

CITY OF HOVEN  
HOVEN, SOUTH DAKOTA  
FINANCIAL REPORT  
FOR THE TWO YEARS ENDING DECEMBER 31, 2019  
WITH INDEPENDENT AUDITOR'S REPORTS

**INDEPENDENT AUDIT SERVICES, P.C.**

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Benjamin Elliott, CPA  
P.O. Box 262  
Madison, South Dakota 57042

CITY OF HOVEN  
HOVEN, SOUTH DAKOTA  
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FOR THE TWO YEARS ENDING DECEMBER 31, 2019

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NOTE: All figures shown in this financial report are in U.S. dollars.  
For space considerations, the "\$" symbol is not used.

# INDEPENDENT AUDIT SERVICES, PC

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Governing Board  
City of Hoven  
Hoven, South Dakota

## INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying modified cash basis of accounting financial statements of governmental activities, business-type activities, and each major fund of the City of Hoven (City), Potter County, South Dakota, as of December 31, 2019 and for the two years then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in note 1.c; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### *Auditor's Responsibility*

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 judgement, including the assessment of the risk 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 City'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 City's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unmodified audit opinions on governmental activities, business-type activities, and each major fund.

### *Unmodified Opinions*

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of governmental activities, business-type activities, and each major fund of the City of Hoven, South Dakota, as of December 31, 2019, and the respective changes in its financial position and, where applicable, cash flows thereof for the two years then ended, in accordance with the modified cash basis of accounting described in note 1.c to these financial statements.

*Emphasis of Matter - Modified Cash Basis of Accounting*

I draw attention to note 1.c of these financial statements, which describes the basis of accounting. These financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

*Other Matters - Supplementary Information (No Opinion)*

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of Hoven's financial statements.

The budgetary comparison schedules (page 29 to 33) and pension schedules (page 34 and 35) listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the modified cash basis financial statements.

I have applied certain limited procedures to this 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on this information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

*Other Matters - Supplementary Information (Opinion)*

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of Hoven's financial statements.

The schedule of changes in long-term debt (page 27 and 28) is presented for the purpose of additional analysis and is not a required part of the modified cash basis of accounting financial statements.

The schedule of changes in long-term debt is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the modified cash basis of accounting financial statements. The information has been subject to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

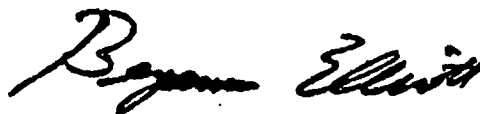
In my opinion, the schedule of changes in long-term debt is fairly stated, in all material respects, in relation to the modified cash basis of accounting financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report (page 36) dated March 1, 2021 on my tests of City of Hoven's compliance with certain provisions of laws, regulations, and contracts, and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting.

Independent Audit Services, PC  
Benjamin Elliott, CPA  
Madison, South Dakota

March 1, 2021

A handwritten signature in black ink, reading "Benjamin Elliott". The signature is written in a cursive, flowing style with a large initial "B" and "E".

CITY OF HOVEN

STATEMENT OF NET POSITION  
MODIFIED CASH BASIS  
AS OF DECEMBER 31, 2019

	Primary Government		
	Governmental	Business-	
	Activities	Type	Total
	Activities	Activities	
Assets:			
Cash and equivalents	484,949	245,637	730,586
Certificates of deposits	0	295,396	295,396
	-----	-----	-----
Total assets	484,949	541,033	1,025,982
	=====	=====	=====
Net Position:			
Restricted - debt service		47,796	47,796
Restricted - asset replacement		28,435	28,435
Unrestricted	484,949	464,802	949,751
	-----	-----	-----
Total net position	484,949	541,033	1,025,982
	=====	=====	=====

See accompanying notes.

## CITY OF HOVEN

STATEMENT OF ACTIVITIES  
MODIFIED CASH BASIS  
FOR THE YEAR ENDING DECEMBER 31, 2019

Functions/Programs:	Program Receipts				Net Receipts (Disbursements) and Changes in Net Position		
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Primary government:							
Governmental activities:							
General government	85,752	594			(85,158)		(85,158)
Public safety	25,615				(25,615)		(25,615)
Public works	104,707	330			(104,377)		(104,377)
Health and welfare	79,595	4,509	8,379		(66,707)		(66,707)
Culture and recreation	28,997	8,570			(20,427)		(20,427)
Debt service and cost	71,953				(71,953)		(71,953)
Total governmental activities	396,619	14,003	8,379	0	(374,237)	0	(374,237)
Business-type activities:							
Liquor	310,645	303,400				(7,245)	(7,245)
Water	135,430	140,320				4,890	4,890
Sewer	89,546	90,252				706	706
Airport	33,937	3,411		12,050		(18,476)	(18,476)
Total business-type activities	569,558	537,383	0	12,050	0	(20,125)	(20,125)
Total primary government	966,177	551,386	8,379	12,050	(374,237)	(20,125)	(394,362)
General receipts:							
Taxes:							
Property taxes					146,310		146,310
Sales taxes					175,644		175,644
Amusement tax					132		132
State shared receipts					32,119		32,119
Interest and dividends received					445	4,152	4,597
Donations					28,700		28,700
Miscellaneous receipts					7,198		7,198
Compensation for damaged property					5,683		5,683
Transfers					(17,202)	17,202	0
Total general receipts and transfers					379,029	21,354	400,383
Change in net position					4,792	1,229	6,021
Net position:							
January 1, 2019					480,157	539,804	1,019,961
December 31, 2019					484,949	541,033	1,025,982

See accompanying notes.

## CITY OF HOVEN

STATEMENT OF ACTIVITIES  
MODIFIED CASH BASIS  
FOR THE YEAR ENDING DECEMBER 31, 2018

Functions/Programs:	Program Receipts				Net Receipts (Disbursements) and Changes in Net Position		
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Primary government:							
Governmental activities:							
General government	99,083	135			(98,948)		(98,948)
Public safety	11,435				(11,435)		(11,435)
Public works	96,253	10,790			(85,463)		(85,463)
Health and welfare	130,588	14,645	6,000		(109,943)		(109,943)
Culture and recreation	36,855	14,973			(21,882)		(21,882)
Debt service and cost	35,976				(35,976)		(35,976)
Total governmental activities	410,190	40,543	6,000	0	(363,647)	0	(363,647)
Business-type activities:							
Liquor	216,197	210,864				(5,333)	(5,333)
Water	146,319	145,025				(1,294)	(1,294)
Sewer	86,079	90,302				4,223	4,223
Airport	522,478	2,484		499,619		(20,375)	(20,375)
Total business-type activities	971,073	448,675	0	499,619	0	(22,779)	(22,779)
Total primary government	1,381,263	489,218	6,000	499,619	(363,647)	(22,779)	(386,426)
General receipts:							
Taxes:							
Property taxes					139,956		139,956
Sales taxes					157,610		157,610
Amusement tax					132		132
State shared receipts					31,860		31,860
Interest and dividends received					696	4,152	4,848
Donations					30,750		30,750
Miscellaneous receipts					8,945		8,945
Compensation for damaged property						8,923	8,923
Transfers					(13,628)	13,628	0
Total general receipts and transfers					356,321	26,703	383,024
Change in net position					(7,326)	3,924	(3,402)
Net position:							
January 1, 2018					487,483	535,880	1,023,363
December 31, 2018					480,157	539,804	1,019,961

See accompanying notes.



CITY OF HOVEN

BALANCE SHEET -- MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
AS OF DECEMBER 31, 2019

	General Fund	1st Cent Fund	2nd Cent Fund	Total Governmental Funds
	-----	-----	-----	-----
Assets:				
Cash and cash equivalents	(30,970)	341,295	174,624	484,949
	-----	-----	-----	-----
Total assets	(30,970)	341,295	174,624	484,949
	=====	=====	=====	=====
 Fund Balance (deficit):				
Nonspendable				0
Restricted				0
Committed		341,295	174,624	515,919
Assigned				0
Unassigned	(30,970)			(30,970)
	-----	-----	-----	-----
Total fund balances	(30,970)	341,295	174,624	484,949 *
	=====	=====	=====	=====

\* Total net position on government-wide  
statement of net position.

See accompanying notes.

## CITY OF HOVEN

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND  
BALANCES -- MODIFIED CASH BASIS -- ALL GOVERNMENTAL FUNDS  
FOR THE TWO YEARS ENDING DECEMBER 31, 2019 AND DECEMBER 31, 2018

	General Fund	1st Cent Fund	2nd Cent Fund	2019 Total	General Fund	1st Cent Fund	2nd Cent Fund	2018 Total
Receipts:								
Receipts from local sources:								
Taxes:								
Ad valorem taxes	146,310			146,310	139,956			139,956
General sales and use taxes		87,822	87,822	175,644		78,805	78,805	157,610
Amusement tax	132			132	132			132
Licenses and permits:	594			594	135			135
Intergovernmental receipts:								
State shared receipts:								
Mosquito grant	2,379			2,379				0
Bank franchise tax	1,947			1,947	1,749			1,749
Motor vehicle commercial	542			542	1,372			1,372
Liquor tax reversion	2,646			2,646	2,554			2,554
5% Motor vehicle licenses	7,237			7,237	6,966			6,966
Highway and bridge	19,747			19,747	19,219			19,219
County shared receipts:								
Potter ambulance grant	6,000			6,000	6,000			6,000
Charges for goods and services:								
General government				0				0
Sanitation	330			330	10,790			10,790
Ambulance	4,509			4,509	14,645			14,645
Pool and parks	8,570			8,570	14,973			14,973
Miscellaneous receipts:								
Interest and dividends	125	212	108	445	362	173	161	696
Donations	28,700			28,700	30,750			30,750
Other	7,198			7,198	8,945			8,945
Total receipts	236,966	88,034	87,930	412,930	258,548	78,978	78,966	416,492
Disbursements:								
Current:								
General government:								
Mayor and Council	12,608			12,608	13,320			13,320
Elections				0				0
Financial administration	70,849			70,849	76,046			76,046
Other	2,295			2,295	9,717			9,717
Public safety:								
Police	13,771			13,771				0
Fire	11,844			11,844	11,435			11,435
Public works:								
Highways and streets	102,337			102,337	85,554			85,554
Sanitation	2,370			2,370	10,699			10,699
Health and welfare:								
Ambulance	79,595			79,595	88,654			88,654
Culture and recreation:								
Summer recreation	28,997			28,997	36,855			36,855
Debt service:								
Capital outlay			71,953	71,953			35,976	35,976
Total disbursements	324,666	0	71,953	396,619	374,214	0	35,976	410,190
Excess of receipts over (under) disbursements	(87,700)	88,034	15,977	16,311	(115,666)	78,978	42,990	6,302
Other financing sources (uses):								
Compensation for damaged propert	5,683			5,683				0
Transfer in (out)	83,142	(18,452)	(81,892)	(17,202)	78,449	(39,825)	(52,252)	(13,628)
Net change in fund balance	1,125	69,582	(65,915)	4,792 *	(37,217)	39,153	(9,262)	(7,326)
Fund balance (deficit):								
January 1, 2018					5,122	232,560	249,801	487,483
December 31, 2018	(32,095)	271,713	240,539	480,157	(32,095)	271,713	240,539	480,157
December 31, 2019	(30,970)	341,295	174,624	484,949				

\* Total change in net position on government-wide  
statement of activities

See accompanying notes.

CITY OF HOVEN

STATEMENT OF NET POSITION  
ENTERPRISE FUNDS  
MODIFIED CASH BASIS  
AS OF DECEMBER 31, 2019

	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	Total Enterprise Funds
	-----	-----	-----	-----	-----
Assets:					
Cash and cash equivalents	30,549	210,168	148,982	(144,062)	245,637
Certificates of deposit		295,396			295,396
	-----	-----	-----	-----	-----
Total assets	30,549	505,564	148,982	(144,062)	541,033
	=====	=====	=====	=====	=====
Net Position (deficit):					
Restricted - debt service		34,428	13,368		47,796
Restricted - asset replacement			28,435		28,435
Unrestricted	30,549	471,136	107,179	(144,062)	464,802
	-----	-----	-----	-----	-----
Total net position	30,549	505,564	148,982	(144,062)	541,033
	=====	=====	=====	=====	=====

See accompanying notes.

## CITY OF HOVEN

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN NET POSITION -- ENTERPRISE FUNDS  
MODIFIED CASH BASIS  
FOR THE ONE YEAR ENDING DECEMBER 31, 2019

	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	Total Enterprise Funds
Operating receipts:					
Charges for goods and services	288,898	107,725	66,379	281	463,283
Receipts dedicated to debt service		32,595	23,873		56,468
Lottery sales	14,502				14,502
Total operating receipts	303,400	140,320	90,252	281	534,253
Operating disbursements:					
Personal services	95,325	20,270	19,790		135,385
Other current services	56,741	20,530	31,785	10,449	119,505
Cost of goods sold	158,579	60,202			218,781
Capital assets				23,488	23,488
Total operating disbursements	310,645	101,002	51,575	33,937	497,159
Net operating receipts (disbursements)	(7,245)	39,318	38,677	(33,656)	37,094
Nonoperating receipts (disbursements):					
Interest received	2	4,150			4,152
Rents				3,130	3,130
Debt service - principal		(13,161)	(14,980)		(28,141)
Debt service - interest		(21,267)	(22,991)		(44,258)
Total nonoperating receipts (disbursemen	2	(30,278)	(37,971)	3,130	(65,117)
Income (loss) before transfers and grants	(7,243)	9,040	706	(30,526)	(28,023)
Transfer in (out)	(1,250)	18,452			17,202
Federal grant				11,416	11,416
State grant				634	634
Change in net position	(8,493)	27,492	706	(18,476)	1,229
Net position (deficit):					
January 1, 2019	39,042	478,072	148,276	(125,586)	539,804
December 31, 2019	30,549	505,564	148,982	(144,062)	541,033
See accompanying notes.					

## CITY OF HOVEN

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
 IN NET POSITION -- ENTERPRISE FUNDS  
 MODIFIED CASH BASIS  
 FOR THE ONE YEAR ENDING DECEMBER 31, 2018

	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	Total Enterprise Funds
Operating receipts:					
Charges for goods and services	198,203	114,435	65,874	254	378,766
Receipts dedicated to debt service		30,590	24,428		55,018
Lottery sales	12,661				12,661
Total operating receipts	210,864	145,025	90,302	254	446,445
Operating disbursements:					
Personal services	78,052	17,937	17,315		113,304
Other current services	32,089	34,574	30,793	7,465	104,921
Cost of goods sold	106,056	59,380			165,436
Capital assets				515,013	515,013
Total operating disbursements	216,197	111,891	48,108	522,478	898,674
Net operating receipts (disbursements)	(5,333)	33,134	42,194	(522,224)	(452,229)
Nonoperating receipts (disbursements):					
Interest received	2	4,150			4,152
Rents				2,230	2,230
Debt service - principal		(12,805)	(14,515)		(27,320)
Debt service - interest		(21,623)	(23,456)		(45,079)
Total nonoperating receipts (disbursemen	2	(30,278)	(37,971)	2,230	(66,017)
Income (loss) before transfers and grants	(5,331)	2,856	4,223	(519,994)	(518,246)
Compensation for damaged property			8,923		8,923
Transfer in (out)	(1,250)	23,801	(8,923)		13,628
Federal grant				473,323	473,323
State grant				26,296	26,296
Change in net position	(6,581)	26,657	4,223	(20,375)	3,924
Net position (deficit):					
January 1, 2018	45,623	451,415	144,053	(105,211)	535,880
December 31, 2018	39,042	478,072	148,276	(125,586)	539,804
See accompanying notes.					

## CITY OF HOVEN

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
ENTERPRISE FUNDS  
FOR THE ONE YEAR ENDING DECEMBER 31, 2019

	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	Total
Cash flows from:					
Operating activities:					
Receipts from customers	303,400	140,320	90,252	281	534,253
Payments to employees	(95,325)	(20,270)	(19,790)		(135,385)
Payments to suppliers	(215,320)	(80,732)	(31,785)	(10,449)	(338,286)
Payments for capital projects				(23,488)	(23,488)
Net cash provided (used) by operating activities	(7,245)	39,318	38,677	(33,656)	37,094
Noncapital financing activities:					
Transfer in (out)	(1,250)	18,452			17,202
Capital financing activities:					
Federal grant				11,416	11,416
State grant				634	634
Debt service - principal		(13,161)	(14,980)		(28,141)
- interest		(21,267)	(22,991)		(44,258)
Investing activities:					
Interest received	2	4,150			4,152
Rents					3,130
Purchase certificate of deposits		(4,150)		3,130	(4,150)
Net increase (decrease) in cash and cash equivalents	(8,493)	23,342	706	(18,476)	(2,921)
Cash and cash equivalents (deficit):					
January 1, 2019	39,042	186,826	148,276	(125,586)	248,558
December 31, 2019	30,549	210,168	148,982	(144,062)	245,637
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	(7,245)	39,318	38,677	(33,656)	37,094
Net cash provided (used) by operating activities	(7,245)	39,318	38,677	(33,656)	37,094
Noncash investing, capital and financing activities: None					

See accompanying notes.

## CITY OF HOVEN

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
ENTERPRISE FUNDS  
FOR THE ONE YEAR ENDING DECEMBER 31, 2018

	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	Total
Cash flows from:					
Operating activities:					
Receipts from customers	210,864	145,025	90,302	254	446,445
Payments to employees	(78,052)	(17,937)	(17,315)		(113,304)
Payments to suppliers	(138,145)	(93,954)	(30,793)	(7,465)	(270,357)
Payments for capital projects				(515,013)	(515,013)
Net cash provided (used) by operating activities	(5,333)	33,134	42,194	(522,224)	(452,229)
Noncapital financing activities:					
Compensation for damaged property			8,923		8,923
Transfer in (out)	(1,250)	23,801	(8,923)		13,628
Capital financing activities:					
Federal grant				473,323	473,323
State grant				26,296	26,296
Debt service - principal		(12,805)	(14,515)		(27,320)
- interest		(21,623)	(23,456)		(45,079)
Investing activities:					
Interest received	2	4,150			4,152
Rents					2,230
Purchase certificate of deposits		(4,150)		2,230	(4,150)
Net increase (decrease) in cash and cash equivalents	(6,581)	22,507	4,223	(20,375)	(226)
Cash and cash equivalents (deficit):					
January 1, 2018	45,623	164,319	144,053	(105,211)	248,784
December 31, 2018	39,042	186,826	148,276	(125,586)	248,558
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	(5,333)	33,134	42,194	(522,224)	(452,229)
Net cash provided (used) by operating activities	(5,333)	33,134	42,194	(522,224)	(452,229)
Noncash investing, capital and financing activities: None					

See accompanying notes.

CITY OF HOVEN  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hoven uses a modified cash basis of accounting, which does not conform to generally accepted accounting principles applicable to government entities in the United States of America. See note 1c.

a. Reporting Entity:

The funds included in this report are controlled by or dependent upon the City of Hoven's (City) governing board. At December 31, 2019 City officials are:

Mayor:	Finance Officer:
Norman Stethem	Wendy Rausch
Governing Board:	Attorney:
Robert Rausch, President	Austin Hoffman
Dan Glodt	
Jerry Hartung	
Mike Hobert	
Terri Ladwig	
Sam McCloud	

The City's financial reporting entity is composed of the following:

Financial Reporting Entity:  
Primary Government: - The City of Hoven  
Component Units: - None

To determine the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The reporting entity of the City of Hoven consists of (1) the primary government, which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; (2) those organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the City (the primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City unless that organization can, without the approval of the City: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

Based upon the application of these criteria, the City of Hoven does not have any component units.

b. Basis of Presentation:

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Statement of Net Position and the Statement of Activities display information about the reporting entity (City of Hoven) as a whole. These statements include all funds of the reporting entity except fiduciary funds (if any). These



statements distinguish between the governmental and business-type activities and discretely presented component units (if any). Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units (if any) are legally separate organizations that meet certain criteria, as described in note 1a above, and may be classified as either governmental or business-type activities.

The Statement of Net Position reports all cash resources. Net position is displayed in two components, restricted (if any) and unrestricted.

The Statement of Activities presents a comparison between direct disbursements and program receipts for each function of the City's governmental activities and for each segment of business-type activities of the City. Direct disbursements are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program receipts include (a) charges paid by recipients of goods and services offered by the program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts that are not classified as program receipts, including all taxes and interest received, are presented as general receipts.

#### FUND FINANCIAL STATEMENTS:

The fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its cash, net position, receipts, and disbursements. Funds are organized into three major categories: governmental, enterprise, and fiduciary (if any). An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

- a. Total cash, receipts, or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (cash, receipts or disbursements) for all funds of that category (that is, total governmental or total enterprise), and
- b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
- c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

The City has elected to classify all of its funds as major funds.

The funds of the City are described below within their respective fund types:

#### *Governmental Funds*

General Fund - A fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the City except those required to be accounted for in another fund. The general fund is always a major fund.

Special Revenue Fund Types - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The City has the following special revenue fund:

1st Cent Fund - A fund established by ordinance to fund street water, and sewer improvement activities. This fund is a major fund.

2nd Cent Fund - A fund allowed by SDCL 10-52-2 to support ambulance and hospital activities. This fund is a major fund.

### *Enterprise Funds:*

Enterprise Fund Types - enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The City has the following enterprise funds:

Liquor Fund - A fund established by SDCL 35-3-21 to provide on-sale and off-sale liquor services. This fund also accounts for video lottery machine activity. This fund is a major fund.

Water Fund - A fund established by SDCL 9-47-1 to provide water to customers within the City of Hoven. This fund is a major fund.

Sewer Fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the City of Hoven. This fund is a major fund.

Airport Fund - A fund established by SDCL 50-7-2 to provide airport and hanger rental services and the sale of fuel. This fund is a major fund.

### *Fiduciary Funds:*

The City of Hoven does not have any fiduciary funds.

### c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses (disbursements) are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The City's basis of accounting is the modified cash basis of accounting, which is a basis of accounting other than US-GAAP. Under US-GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis of accounting, transactions are recorded when cash is received or disbursed.

#### *Measurement Focus:*

### *Government-wide Financial Statements:*

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as described below.

### *Fund Financial Statements:*

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used, applied within the limitations of the modified cash basis of accounting.

#### *Basis of Accounting:*

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipts and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements are certificates of deposit (if any) whose maturity when purchased is more than 90 days.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City applied US-GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for enterprise funds and fiduciary funds (if any) would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

d. Cash and Cash Equivalents:

In the enterprise funds' statement of cash flows, the City considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents. Those portions of the enterprise funds' cash resources that are included in the City's internal cash management pool are considered to be cash and cash equivalents, regardless of the form in which they are held, because use of the pool provides each enterprise fund with access to its cash resources essentially on demand.

For the two years ending December 31, 2019, all enterprise fund deposits and investments are considered to be cash and cash equivalent for purposes of the statement of cash flow except for certificates of deposit totaling \$295,396 held for the water fund because their maturity when purchased was longer than three months and they are not part of a pool.

e. Program Receipts and General Receipts:

*Program Receipts*

In the government-wide statement of activities, reported program receipts derive directly from the program itself or from parties other than the City's taxpayers or citizenry as a whole. Program receipts are classified into three categories as follows:

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organization, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

*General Receipts*

General receipts include all receipts not specifically earmarked for a specific program. General receipts include all taxes, interest received, unrestricted receipts from federal, state, or county governments, and miscellaneous receipts not related to a program. These receipts are not restricted and can be used for the regular operation of the City.

f. Enterprise Funds Receipt and Disbursement Classifications:

In both the government-wide statements and fund financial statements, enterprise fund receipts and disbursements are classified in a manner consistent with how they are classified in the statement of cash flows. Accordingly, transactions in which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating receipts and disbursements.

In both the government-wide statements and fund financial statements, enterprise fund operating receipts, such as charges for water and sewer services, result from exchange transactions associated with the principal activity of the fund.

Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating receipts, if any, such as grants, investment earnings, and transfers, result from non-exchange transactions.

g. Equity Classifications:

*Government-wide Statements*

Equity is classified as net cash assets and is displayed in two components:

1. Restricted Net Position - Consists of net position with constraints placed on its use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position - All other net position that does not meet the definition of "restricted net position".

*Fund Financial Statements*

Governmental fund equity is classified as fund balance, and may distinguish between "reserved" and "unreserved" components. Enterprise fund equity is classified the same as in the government-wide financial statements.

h. Application of Net Position:

It is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when a disbursement is incurred which can be charged to either restricted or unrestricted net position.

i. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements initially made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reduction of disbursement in the fund that is reimbursed. All other interfund transactions are reported as transfers.

j. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

- \* Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- \* Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.
- \* Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed (or modified or rescinded) by the government through formal action at the highest level of decision making authority and does not lapse at year-end.

- \* Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Council or the Finance Officer.
- \* Unassigned - includes positive fund balance within the general fund which has not been classified within the above categories and negative fund balances in other governmental funds.

The City of Hoven fund balance classifications are made up of:

<u>Fund Balance</u> <u>Classifications</u>	<u>Account</u> <u>or Fund</u>	<u>Authority</u> <u>or Action</u>	<u>Amount</u>
Nonspendable	None		0
Restricted	None		0
Committed	1st Cent fund	Ordinance	341,295
Committed	2nd Cent fund	Ordinance	174,624
Assigned	None		0
Unassigned	General		(30,970)
			-----
			484,949

The City uses "restricted" and "committed" amounts first when restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the City would first use "committed", then "assigned", and lastly "unassigned" amounts of unrestricted fund balance when expenditures are made.

The City's special revenue funds are funded from sales tax receipts and grants. See page 8.

## 2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund. The following are overdrafts of departmental disbursement compared to appropriations for the general fund and all special revenue funds that have a budget:

2019: General fund - General government/other	2,295
2nd Cent fund - Hospital bond payment (made two payments instead of one)	26,953
2018: General fund - General government/financial administration	3,646
- General government/other	9,717
- Public works/sanitation	2,699
- Health and welfare/ambulance	35,588

The City expects to make use of contingency transfers and supplemental appropriations to eliminate overdrafts in the future.

## 3. DEPOSITS AND INVESTMENTS

Deposits - The City follows the practice of aggregating deposits of its various funds to maximize cash management efficiency and returns. The City's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2. 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 FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is the add-on type.

Actual bank balances at December 31, 2019 were as follows: Insured \$283,390, Collateralized \*\* \$731,900 for a total of \$1,015,290.

\*\* Uninsured, collateral jointly held by state's/municipality's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits at December 31, 2019 was \$1,025,982 held as follows.

Plains Commerce Bank:	
Checking	\$ 31,839
Savings	696,547
Certificates of deposit	295,396
	-----
	1,023,782
 Petty cash	 2,200
	-----
	\$ 1,025,982

Investments - In general, SDCL 4-5-6 permits City money to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The City had no investments during the two years ending December 31, 2019. Certificates of deposit, with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

Investment Risk - State law limits eligible investments for the City as discussed above. The City has no investment policy that would further limit its investment choices.

Custodial Deposit Risk - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial deposit risk. At December 31, 2019 the City's deposits were not exposed to custodial deposit risk.

Custodial Investment Risk - The risk that the City will not be able to recover the value of its investment, or collateral securities that are in the possession of an outside party. The City had no investments during the two years ending December 31, 2019 and was not exposed to custodial investment risk.

Concentration of Credit Risk - the City places no limit on the amount that may be deposited or invested in any one institution.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The City's policy is to credit all income from deposits and investments to the fund making the deposit or investment.

#### 4. INTERFUND TRANSFERS

Net transfers "in" and "(out)" between funds are:

2019:	For operations:	Governmental	Enterprise
	General	83,142	
	1st Cent	(18,452)	
	2nd Cent	(81,892)	
	Liquor		(1,250)
	Water		18,452
		-----	-----
		(17,202)	17,202
2018:	For operations:	Governmental	Enterprise
	General	78,450	
	1st Cent	(39,826)	
	2nd Cent	(52,252)	
	Liquor		(1,250)
	Water		23,801
	Sewer		(8,923)
		-----	-----
		(13,628)	13,628

#### 5. RESTRICTED NET POSITION

The following table shows the December 31, 2019 net position restricted for specific purposes as shown on the statement of net position

Purpose:	Restricted By:	Governmental	Business-Type
Water debt service	Covenants		34,428 **
Sewer debt service	Covenants		13,368 **
Sewer asset replacement	Covenants		28,435
		-----	-----
Total Restricted Net Position		0	76,231

\*\* one year of payments

#### 6. LONG-TERM DEBT

A summary of changes in long-term liabilities is presented as supplementary information on page 27. The City has no: (a) unused lines-of-credit, (b) short-term debt, (c) debt extinguishments, defeasances, refundings or troubled debt restructuring, (d) special assessment debt, (e) conduit debt, (f) derivatives or hedging of variable rate debt, (g) debt related to claims and judgements, or (h) other than the collateral specified, terms in debt agreements related to significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences or (3) subjective acceleration clauses.

#### 7. FUTURE REVENUES PLEDGED TO SECURE DEBT

All water fund revenue net revenue (after normal operating, repair and maintenance expenses) is pledged to secure a Rural Development (USDA) loan which has a remaining balance of \$766,194. The loan was made to cover the cost of water improvements and is described on page 27. The loan will mature in 2054. In 2019 the loan had pledged revenue of \$39,318 (before capital improvements) and made loan payments of \$34,428.

All sewer fund revenue net revenue (after normal operating, repair and maintenance expenses) is pledged to secure a Rural Development (USDA) loan which has a remaining balance of \$270,801. The loan was made to cover the cost of sewer improvements and is described on page 27. The loan will mature in 2051. In 2019 the loan had pledged revenue of \$38,677 (before capital improvements) and made loan payments of \$13,368.

#### 8. SEWER SURCHARGE REVENUE BOND, SERIES 2016

In 2016 the City issued a Clean Water Project Revenue Bond for \$656,000 of which \$185,649 was not used for net proceeds of \$470,351. At December 31, 2019 the bonds have a remaining balance of \$448,694. The bonds were issued to cover the cost of sewer improvements and is described on page 27. The bonds will mature in 2047. The bonds can be prepaid with permission. The bonds are secured by a sewer surcharge only. They are not secured by, or payable from, the revenues derived from the operation of the sewer fund or any other properties of the City other than sewer surcharge revenue. In 2019 the bonds had surcharge revenue of \$23,873 and made bond payments of \$24,603.

#### 9. DEFICIT FUND BALANCE

At December 31, 2019 the general fund had a deficit fund balance of \$30,970 and the airport fund had a deficit fund balance of \$144,062. These are expected to be corrected in 2020 and future years from operations, grant receipts and transfers in from other funds.

#### 10. PENSION PLAN

##### Summary of Significant Accounting Policies:

As mentioned in note 1c above, these financial statements, both government-wide and fund financial statements, are presented on a modified cash basis of accounting rather than an accrual/modified accrual basis of accounting. Consequently, these financial statements do not measure the net pension (asset)/liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense (revenue), and information about the fiduciary net position of the South Dakota Retirement System (SDRS).

##### Plan Description:

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 hybrid defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South 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. SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to SDRS, PO Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731.

##### Benefits Provided:

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

Members that were hired before July 1, 2017 are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80.

Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level.



Members that were hired on or 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 equal to or greater 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 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 equal to or greater than the accrued liabilities.

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

#### Contributions:

Per SDCL 3-12, contributions 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 City's share of contributions to the SDRS for the calendar years ending December 31, 2019, 2018, and 2017 were \$6,122, \$5,454 and \$5,085 respectively (employer's share) equal to the required contribution each year.

#### Pension (Assets)/Liabilities:

At June 30, 2019 SDRS is 100.09% funded and accordingly has net pension (asset). The proportionate shares of the components of the net pension (asset) of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2019 and reported by the City as of December 31, 2019 are as follows:

Proportionate share of total pension liability	\$ 488,394
Less: Proportionate share of net position restricted for pension benefits	(488,809)
	-----
Proportionate share of net pension (asset)/liability	\$ (415)
	=====

The net pension (asset)/liability was measured as of June 30, 2019 and the total pension (asset)/liability used to calculate the net pension (asset)/liability was based on a projection of the City's share of contribution to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the City's proportion was .000039190 which is a decrease of .000003228 over its proportion measured as of June 30, 2018.

### Actuarial Assumptions:

The total pension (asset)/liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increases	Graded by years of service from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense
Future COLAs	1.88%

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males.

Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

Actuarial assumptions used in the June 30, 2019 valuation were based on results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

### Discount Rate:

The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

### Sensitivity of (Asset)/Liability to Changes in the Discount Rate:

The following presents the City's proportionate share of the net pension (asset)/liability of SDRS, calculated using the discount rate of 6.50%, as well as what the City's proportionate share of the net pension (asset)/liability would be if it were calculated using a discount rate that is 1% point lower (5.50%) or 1% point higher (7.50%) than the current rate:

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
City's proportionate share of the net pension (asset)/liability	\$68,933	\$(415)	\$(56,921)

### Investments

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (ie: the Council should use the same degree of care as a prudent man.) Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding

expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	2.0%	0.9%
	-----	
	100.0%	

#### Pension Plan Fiduciary Net Position:

Detailed information about the Plan's fiduciary net position is available in a separately issued SDRS financial report.

#### 11. PROPERTY TAXES

Taxes are levied on or before October 1, attach as an enforceable lien on property, become due and payable on the following January 1, and are payable in two installment on or before the following April 30 and October 31. The county bills and collects the City's taxes and remits them to the City. Because the City is on the modified cash basis of accounting, all property taxes received in cash are considered revenue for the period in which it was collected.

#### 12. INSURANCE

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. During the two years ending December 31, 2019 the City managed its risks as follows:

##### Employee Health Insurance:

The City reimburses employees a set amount for their purchases health insurance from a commercial carrier.

##### Liability Insurance:

The City purchases liability insurance from a commercial carrier.

##### Worker's Compensation:

The City joined the South Dakota Municipal League Workers' Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims.

The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

#### Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

#### 13. TAX ABATEMENTS

As of December 31, 2019 the City did not provide any tax abatement incentives through a Tax Increment Financing District Project (of which the City has none) or through other agreements that are considered tax abatements in accordance with the provisions of GASB Statement No. 77.

#### 14. LITIGATION

The City can be a party to litigation. No determination can be made at this time regarding the potential outcome of such matters. However, as discussed in the risk management note above, the City has liability coverage for itself and its employees. Therefore, any litigation is not expected to have a potential material effect on the City's financial statements.

#### 15. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The city has a rubble site. It does not have a landfill with any associated closure costs or liabilities.

In 2020 the City received \$84,000 of Covid relief from the State.

In 2020 the City paid-off early its 2010 Sales Tax Revenue bond, which was used to support hospital operations.

## CITY OF HOVEN

FOR THE TWO YEARS ENDING DECEMBER 31, 2019  
 SUPPLEMENTARY SCHEDULE OF CHANGES IN LONG-TERM DEBT

	Beginning 12-31-17	2018 Additions (Deletions)	2019 Additions (Deletions)	Governmental Ending 12-31-19	Business-Type Ending 12-31-19	Principal Payments Due In 2020
<b>GOVERNMENTAL - DIRECT BORROWING</b>						
2010 Sales Tax Revenue bond:						
Original Issue of \$400,000						
Maturing on February 4, 2023						
Interest at 4.00%						
Remaining bonds are callable						
Purpose: support hospital operations						
Secured by sales tax, which is irrevocably pledged to the full payment of said bonds.						
Paid by the 2nd cent fund	168,828	(29,223)	(66,369)	73,236		32,872
<b>BUSINESS-TYPE - DIRECT BORROWING</b>						
2012 USDA-RD Sewer Project Revenue Bond:						
Original Issue of \$311,000						
Maturing on November 11, 2051						
Interest at 3.00%						
Bonds are callable						
Purpose: wastewater improvements						
Secured by a statutory lien of most favorable priority, a pledge of the system's revenue and other agreements contained in RUS Bulletin 1780-12 and RUS Bulletin 1780-27						
Paid by the sewer fund	280,969	(5,008)	(5,160)		270,801	5,244
2014 USDA-RD Water Project Revenue Bond:						
Original Issue of \$822,000						
Maturing in 2054						
Interest at 2.75%						
Bonds are callable						
Purpose: water improvements						
Secured by a statutory lien of most favorable priority, a pledge of the system's revenue and other agreements contained in RUS Bulletin 1780-12 and RUS Bulletin 1780-27						
Paid by the water fund	792,160	(12,805)	(13,161)		766,194	13,358
2016 Clean Water Borrower Bond:						
Original issue: \$656,000						
Not used: (185,649)						
Final amount: \$470,351						
Maturing in 2047						
Interest at 3.25%						
Bonds can be prepaid with permission						
Purpose: wastewater improvements						
Payable solely from surcharge revenue derived from operation of the City's wastewater system						
Paid by the sewer fund	468,022	(9,508)	(9,820)		448,694	10,143
<b>Totals</b>	<b>1,709,979</b>	<b>(56,544)</b>	<b>(94,510)</b>	<b>73,236</b>	<b>1,485,689</b>	<b>61,617</b>

CITY OF HOVEN  
FOR THE TWO YEARS ENDING DECEMBER 31, 2019  
SUPPLEMENTARY SCHEDULE OF CHANGES IN LONG-TERM DEBT (continued)

	Total Payment	Principal	Interest	Remaining Balance
Payment Schedules:	-----	-----	-----	-----
2010 Sales Tax Revenue bond:				
2020	35,976	32,872	3,104	40,364
2021	35,977	34,187	1,790	6,177
2022	6,424	6,177	247	0
	-----	-----	-----	
Totals	78,377	73,236	5,141	
	=====	=====	=====	
2012 USDA-RD Sewer Project Revenue Bond:				
2020	13,368	5,244	8,124	265,557
2021	13,368	5,401	7,967	260,156
2022	13,368	5,610	7,758	254,546
2023	13,368	5,732	7,636	248,814
2024	13,368	5,734	7,634	243,080
2025-2029	66,840	30,291	36,549	212,789
2030-2034	66,840	36,118	30,722	176,671
2035-2039	66,840	41,772	25,068	134,899
2040-2044	66,840	48,316	18,524	86,583
2045-2049	66,840	55,891	10,949	30,692
2050-2052	32,324	30,692	1,632	0
	-----	-----	-----	
Totals	433,364	270,801	162,563	
	=====	=====	=====	
2014 USDA-RD Water Project Revenue Bond:				
2020	34,428	13,358	21,070	752,836
2021	34,428	13,725	20,703	739,111
2022	34,428	14,102	20,326	725,009
2023	34,428	14,490	19,938	710,519
2024	34,428	14,889	19,539	695,630
2025-2029	172,140	80,815	91,325	614,815
2030-2034	172,140	92,555	79,585	522,260
2035-2039	172,140	106,001	66,139	416,259
2040-2044	172,140	121,400	50,740	294,859
2045-2049	172,140	139,037	33,103	155,822
2050-2054	167,727	155,822	11,905	0
	-----	-----	-----	
Totals	1,200,567	766,194	434,373	
	=====	=====	=====	
2016 Clean Water Borrower Bond:				
2020	24,603	10,143	14,460	438,551
2021	24,603	10,477	14,126	428,074
2022	24,603	10,822	13,781	417,252
2023	24,603	11,178	13,425	406,074
2024	24,603	11,546	13,057	394,528
2025-2029	123,016	63,681	59,335	330,847
2030-2034	123,016	74,868	48,148	255,979
2035-2039	123,016	88,021	34,995	167,958
2040-2044	123,016	103,484	19,532	64,474
2045-2047	73,809	64,474	9,335	0
	-----	-----	-----	
Totals	688,888	448,694	240,194	
	=====	=====	=====	

## CITY OF HOVEN

SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
 FOR THE YEAR ENDING DECEMBER 31, 2019

GENERAL FUND	Budgeted Amounts					Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental	Final	Actual	
Receipts:						
Receipts from local sources:						
Taxes:						
Ad valorem taxes	142,597			142,597	146,310	3,713
Amusement tax				0	132	132
Licenses and permits:				0	594	594
Intergovernmental receipts:						
State shared receipts:						
Mosquito grant				0	2,379	2,379
Bank franchise tax				0	1,947	1,947
Motor vehicle commercial				0	542	542
Liquor tax reversion				0	2,646	2,646
Motor vehicle licenses (5%)				0	7,237	7,237
Highway and bridge				0	19,747	19,747
County shared receipts:						
Potter County ambulance grant				0	6,000	6,000
Charges for goods and services:						
General government				0		0
Sanitation				0	330	330
Ambulance				0	4,509	4,509
Pool and parks	30,000			30,000	8,570	(21,430)
Miscellaneous receipts:						
Interest received				0	125	125
Rents				0		0
Grants and donations	80,000			80,000	28,700	(51,300)
Other				0	7,198	7,198
Total receipts	252,597	0	0	252,597	236,966	(15,631)
Disbursements:						
General government:						
Mayor and Council	16,000			16,000	12,608	3,392
Contingency	6,000			6,000		6,000
Amount transferred				0		0
Elections	1,000			1,000		1,000
Financial administration	77,400			77,400	70,849	6,551
Other				0	2,295	(2,295)
Public safety:						
Police	30,000			30,000	13,771	16,229
Fire	16,000			16,000	11,844	4,156
Other protection				0		0
Public works:						
Highways and streets	107,000			107,000	102,337	4,663
Sanitation	8,000			8,000	2,370	5,630
Health and welfare:						
Mosquito	3,500			3,500		3,500
Ambulance	80,000			80,000	79,595	405
Culture and recreation:						
Summer recreation	37,000			37,000	28,997	8,003
Conservation and development:						
Economic opportunity	1,000			1,000		1,000
Total disbursements	382,900	0	0	382,900	324,666	58,234
Excess of receipts over (under) disbursements	(130,303)	0	0	(130,303)	(87,700)	42,603
Other financing sources (uses):						
Compensation for damaged property				0	5,683	5,683
Transfer in	130,303			130,303	83,142	(47,161)
Net change in fund balance	0	0	0	0	1,125	1,125
Fund balance:						
January 1, 2019	(32,095)			(32,095)	(32,095)	0
December 31, 2019	(32,095)	0	0	(32,095)	(30,970)	1,125

## CITY OF HOVEN

SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
 FOR THE YEAR ENDING DECEMBER 31, 2018

GENERAL FUND	Budgeted Amounts				Actual	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental	Final		
Receipts:						
Receipts from local sources:						
Taxes:						
Ad valorem taxes	142,597			142,597	139,956	(2,641)
Amusement tax				0	132	132
Licenses and permits:				0	135	135
Intergovernmental receipts:						
State shared receipts:						
Bank franchise tax				0	1,749	1,749
Motor vehicle commercial				0	1,372	1,372
Liquor tax reversion				0	2,554	2,554
Motor vehicle licenses (5%)				0	6,966	6,966
Highway and bridge				0	19,219	19,219
County shared receipts:						
Potter County ambulance grant				0	6,000	6,000
Charges for goods and services:						
General government				0		0
Sanitation				0	10,790	10,790
Ambulance				0	14,645	14,645
Pool and parks	30,000			30,000	14,973	(15,027)
Miscellaneous receipts:						
Interest received				0	362	362
Grants and donations	80,000		40,000	120,000	30,750	(89,250)
Other				0	8,945	8,945
Total receipts	252,597	0	40,000	292,597	258,548	(34,049)
Disbursements:						
General government:						
Mayor and Council	16,000			16,000	13,320	2,680
Contingency	6,000			6,000		6,000
Amount transferred				0		0
Elections	1,000			1,000		1,000
Financial administration	72,400			72,400	76,046	(3,646)
Other				0	9,717	(9,717)
Public safety:						
Police				0		0
Fire	14,000			14,000	11,435	2,565
Public works:						
Highways and streets	105,000			105,000	85,554	19,446
Sanitation	8,000			8,000	10,699	(2,699)
Health and welfare:						
Mosquito	3,500			3,500		3,500
Ambulance	70,000		25,000	95,000	130,588	(35,588)
Culture and recreation:						
Summer recreation	36,000		15,000	51,000	36,855	14,145
Conservation and development:						
Economic opportunity	1,000			1,000		1,000
Total disbursements	332,900	0	40,000	372,900	374,214	(1,314)
Excess of receipts over (under) disbursements	(80,303)	0	0	(80,303)	(115,666)	(35,363)
Other financing sources (uses):						
Transfer in	80,303			80,303	78,449	(1,854)
Net change in fund balance	0	0	0	0	(37,217)	(37,217)
Fund balance:						
January 1, 2018	5,122			5,122	5,122	0
December 31, 2018	5,122	0	0	5,122	(32,095)	(37,217)



## CITY OF HOVEN

SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
 FOR THE YEAR ENDING DECEMBER 31, 2019

1st CENT SALES TAX FUND (Reserved for streets, water, and sewer capital improvements)	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Sales and use tax	75,000		75,000	87,822	12,822
Miscellaneous receipts:					
Interest received			0	212	212
Total receipts	75,000	0	75,000	88,034	13,034
Disbursements:					
Public works:					
Street improvements	25,000		25,000		25,000
Water improvements	25,000		25,000		25,000
Sewer improvements	25,000		25,000		25,000
Total disbursements	75,000	0	75,000	0	75,000
Excess of receipts over (under) disbursements	0	0	0	88,034	88,034
Other financing sources (uses):					
Transfer in (out)			0	(18,452)	(18,452)
Change in fund balance	0	0	0	69,582	69,582
Fund balance:					
January 1, 2019	271,713		271,713	271,713	0
December 31, 2019	271,713	0	271,713	341,295	69,582

2nd CENT SALES TAX FUND (Reserved for ambulance and hospital cost)	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Sales and use tax	75,000		75,000	87,822	12,822
Miscellaneous receipts:					
Interest received			0	108	108
Total receipts	75,000	0	75,000	87,930	12,930
Disbursements:					
Health and welfare:					
Ambulance	30,000		30,000		30,000
Debt service:					
Hospital bond payment	45,000		45,000	71,953	(26,953)
Total disbursements	75,000	0	75,000	71,953	3,047
Excess of receipts over (under) disbursements	0	0	0	15,977	15,977
Other financing sources (uses):					
Transfer in (out)			0	(81,892)	(81,892)
Change in fund balance	0	0	0	(65,915)	(65,915)
Fund balance:					
January 1, 2019	240,539		240,539	240,539	0
December 31, 2019	240,539	0	240,539	174,624	(65,915)

## CITY OF HOVEN

SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
 FOR THE YEAR ENDING DECEMBER 31, 2018

1st CENT SALES TAX FUND (Reserved for streets, water, and sewer capital improvements)	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Sales and use tax	75,000		75,000	78,805	3,805
Miscellaneous receipts:					
Interest received			0	173	173
Total receipts	75,000	0	75,000	78,978	3,978
Disbursements:					
Public works:					
Street improvements	50,000		50,000		50,000
Water improvements	25,000		25,000		25,000
Total disbursements	75,000	0	75,000	0	75,000
Excess of receipts over (under) disbursements	0	0	0	78,978	78,978
Other financing sources (uses):					
Transfer in (out)			0	(39,825)	(39,825)
Change in fund balance	0	0	0	39,153	39,153
Fund balance:					
January 1, 2018	232,560		232,560	232,560	0
December 31, 2018	232,560	0	232,560	271,713	39,153

2nd CENT SALES TAX FUND (Reserved for ambulance and hospital cost)	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Sales and use tax	75,000		75,000	78,805	3,805
Miscellaneous receipts:					
Interest received			0	161	161
Total receipts	75,000	0	75,000	78,966	3,966
Disbursements:					
Health and welfare:					
Ambulance	30,000		30,000		30,000
Debt service:					
Hospital bond payment	45,000		45,000	35,976	9,024
Total disbursements	75,000	0	75,000	35,976	39,024
Excess of receipts over (under) disbursements	0	0	0	42,990	42,990
Other financing sources (uses):					
Transfer in (out)			0	(52,252)	(52,252)
Change in fund balance	0	0	0	(9,262)	(9,262)
Fund balance:					
January 1, 2018	249,801		249,801	249,801	0
December 31, 2018	249,801	0	249,801	240,539	(9,262)

CITY OF HOVEN

NOTES TO SUPPLEMENTARY INFORMATION - BUDGET

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND AND  
SPECIAL REVENUE FUNDS FOR THE TWO YEARS ENDING DECEMBER 31, 2019

1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the supplementary information:

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. There was one supplemental budget in 2018 and no supplemental budgets in 2019. See page 30.
- e. Formal budgetary integration is employed as a management control device for the general fund and special revenue funds.
- f. Budgets for the general fund and special revenue funds are not adopted on a basis consistent with generally accepted accounting principles (GAAP) because the City uses a modified cash basis of accounting.

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE:

Financial statements prepared in conformity with U.S.GAAP (within the context of the modified cash basis of accounting) present capital outlay expenditure information as a separate category of disbursements. Under the budgetary basis of accounting, capital outlay disbursements are reported within the function to which they relate. For example, the purchase of a road grader would be reported as a capital disbursement on the governmental funds statement of receipts, disbursement and changes in fund cash balance. However, in the budgetary RSI schedule, the purchase of a road grader would be reported as a disbursement in the public works function of general fund, along with all other current public works disbursements.

CITY OF HOVEN  
FOR THE SIX YEARS ENDING DECEMBER 31, 2019

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE  
SOUTH DAKOTA RETIREMENT SYSTEM'S NET PENSION (ASSET)/LIABILITY

SDRS Measurement Date Year Ended (1)	City's Percentage of the Pension Plan Net Position	City's Proportionate Share of Net Pension (Asset) Liability	City's Covered Employee Payroll for its 6-30 Year End	City's Proportionate Share of the Net Pension (Asset) Liability as a Percentage of its Covered Employee Payroll	Fiduciary Pension Plan Net Position as a Percentage of the Total Pension Liability
June 30, 2019	0.0039190%	(415)	83,333	(00.50%)	100.09%
June 30, 2018	0.0042418%	(99)	88,183	(00.11%)	100.02%
June 30, 2017	0.0042803%	(388)	86,967	(00.45%)	100.10%
June 30, 2016	0.0048316%	16,321	91,867	17.77%	96.89%
June 30, 2015	0.0078718%	(33,387)	139,305	(23.97%)	104.10%
June 30, 2014	0.0074486%	(53,664)	126,661	(42.37%)	107.30%

(1) The amounts presented for each fiscal year were determined as of the collective net pension (asset) liability which is 6-30 of the City's current calendar year.

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF HOVEN  
FOR THE SIX YEARS ENDING DECEMBER 31, 2019

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S CONTRIBUTIONS  
TO THE SOUTH DAKOTA RETIREMENT SYSTEM

City's Year Ended	Contractually Required Contribution	Contributions Related to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Employee Payroll for its Calendar Year End	Contributions as a Percentage of Covered Employee Payroll
December 31, 2019	6,122	6,122	0	102,033	6.00%
December 31, 2018	5,454	5,454	0	90,900	6.00%
December 31, 2017	5,085	5,085	0	84,750	6.00%
December 31, 2016	5,190	5,190	0	86,500	6.00%
December 31, 2015	6,685	6,685	0	107,926	6.19%
December 31, 2014	7,958	7,958	0	129,014	6.17%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF HOVEN

NOTES TO SUPPLEMENTARY INFORMATION - PENSION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION (ASSET)/LIABILITY AND  
SCHEDULE OF PENSION CONTRIBUTIONS FOR THE TWO YEARS ENDING DECEMBER 31, 2019

Changes of benefit terms:

No significant changes.

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent 3rd quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2018 and exists again as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018 and is 1.88% as of June 30, 2019.

The changes in actuarial assumptions increased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 2.03% COLA, reflecting the current and assumed future restricted maximum COLA of 1.88%.

Actuarial assumptions are reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

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

To the Honorable Mayor and  
Members of Hoven City Council  
Hoven, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of governmental activities, business-type activities, and each major fund, of the City of Hoven (City), Potter County, South Dakota, as of December 31, 2019 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's modified cash basis of accounting financial statements and have issued my report thereon dated March 1, 2021 which was unmodified.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether City of Hoven's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of current audit findings as item 2019-001.

Management response to the finding identified in my audit is described in the accompanying schedule of current audit findings. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

I did note other minor matters involving compliance that I reported to the governing body and management of the City of Hoven in a separate Letter of Comments dated March 1, 2021.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Hoven's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of City of Hoven's internal control.

A deficiency in internal control exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City of Hoven's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency*, is a deficiency, or 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.

My 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

I did identify certain deficiencies in internal control, described in the accompanying schedule of current audit findings that I consider to be significant deficiencies. I consider the deficiencies described in the accompanying schedule of current audit findings as items 2019-001 and 2019-002 to be significant deficiencies.

Management responses to the findings identified in my audit are described in the accompanying schedule of current audit findings. Management's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

I did note other matters involving internal control that I reported to the governing body and management of the City of Hoven in a separate Letter of Comments dated March 1, 2021.

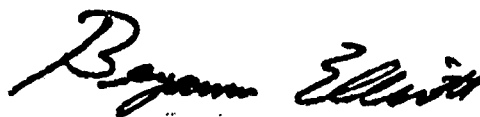
#### Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on the effectiveness of the City's compliance or internal control over financial reporting. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting. Accordingly this communication is not suitable for any other purpose.

As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Independent Audit Services, PC  
Benjamin Elliott, CPA  
Madison, South Dakota

March 1, 2021



SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit Findings:  
Not applicable to this audit.

Prior Other Audit Findings:  
2017-001: [Budget Overdrafts] -- Repeated below  
2017-002: [Financial Statement Preparation] -- Repeated below

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Financial Statements

Type of auditor's report issued: Unmodified on:  
Governmental Activities  
Business-Type Activities  
Major Funds

Noncompliance noted: Item 2019-001

Internal control over financial reporting:  
\* Material weakness(es) identified? None Reported

\* Significant deficiency(ies) identified  
that are not considered to be material  
weaknesses? Items 2019-001 and 2019-002

Finding 2019-001: Budget Overdrafts  
(compliance and internal control)  
(first reported in 2009)

Criteria:

SDCL 9-21 requires governmental expenditures to be authorized in an annual appropriation ordinance, or by a supplemental appropriation ordinance, by the governing body before the end of year. The City is prohibited from spending in excess of appropriated amounts at the sub-function level.

Condition:

During 2018 and 2019 the City exceeded its appropriation in the following areas:

2019: General fund - General government/other	2,295
2nd Cent fund - Hospital bond payment (made two payments instead of one)	26,953
2018: General fund - General government/financial administration	3,646
- General government/other	9,717
- Public works/sanitation	2,699
- Health and welfare/ambulance	35,588

Possible Effect:

Expenditures in excess of a budget can lead to unnecessary expenditures and unnecessary taxation. Also, joint and several liability may attach to any official who approves an expenditure in excess of the amount budgeted for any purpose or department. SDCL 9-21-9 and 9-21-10

Recommendation:

I recommend the City stay within its budget, using contingency transfers and supplemental appropriations to adjust sub-function budget line items when necessary.

Management Response:

In the future, the City expects to make contingency transfers or adopt sufficient supplemental appropriations to cover expenditures that will exceed their original appropriation.



SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES (continued)

Finding 2019-002: Financial Statement Preparation  
(internal control)  
(first reported in 2015)

*Criteria:*

A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

*Condition:*

The City has elected not to have an internal control system designed to prepare the financial statement being audited. As the auditor, I was requested to draft these financial statements and accompanying notes to the financial statements.

*Possible Effect:*

This control deficiency could result in a misstatement of the financial statements that would not be prevented or detected.

*Recommendations:*

This situation is not unusual for an entity of the City's size. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Management Response:*

Due to cost constraints, the City will continue to have the auditor draft the financial statements and accompanying notes to the financial statements.