788</b>

<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
<b>Net Capital Assets not being Depreciated</b>	<b>\$ 1,786,630</b>	<b>\$ 1,030,831</b>	<b>\$ (761,168)</b>	<b>\$ 2,056,293</b>

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021 AND 2020**

**(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, 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
Principal Repayments	(192,259)	(61,710)	(18,249)	(272,218)
Balance - December 31, 2021	<b>\$ 6,379,216</b>	<b>\$ 367,466</b>	<b>\$ 301,139</b>	<b>\$ 7,047,821</b>

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

	2021	2020
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.	\$ 3,785,000	\$ 3,920,000
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.	2,409,762	2,457,797
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.	367,466	429,177
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.	301,139	319,388
Unamortized Revenue bond premium	184,454	193,677
	<b>7,047,821</b>	7,320,039
Less Current Portion	282,076	272,177
	<b>\$ 6,765,745</b>	\$ 7,047,862

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021 AND 2020**

**(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
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	227,095	179,083	75,341	2,413	21,191	6,436	323,627	187,932
2027-2031	1,235,081	786,558	19,147	129	115,998	22,138	1,370,226	808,825
2032-2036	1,436,643	581,996	-	-	85,245	52,891	1,521,888	634,887
2037-2041	1,687,299	337,746	-	-	-	-	1,687,299	337,746
2042-2046	568,235	128,665	-	-	-	-	568,235	128,665
2047-2049	387,201	309,698	-	-	-	-	387,201	309,698
<b>Total</b>	<b>\$ 6,379,216</b>	<b>\$ 3,105,796</b>	<b>\$ 367,466</b>	<b>\$ 40,578</b>	<b>\$ 301,139</b>	<b>\$ 113,268</b>	<b>\$ 7,047,821</b>	<b>\$ 3,259,642</b>

A debt reserve is maintained in accordance with debt covenants for **\$407,800** and \$405,760 at December 31, 2021 and 2020, which exceeds the current year minimum requirement of **\$405,150** for both years, 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.

	Water
Current Year Principal and Interest	499,086
Pledged Revenue	2,042,820

**(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, 2021 AND 2020**

**(9) Segment Information**

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

*Balance Sheets at December 31:*

	Water		Sewer		Total	
	2021	2020	2021	2020	2021	2020
<b>Assets</b>						
Current Assets						
Cash and Cash						
Equivalents	\$ 1,268,842	\$ 1,145,367	\$ 1,354,197	\$ 1,445,411	\$ 2,623,039	\$ 2,590,778
Investments	-	-	696,489	693,714	696,489	693,714
Other Current Assets	279,183	197,077	247,583	173,054	526,766	370,131
Net Capital Assets,						
Depreciated	17,035,487	15,983,925	6,919,343	5,684,863	23,954,830	21,668,788
Net Capital Assets, Not						
Depreciated	1,773,644	1,649,733	530,471	406,560	2,304,115	2,056,293
Other Assets	54,912	57,669	54,913	57,669	109,825	115,338
Restricted Cash and Cash						
Equivalents	405,150	405,150	-	-	405,150	405,150
<b>Total Assets</b>	<b>\$ 20,817,218</b>	<b>\$ 19,438,921</b>	<b>\$ 9,802,996</b>	<b>\$ 8,461,271</b>	<b>\$ 30,620,214</b>	<b>\$ 27,900,192</b>
<b>Liabilities</b>						
Current Liabilities						
	\$ 461,107	\$ 437,615	\$ 32,968	\$ 31,030	\$ 494,075	\$ 468,645
Noncurrent Liabilities						
	6,765,745	7,047,862	-	-	6,765,745	7,047,862
<b>Total Liabilities</b>	<b>7,226,852</b>	<b>7,485,477</b>	<b>32,968</b>	<b>31,030</b>	<b>7,259,820</b>	<b>7,516,507</b>
<b>Net Position</b>						
Net Investment in Capital						
Assets	11,761,311	10,313,619	7,449,813	6,091,423	19,211,124	16,405,042
Restricted for Debt Service	405,150	405,150	-	-	405,150	405,150
Unrestricted	1,423,905	1,234,675	2,320,215	2,338,818	3,744,120	3,573,493
<b>Total Net Position</b>	<b>13,590,366</b>	<b>11,953,444</b>	<b>9,770,028</b>	<b>8,430,241</b>	<b>23,360,394</b>	<b>20,383,685</b>
<b>Total Liabilities and</b>						
<b>Net Position</b>	<b>\$ 20,817,218</b>	<b>\$ 19,438,921</b>	<b>\$ 9,802,996</b>	<b>\$ 8,461,271</b>	<b>\$ 30,620,214</b>	<b>\$ 27,900,192</b>

## RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2021 AND 2020

## (9) Segment Information (Continued)

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

	Water		Sewer		Total	
	2021	2020	2021	2020	2021	2020
<b>Revenues</b>						
User Charges	\$ 2,042,820	\$ 1,871,652	\$ 1,645,370	\$ 1,400,330	\$ 3,688,190	\$ 3,271,982
Late Fees	50,169	27,270	50,168	27,270	100,337	54,540
Charges for Services and Fees, Net	214,331	94,073	22,948	10,113	237,279	104,186
Permits	-	-	92,150	27,500	92,150	27,500
<b>Total Revenues</b>	<b>2,307,320</b>	<b>1,992,995</b>	<b>1,810,636</b>	<b>1,465,213</b>	<b>4,117,956</b>	<b>3,458,208</b>
<b>Costs of Sales</b>	<b>15,727</b>	<b>14,230</b>	<b>687,130</b>	<b>666,807</b>	<b>702,857</b>	<b>681,037</b>
<b>Gross Margin</b>	<b>2,291,593</b>	<b>1,978,765</b>	<b>1,123,506</b>	<b>798,406</b>	<b>3,415,099</b>	<b>2,777,171</b>
Depreciation Expense	358,195	355,815	123,233	121,379	481,428	477,194
<b>Other Operating Expenses</b>						
Salaries and Wages	324,812	302,974	216,541	201,983	541,353	504,957
Repairs	224,707	133,088	4,698	4,370	229,405	137,458
Maintenance Supplies	149,846	75,046	64,220	32,163	214,066	107,209
Insurance - Health	102,255	91,550	68,170	61,033	170,425	152,583
Engineering Costs	69,690	10,513	95,209	4,826	164,899	15,339
Utilities and Telephone	128,250	107,324	32,063	45,996	160,313	153,320
Chemical Supplies - Water	146,610	111,169	-	-	146,610	111,169
Office Supplies/Equipment	69,683	51,073	69,683	51,073	139,366	102,146
Meters and Equipment	84,510	35,968	8,003	226,312	92,513	262,280
Taxes - Payroll	24,821	23,062	16,547	15,374	41,368	38,436
Professional Fees	16,688	11,125	16,688	11,125	33,376	22,250
Insurance - Umbrella	23,266	23,713	9,971	10,163	33,237	33,876
Retirement Plan Funding	19,416	18,075	12,944	12,050	32,360	30,125
Contract Agreements	21,461	20,273	9,198	8,689	30,659	28,962
Sewer Main Cleaning	-	-	27,969	26,750	27,969	26,750
Dues, Donations, and Subscriptions	15,517	14,828	6,650	6,355	22,167	21,183
Truck and Equipment Expense	15,119	8,768	6,479	3,758	21,598	12,526
Trustee Fees	10,225	9,050	10,225	9,050	20,450	18,100
Miscellaneous	6,054	31,870	6,053	31,870	12,107	63,740
Public Relations	3,081	3,195	3,081	3,195	6,162	6,390
Conference and Travel	4,036	6,288	1,730	2,695	5,766	8,983
Trustee Travel	1,196	2,477	1,196	2,477	2,392	4,954
Advertising	371	163	371	163	742	326
Master Plan	-	6,736	-	6,736	-	13,472
<b>Total Other Operating Expenses</b>	<b>1,461,614</b>	<b>1,098,328</b>	<b>687,689</b>	<b>778,206</b>	<b>2,149,303</b>	<b>1,876,534</b>
<b>Operating Income (Expense)</b>	<b>471,784</b>	<b>524,622</b>	<b>312,584</b>	<b>(101,179)</b>	<b>784,368</b>	<b>423,443</b>

**RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2021 AND 2020**

**(9) Segment Information (Concluded)**

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

	Water		Sewer		Total	
	2021	2020	2021	2020	2021	2020
<b>Non-Operating Income (Expense)</b>						
Donated Systems	<b>767,702</b>	643,961	<b>1,303,844</b>	289,645	<b>2,071,546</b>	933,606
Property Taxes	-	-	<b>288,226</b>	268,298	<b>288,226</b>	268,298
Lease Income	<b>29,542</b>	33,601	-	-	<b>29,542</b>	33,601
Miscellaneous Income	<b>7,429</b>	7,438	<b>7,429</b>	7,438	<b>14,858</b>	14,876
Loss on Disposals of Capital Assets	-	(7,346)	-	(7,346)	-	(14,692)
Interest Expense	<b>(226,868)</b>	(227,265)	-	-	<b>(226,868)</b>	(227,265)
<b>Total Non-Operating Income</b>	<b>577,805</b>	450,389	<b>1,599,499</b>	558,035	<b>2,177,304</b>	1,008,424
<b>Income before Investment Income</b>	<b>1,049,589</b>	975,011	<b>1,912,083</b>	456,856	<b>2,961,672</b>	1,431,867
<b>Investment Income</b>	<b>4,272</b>	12,619	<b>10,765</b>	11,626	<b>15,037</b>	24,245
<b>Income Before Transfers</b>	<b>1,053,861</b>	987,630	<b>1,922,848</b>	468,482	<b>2,976,709</b>	1,456,112
<b>Transfers</b>	<b>583,061</b>	235,757	<b>(583,061)</b>	(235,757)	-	-
<b>Change in Net Position</b>	<b>1,636,922</b>	1,223,387	<b>1,339,787</b>	232,725	<b>2,976,709</b>	1,456,112
Beginning Net Position	<b>11,953,444</b>	10,730,057	<b>8,430,241</b>	8,197,516	<b>20,383,685</b>	18,927,573
<b>Ending Net Position</b>	<b>\$ 13,590,366</b>	\$ 11,953,444	<b>\$ 9,770,028</b>	\$ 8,430,241	<b>\$ 23,360,394</b>	\$ 20,383,685

*Statements of Cash Flows for the years ended December 31:*

	Water		Sewer		Total	
	2021	2020	2021	2020	2021	2020
Net Cash Flows From Operating Activities	\$ <b>761,467</b>	\$ 882,066	\$ <b>363,225</b>	\$ 18,486	\$ <b>1,124,692</b>	\$ 900,552
Net Cash Flows From Noncapital Financing Activities	<b>620,032</b>	276,796	<b>(287,406)</b>	39,979	<b>332,626</b>	316,775
Net Cash Flows From Capital and Related Financing Activities	<b>(1,265,052)</b>	(1,040,135)	<b>(177,780)</b>	(142,177)	<b>(1,442,832)</b>	(1,182,312)
Net Cash Flows From Investing Activities	<b>7,028</b>	9,685	<b>10,747</b>	(2,213)	<b>17,775</b>	7,472
Net Change in Cash and Cash Equivalents	<b>123,475</b>	128,412	<b>(91,214)</b>	(85,925)	<b>32,261</b>	42,487
Cash and Cash Equivalents -- Beginning	<b>1,550,517</b>	1,422,105	<b>1,445,411</b>	1,531,336	<b>2,995,928</b>	2,953,441
<b>Cash and Cash Equivalents -- Ending</b>	<b>\$ 1,673,992</b>	\$ 1,550,517	<b>\$ 1,354,197</b>	\$ 1,445,411	<b>\$ 3,028,189</b>	\$ 2,995,928

## 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, 2021, 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 9, 2022.

**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 #2021-001 and #2021-002 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**

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying Schedule of Findings. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.



Board of Trustees

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**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 9, 2022

## **RAPID VALLEY SANITARY DISTRICT/WATER SERVICE**

### **SCHEDULE OF FINDINGS DECEMBER 31, 2021**

#### **CURRENT YEAR AUDIT FINDINGS**

##### **Material Weaknesses in Internal Control**

###### 2021-001 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, accrued vacation, and capital credits balances. Total adjustments resulted in a \$1,680,394 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.

###### 2021-002 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, 2021**

Rapid Valley Sanitary District/Water Service respectfully submits the following summary schedule of prior audit findings from the December 31, 2020 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2020 Schedule of Findings.

### Finding No. 2020-001: 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.

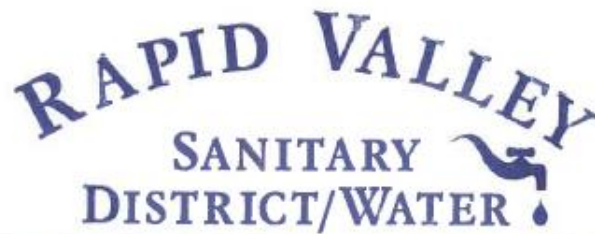
*Reasons for Recurrence and Corrective Action Plan:* District management and the board of directors prefers to review financial activity throughout the year on a cash basis. Management and the board are comfortable with review of the accrual basis adjustments at the end of each year. Therefore, the finding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

### Finding No. 2020-002: 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 2021, see Corrective Action Plan.



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**CORRECTIVE ACTION PLAN  
DECEMBER 31, 2021**

Rapid Valley Sanitary District/Water Service respectfully submits the following corrective action plan regarding findings from the December 31, 2021 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

**2021-001 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.

**2021-002 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.