

CITY OF KADOKA, SOUTH DAKOTA

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
WITH SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2022

CITY OF KADOKA

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INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the **City of Kadoka, South Dakota (the "City")**, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2022, and the respective changes in its modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis for Opinions

We conducted our audit 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 City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The 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. Our opinions are not modified with respect to that matter.

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Responsibilities of Management for the Financial Statements

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; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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 City'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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore 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 fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement 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 judgement 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 audit 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 City'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City'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 internal control-related matters that we identified during the audit.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City's basic financial statements. The Budgetary Comparison Schedules, the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset), and the City's Schedule of Contributions are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the Budgetary Comparison Schedules, the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset), and the City's Schedule of Contributions are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2024, on our consideration of the City'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 City'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 City's internal control over financial reporting and compliance.

Uhlenberg Ritzman + Co., LLC

Yankton, South Dakota
January 22, 2024

CITY OF KADOKA

STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2022

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,152,998	\$ 820,938	\$ 1,973,936
Total assets	<u>1,152,998</u>	<u>820,938</u>	<u>1,973,936</u>
NET POSITION			
Restricted for:			
Economic development	110,581	-	110,581
Customer deposits	-	15,407	15,407
Unrestricted	<u>1,042,417</u>	<u>805,531</u>	<u>1,847,948</u>
Total net position	<u>\$ 1,152,998</u>	<u>\$ 820,938</u>	<u>\$ 1,973,936</u>

The accompanying notes are an
integral part of these financial statements

CITY OF KADOKA

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2022

				Net (Disbursements) Receipts and Changes in		
		Program Receipts		Net Position		
				Primary Government		
Functions/Programs	Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 125,571	\$ 4,525	\$ -	\$ (121,046)		\$ (121,046)
Public safety	115,980	439	-	(115,541)		(115,541)
Public works	381,473	-	52,111	(329,362)		(329,362)
Health and welfare	3,976	-	976	(3,000)		(3,000)
Culture and recreation	185,365	6,852	-	(178,513)		(178,513)
Conservation and development	115,386	-	-	(115,386)		(115,386)
Total governmental activities	927,751	11,816	53,087	(862,848)		(862,848)
Business-type activities:						
Liquor	467,298	513,928	-		46,630	46,630
Water	193,817	185,563	-		(8,254)	(8,254)
Waste water	97,069	99,013	65,558		67,502	67,502
Solid waste	120,112	125,180	-		5,068	5,068
Total business-type activities	878,296	923,684	65,558		110,946	110,946
Total primary government	\$ 1,806,047	\$ 935,500	\$ 118,645	(862,848)	110,946	(751,902)
General receipts:						
Taxes:						
Property taxes				312,156	-	312,156
Sales taxes				426,477	-	426,477
State and county shared receipts				5,436	-	5,436
Unrestricted investment earnings				4,160	1,693	5,853
Miscellaneous				511,194	39,323	550,517
Total general receipts				1,259,423	41,016	1,300,439
Change in net position				396,575	151,962	548,537
Net position - beginning				756,423	668,976	1,425,399
Net position - ending				\$ 1,152,998	\$ 820,938	\$ 1,973,936

The accompanying notes are an
integral part of these financial statements

CITY OF KADOKA

BALANCE SHEET - MODIFIED CASH BASIS -
GOVERNMENTAL FUNDS
DECEMBER 31, 2022

	<u>Major Funds</u>		<u>Total</u>
	<u>General</u>	<u>Lodging and</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Dining Tax</u>	<u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1,042,417	\$ 110,581	\$ 1,152,998
Total assets	<u>\$ 1,042,417</u>	<u>\$ 110,581</u>	<u>\$ 1,152,998</u>
FUND BALANCES			
Restricted:			
Economic development	\$ -	\$ 110,581	\$ 110,581
Unassigned	<u>1,042,417</u>	<u>-</u>	<u>1,042,417</u>
Total fund balances	<u>\$ 1,042,417</u>	<u>\$ 110,581</u>	<u>\$ 1,152,998</u>

The accompanying notes are an
integral part of these financial statements

CITY OF KADOKA

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2022

	<u>Major Funds</u>		<u>Total</u>
	<u>General</u>	<u>Lodging and</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Dining Tax</u>	<u>Funds</u>
RECEIPTS			
Taxes	\$ 690,035	\$ 48,598	\$ 738,633
Licenses and permits	4,525	-	4,525
Intergovernmental revenue	58,523	-	58,523
Charges for goods and services	6,852	-	6,852
Fines and fees	439	-	439
Miscellaneous	<u>66,621</u>	<u>395</u>	<u>67,016</u>
Total receipts	<u>826,995</u>	<u>48,993</u>	<u>875,988</u>
DISBURSEMENTS			
General government	121,131	-	121,131
Public safety	112,079	-	112,079
Public works	168,937	-	168,937
Health and welfare	3,976	-	3,976
Culture and recreation	183,665	-	183,665
Conservation and development	5,000	110,386	115,386
Capital outlay	<u>222,577</u>	<u>-</u>	<u>222,577</u>
Total disbursements	<u>817,365</u>	<u>110,386</u>	<u>927,751</u>
Excess (deficiency) of receipts over disbursements	<u>9,630</u>	<u>(61,393)</u>	<u>(51,763)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	72,000	72,000
Transfers out	(72,000)	-	(72,000)
Sale of Municipal Property	12,800	-	12,800
Compensation for loss	<u>435,538</u>	<u>-</u>	<u>435,538</u>
Total other financing sources (uses)	<u>376,338</u>	<u>72,000</u>	<u>448,338</u>
Net change in fund balances	385,968	10,607	396,575
Fund balances - beginning	<u>656,449</u>	<u>99,974</u>	<u>756,423</u>
Fund balances - ending	<u>\$ 1,042,417</u>	<u>\$ 110,581</u>	<u>\$ 1,152,998</u>

The accompanying notes are an
integral part of these financial statements

CITY OF KADOKA

STATEMENT OF NET POSITION - MODIFIED CASH BASIS -
 PROPRIETARY FUNDS
 DECEMBER 31, 2022

	Enterprise Funds				
	Major				Total
	Liquor	Water	Waste Water	Solid Waste	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 535,657	\$ 44,020	\$ 124,804	\$ 116,457	\$ 820,938
Total assets	<u>535,657</u>	<u>44,020</u>	<u>124,804</u>	<u>116,457</u>	<u>820,938</u>
NET POSITION					
Restricted	-	15,407	-	-	15,407
Unrestricted	<u>535,657</u>	<u>28,613</u>	<u>124,804</u>	<u>116,457</u>	<u>805,531</u>
Total net position	<u>\$ 535,657</u>	<u>\$ 44,020</u>	<u>\$ 124,804</u>	<u>\$ 116,457</u>	<u>\$ 820,938</u>

The accompanying notes are an
 integral part of these financial statements

CITY OF KODOKA

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS -
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2022

	Enterprise Funds				
	Major				
	Liquor	Water	Waste Water	Solid Waste	Total
OPERATING RECEIPTS					
Charges for goods and services	\$ 482,369	\$ 185,563	\$ 99,013	\$ 125,180	\$ 892,125
Lottery sales	31,559	-	-	-	31,559
Total operating receipts	<u>513,928</u>	<u>185,563</u>	<u>99,013</u>	<u>125,180</u>	<u>923,684</u>
OPERATING DISBURSEMENTS					
Personal services	143,585	22,203	22,204	13,423	201,415
Cost and materials	247,056	68,989	2,335	19,858	338,238
Other current expenses	76,657	35,482	72,530	14,604	199,273
Capital outlay	-	67,143	-	72,227	139,370
Total operating disbursements	<u>467,298</u>	<u>193,817</u>	<u>97,069</u>	<u>120,112</u>	<u>878,296</u>
Operating income (loss)	<u>46,630</u>	<u>(8,254)</u>	<u>1,944</u>	<u>5,068</u>	<u>45,388</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)					
Interest income	1,129	56	56	452	1,693
Operating grants	-	-	65,558	-	65,558
Other nonoperating revenue	24,451	100	-	-	24,551
Compensation for loss	-	14,772	-	-	14,772
Total nonoperating receipts (disbursements)	<u>25,580</u>	<u>14,928</u>	<u>65,614</u>	<u>452</u>	<u>106,574</u>
Change in net position	72,210	6,674	67,558	5,520	151,962
Net position - beginning	<u>463,447</u>	<u>37,346</u>	<u>57,246</u>	<u>110,937</u>	<u>668,976</u>
Net position - ending	<u>\$ 535,657</u>	<u>\$ 44,020</u>	<u>\$ 124,804</u>	<u>\$ 116,457</u>	<u>\$ 820,938</u>

The accompanying notes are an
integral part of these financial statements

CITY OF KADOKA

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS -
 PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2022

	Enterprise Funds				
	Major				
	Liquor	Water	Waste Water	Solid Waste	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 513,928	\$ 185,563	\$ 99,013	\$ 125,180	\$ 923,684
Payments to suppliers	(323,713)	(104,471)	(74,865)	(34,462)	(537,511)
Payments to employees	(143,585)	(22,203)	(22,204)	(13,423)	(201,415)
Payments for capital improvements	-	(67,143)	-	(72,227)	(139,370)
Net cash provided by (used in) operating activities	<u>46,630</u>	<u>(8,254)</u>	<u>1,944</u>	<u>5,068</u>	<u>45,388</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants	-	-	65,558	-	65,558
Other nonoperating revenue	24,451	100	-	-	24,551
Compensation for loss	-	14,772	-	-	14,772
Net cash provided by (used in) noncapital financing activities	<u>24,451</u>	<u>14,872</u>	<u>65,558</u>	<u>-</u>	<u>104,881</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment income	<u>1,129</u>	<u>56</u>	<u>56</u>	<u>452</u>	<u>1,693</u>
Net cash provided by (used in) investing activities	<u>1,129</u>	<u>56</u>	<u>56</u>	<u>452</u>	<u>1,693</u>
Net change in cash and cash equivalents	72,210	6,674	67,558	5,520	151,962
Balances - beginning of the year	<u>463,447</u>	<u>37,346</u>	<u>57,246</u>	<u>110,937</u>	<u>668,976</u>
Balances - end of the year	<u>\$ 535,657</u>	<u>\$ 44,020</u>	<u>\$ 124,804</u>	<u>\$ 116,457</u>	<u>\$ 820,938</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	<u>\$ 46,630</u>	<u>\$ (8,254)</u>	<u>\$ 1,944</u>	<u>\$ 5,068</u>	<u>\$ 45,388</u>
Net cash provided by (used in) operating activities	<u>\$ 46,630</u>	<u>\$ (8,254)</u>	<u>\$ 1,944</u>	<u>\$ 5,068</u>	<u>\$ 45,388</u>

The accompanying notes are an
 integral part of these financial statements

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further below, these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (US GAAP) as described within this note. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Reporting Entity

The reporting entity of the City of Kadoka (City), consists of 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); those organizations for which the primary government is financially accountable; and 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.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the City. These statements include the financial activities of the overall government, except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct disbursements and program receipts for each segment of the business-type activities of the City and for each function of the City's governmental activities. 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 programs 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, are presented as general receipts.

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Fund Financial Statements:

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 assets, liabilities, fund equity, receipts, and disbursements. The funds of the City are organized into two major categories: governmental and proprietary.

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or if it meets the following criteria:

1. Total assets, receipts, or disbursements of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, receipts, or disbursements of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the City are described below:

Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific receipt sources (other than expendable trusts or major capital projects) that are restricted or committed to disbursements for specified purposes other than debt service or capital projects. The City has the following special revenue fund:

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Fund Financial Statements, continued:

Governmental Funds, continued:

Liquor, Lodging and Dining Gross Receipts Tax Fund - to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the City (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is a major fund.

Proprietary Funds:

Enterprise Funds - Enterprise funds are used to account for operations (a) The activity is financed with debt that is secured solely by a pledge of the net receipts from fees and charges of the activity; (b) Laws or regulations require that the activity's costs of providing services be recovered with fees and charges, rather than with taxes or similar receipts; or (c) The pricing policies of the activity establish fees and charges designed to recover its costs.

Liquor Fund - Financed primarily by user charges. This fund accounts for on-sale and off-sale liquor services and video lottery machine activity. This is a major fund.

Water Fund - Financed primarily by user charges. This fund accounts for the construction and operation of the municipal waterworks system and related facilities. This is a major fund.

Waste Water Fund - Financed primarily by user charges. This fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. This is a major fund.

Solid Waste Fund - Financed primarily by user charges. This fund accounts for the construction and operation of the City's solid waste system and related facilities. This is a major fund.

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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” receipts and 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, 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, 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 defined below.

Fund Financial Statements:

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

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 the 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 receipt and disbursement transactions. Under the modified cash basis of accounting, the balance sheet/statement of net 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 that cash has been received or disbursed.

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

Basis of Accounting, continued:

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 or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City applied accounting principles generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

Capital Assets

Capital assets include land, buildings, improvements other than buildings, furnishings and equipment, construction/development in progress, infrastructure, intangible lease assets, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. *Infrastructure assets* are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

As discussed above, 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 City has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating/amortizing those assets where appropriate so any capital assets owned by the City and the related depreciation/amortization are not reported on the financial statements of the City.

Revenue Received in Advance

Under the modified cash basis of accounting, cash may have been received in advance of the City's providing a good or service to a customer. These amounts are reported in the financial statements at the time of receipt, as applicable.

Program Receipts

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, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

Proprietary Funds Receipts and Disbursements Classifications

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Equity Classifications

Government-wide Financial Statements:

Equity is classified as net position and is displayed in two components under the modified cash basis:

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.

Unrestricted net position - All other net position that does not meet the definition of "restricted."

The City uses restricted amounts first when both restricted and unrestricted net position is available unless there are legal documents or contracts that prohibit doing so, such as a grant agreement requiring dollar-for-dollar spending.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, which is distinguished between the following classifications:

Nonspendable - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted - Constraints are placed on the use of resources by either (a) creditors, grantors, contributors, or laws or regulations of other governments, or (b) law through constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by ordinances of the City Council.

Assigned - Amounts that are constrained by the City Council's intent to be used for specific purposes but are neither restricted nor committed. The City Council assigns amounts through approved council actions that occur during City Council meetings.

Unassigned - Represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned.

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Equity Classifications, continued

Fund Financial Statements, continued:

The City uses restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal documents or contracts that prohibit doing so, 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 does not have a formal minimum fund balance policy. Proprietary fund equity is classified the same as in the government-wide financial statements.

Property Taxes

Property taxes are levied on or before October 1 of the year preceding the start of the fiscal year. Property taxes attach as an enforceable lien on property and become due and payable as of the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

2. DEPOSITS AND INVESTMENTS

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. All governmental and proprietary funds essentially have access to the entire amount of their cash resources on demand. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The City’s cash 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, and may be in the form of demand or time deposits. Qualified public 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 Federal Deposit Insurance Corporation (“FDIC”) and National Credit Union Administration (“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 the State of South Dakota.

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

2. DEPOSITS AND INVESTMENTS, continued

Investments – In general, SDCL 4-5-6 permits City funds 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 investments to 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 has adopted a formal investment policy which addresses the following.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City requires all depositories to provide full insurance or collateralization of all deposits and provide a report evidencing collateralization to the City. As of December 31, 2022, the City's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Investments – As of December 31, 2022, the City had no investments.

Authorized Investments by the City – The City does not further limit investments beyond those imposed by statutes.

Credit Risk – State law limits eligible investments for the City, as discussed above. The City does not further limit its investment choices.

Concentration of Credit Risk – The City places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The City does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. It does require at least an amount equal to a historical average of two months' worth of City disbursements be accessible for use by the City in one day's notice.

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 investments to the fund making the investment.

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

3. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2022 were as follows:

	Transfers To	Transfers From
<i>Governmental activities:</i>		
General Fund:		
Lodging and Dining Tax Fund	\$ 72,000	\$ -
Lodging and Dining Tax Fund:		
General Fund	-	72,000
<i>Total governmental activities</i>	<u>72,000</u>	<u>72,000</u>
<i>Total primary government</i>	<u>\$ 72,000</u>	<u>\$ 72,000</u>

Activity includes a transfer from the General Fund to the Lodging and Dining Tax Fund to conduct indispensable functions of the City.

4. PENSION PLAN

Plan Information

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (the "SDRS"), a cost sharing, multiple employer hybrid defined benefit plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provide 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 SDCL 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://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has four classes of members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

4. PENSION PLAN, continued

Benefits Provided, continued

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 retirement benefits that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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 the 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.

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

4. PENSION PLAN, continued

Benefits Provided, continued

Legislation enacted in 2021 reduced the minimum COLA from .05 percent to 0.0 percent.

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 City's share of contributions to the SDRS for the fiscal years ended December 31, 2022, 2021 and 2020 were \$15,772, \$14,138, and \$14,851 respectively, equal to the required contributions each year.

Pension (Asset)/Liability:

At June 30, 2022, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the City as of the measurement period ending June 30, 2022 and reported by the City as of December 31, 2022 are as follows:

Proportionate share of pension liability	\$1,440,883
Less proportionate share of net pension restricted for pension benefits	<u>1,441,848</u>
Proportionate share of net pension liability (asset)	<u>\$ (965)</u>

At December 31, 2022, the City had an (asset)/liability of (\$965) for its proportionate share of the net pension (asset)/liability. The net pension (asset)/liability was measured as of June 30, 2022 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 contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the City's proportion was 0.01020700% which was an decrease of (0.0007880%) from its proportion measured as of June 30, 2021.

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

4. PENSION PLAN, continued

Actuarial Assumptions

The total pension liability/(asset) in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of pension plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%
Future COLAs	2.10%

Mortality Rates:

- All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020
- Active and Terminated Vested Members:
 - Teachers, Certified Regents, and Judicial: PubT-2010
 - Other Class A Members: PubG-2010
 - Public Safety Members: PubS-2010
- Retired Members:
 - Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
 - Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
 - Public Safety Retirees: PubS-2010, 102% of rates at all ages
- Beneficiaries:
 - PubG-2010 contingent survivor mortality table
- Disabled Members:
 - Public Safety: PubS-2010 disabled member mortality table
 - Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2021.

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

4. PENSION PLAN, continued

Actuarial Assumptions, continued

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 portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., 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 weighing 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, 2022 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	3.7%
Fixed Income	30.0%	1.1%
Real Estate	10.0%	2.6%
Cash	<u>2.0%</u>	0.4%
Total	100%	2.7%

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member 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 these 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 liability (asset).

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

4. PENSION PLAN, continued

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension liability (asset)	\$ 200,296	\$ (965)	\$ (165,447)

Pension Plan Fiduciary Net Position

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

5. RESTRICTED NET POSITION

The following table shows restricted net position and the purpose for such restriction as presented in the statement of net position – modified cash basis:

<u>Purpose</u>	<u>By</u>	<u>Amount</u>
Major Purposes:		
City promotion	State Law	\$ 110,581
Customer deposits held	State Law	15,407
		<u>\$ 125,988</u>

6. RISK MANAGEMENT

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 period ended December 31, 2022, the City managed its risks as follows:

CITY OF KADOKA

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2022

6. RISK MANAGEMENT, continued

Employee Health Insurance

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Property Insurance

The City purchases insurance coverage for its buildings and contents from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance

The City purchases liability insurance for risks related to torts and errors and omission of public officials and airport liability from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

The City purchases liability insurance for worker's compensation from a commercial insurance carrier. 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.

SUPPLEMENTARY INFORMATION

CITY OF KADOKA

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND - PAGE 1 OF 2
YEAR ENDED DECEMBER 31, 2022

	Budgeted Amounts		Actual	Variance With
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes:				
General property taxes	\$ 296,279	\$ 296,279	\$ 293,364	\$ (2,915)
General sales and use taxes	323,000	323,000	377,879	54,879
Gross receipts business taxes	14,000	14,000	15,719	1,719
Amusement taxes	150	150	-	(150)
Penalties and interest on delinquent taxes	-	-	3,073	3,073
Licenses and permits	3,030	3,030	4,525	1,495
Intergovernmental revenue:				
State grants	887	887	976	89
State shared revenues	73,200	73,200	55,339	(17,861)
County shared revenues	10,000	10,000	2,208	(7,792)
Charges for goods and services:				
General government	100	100	-	(100)
Culture and recreation	5,600	5,600	6,852	1,252
Fines and forfeits:				
Court fines and costs	1,000	1,000	439	(561)
Miscellaneous revenue:				
Interest earned	2,300	2,300	3,765	1,465
Rentals	45,300	45,300	36,140	(9,160)
Contributions and donations from private sources	100	100	-	(100)
Other	100	100	26,716	26,616
Total receipts	<u>775,046</u>	<u>775,046</u>	<u>826,995</u>	<u>51,949</u>
DISBURSEMENTS				
General government:				
Legislative	8,005	8,005	7,776	229
Contingency	20,000	20,000		
(Amount transferred)		(20,000)	-	-
Executive	15,610	21,125	20,856	269
Elections	450	450	22	428
Financial administration	95,725	102,126	96,917	5,209
Public safety:				
Police	68,762	92,330	92,330	-
Fire	23,650	23,650	23,650	-
Public works:				
Highways and streets	379,139	379,246	377,921	1,325
Airport	4,625	4,625	3,552	1,073
Health and welfare:				
Health	1,600	1,687	976	711
Ambulance	3,000	3,000	3,000	-
Culture and recreation:				
Recreation	74,828	74,828	57,427	17,401
Parks	23,713	23,713	20,040	3,673
Auditorium	113,139	113,139	106,454	6,685
Museums	1,475	1,475	1,444	31

See Independent Auditor's Report

CITY OF KADOKA

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND - PAGE 2 OF 2
YEAR ENDED DECEMBER 31, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	
Conservation and development:				
Economic development and assistance	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total disbursements	<u>838,721</u>	<u>854,399</u>	<u>817,365</u>	<u>37,034</u>
Excess (deficiency) of receipts over disbursements	<u>(63,675)</u>	<u>(79,353)</u>	<u>9,630</u>	<u>88,983</u>
OTHER FINANCING SOURCES				
Transfers out	-	-	(72,000)	(72,000)
Sale of municipal property	-	-	12,800	12,800
Compensation for loss	<u>-</u>	<u>-</u>	<u>435,538</u>	<u>435,538</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>376,338</u>	<u>376,338</u>
Net change in fund balances	(63,675)	(79,353)	385,968	465,321
Fund balances - beginning	<u>656,449</u>	<u>656,449</u>	<u>656,449</u>	<u>-</u>
Fund balances - ending	<u>\$ 592,774</u>	<u>\$ 577,096</u>	<u>\$ 1,042,417</u>	<u>\$ 465,321</u>

See Independent Auditor's Report

CITY OF KODAKA

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
LIQUOR, LODGING AND DINING TAX FUND
YEAR ENDED DECEMBER 31, 2022

	Budgeted Amounts		Actual	Variance With
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes:				
General sales and use tax	\$ 34,000	\$ 27,143	\$ 48,598	\$ 21,455
Interest earned	254	1,000	395	(605)
Total receipts	34,254	28,143	48,993	20,850
DISBURSEMENTS				
Conservation and development:				
Economic development and assistance	41,493	113,493	110,386	3,107
Total disbursements	41,493	113,493	110,386	3,107
Excess (deficiency) of receipts over disbursements	(7,239)	(85,350)	(61,393)	23,957
OTHER FINANCING SOURCES				
Transfers in	-	-	72,000	72,000
Net change in fund balances	(7,239)	(85,350)	10,607	95,957
Fund balances - beginning	99,974	99,974	99,974	-
Fund balances - ending	\$ 92,735	\$ 14,624	\$ 110,581	\$ 95,957

See Independent Auditor's Report

CITY OF KADOKA

NOTES TO SUPPLEMENTARY INFORMATION - BUDGETS DECEMBER 31, 2022

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

1. At the first regular board meeting in September of each year or within 10 days thereafter, the City Council introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City Council, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the City Council to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the City Council.

The City did not encumber any amounts at December 31, 2022.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue fund.
7. Other Comprehensive Basis of Accounting Modified Cash Basis/Budgetary Accounting Basis Differences:

The financial statements prepared in conformity with US GAAP applied within the context of the modified cash basis of accounting present capital outlay disbursement information in 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 new fire truck would be reported as a capital outlay disbursement on the Governmental Funds Statement of Receipts, Disbursements and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as a disbursement of the Public Safety/Fire Department function of government, along with all other current Fire Department related disbursements.

CITY OF KADOKA

**SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION (ASSET)/LIABILITY**

South Dakota Retirement System

Last 10 Years *

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
City's proportion of the net pension liability (asset)	0.0128708%	0.0120017%	0.0113511%	0.0112462%	0.0128708%
City's proportionate share of net pension liability (asset)	\$ (92,729)	\$ (50,903)	\$ 38,343	\$ (1,021)	\$ (300)
City's covered-employee payroll	\$ 212,997	\$ 207,039	\$ 203,616	\$ 216,246	\$ 223,022
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	43.54%	24.59%	18.83%	0.47%	0.13%
Plan fiduciary net position as a percentage of the total pension liability	107.30%	104.10%	96.89%	100.10%	100.02%
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	
City's proportion of the net pension liability (asset)	0.0112931%	0.0113911%	0.0109950%	0.0102070%	
City's proportionate share of net pension liability (asset)	\$ (1,197)	\$ (495)	\$ (84,203)	\$ (965)	
City's covered-employee payroll	\$ 227,212	\$ 236,903	\$ 236,141	\$ 233,815	
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.53%	0.21%	35.66%	0.41%	
Plan fiduciary net position as a percentage of the total pension liability	100.09%	100.04%	105.52%	100.10%	

Note: The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is June 30.

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10-year trend is compiled, governments should present information for those years which information is available.

See Independent Auditor's Report

CITY OF KADOKA

SCHEDULE OF CONTRIBUTIONS

South Dakota Retirement System

Last 10 Years *

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 13,277	\$ 12,976	\$ 13,157	\$ 14,201	\$ 14,642
Contributions in relation to the contractually required contribution	<u>\$ 13,277</u>	<u>\$ 12,976</u>	<u>\$ 13,157</u>	<u>\$ 14,201</u>	<u>\$ 14,642</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 209,549	\$ 204,305	\$ 206,967	\$ 224,001	\$ 230,959
Contributions as a percentage of covered-employee payroll	6.34%	6.35%	6.36%	6.34%	6.34%
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	
Contractually required contribution	\$ 14,432	\$ 14,851	\$ 14,138	\$ 15,772	
Contributions in relation to the contractually required contribution	<u>\$ 14,432</u>	<u>\$ 14,851</u>	<u>\$ 14,138</u>	<u>\$ 15,772</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered-employee payroll	\$ 227,259	\$ 234,930	\$ 226,297	\$ 250,458	
Contributions as a percentage of covered-employee payroll	6.35%	6.32%	6.25%	6.30%	

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10-year trend is compiled, governments should present information for those years which information is available.

See Independent Auditor's Report

CITY OF KADOKA

NOTES TO SUPPLEMENTARY INFORMATION - PENSION DECEMBER 31, 2022

Changes from Prior Valuation

The June 30, 2022 Actuarial Valuation reflects numerous changes to the actuarial assumptions as a result of an experience analysis completed since the June 30, 2021 Actuarial Valuation. In addition, two changes in actuarial methods have been implemented since the prior valuation.

The details of the changes since the last valuation are as follows:

Benefit Provision Changes

During the 2022 Legislative Session no significant SDRS benefit changes were made and gaming enforcement agents became Class B Public Safety Members.

Actuarial Assumption Changes

As a result of an experience analysis covering the period from July 1, 2016 to June 30, 2021 and presented to the SDRS Board of Trustees in April and June, 2022, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for this June 30, 2022 actuarial valuation.

The changes to economic assumptions included increasing the price inflation to 2.50% and increasing the wage inflation to 3.15%. The current assumed investment return assumption of 6.50% was retained, lowering the assumed real investment return to 4.00%. The baseline COLA assumption of 2.25% was also retained. Salary increase assumptions were modified to reflect the increase in assumed wage inflation and recent experience. The assumed interest on accumulated contributions was decreased to 2.25%.

The demographic assumptions were also reviewed and revised. The mortality assumption was changed to the Pub-2010 amount-weighted tables using separate tables for teachers, general, and public safety retirees, with assumptions for retirees adjusted based on credible experience. The mortality assumption for active and terminated vested members was changed to the unadjusted amount-weighted Pub-2010 tables, again by member classification and the assumption for beneficiaries was changed to the amount-weighted Pub-2010 general contingent survivor table. Adjustments based on experience were also made to the assumptions regarding retirement, termination, disability, age of spouses for married Foundation members, percentage of terminated vested members electing a refund, and benefit commencement age for terminated vested Public Safety members with 15 or more years of service.

CITY OF KADOKA

NOTES TO SUPPLEMENTARY INFORMATION – PENSION, CONTINUED DECEMBER 31, 2022

Actuarial Assumption Changes, continued

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) 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%.

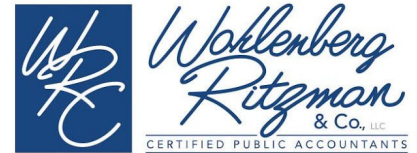
As of June 30, 2021, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was greater than 100% and the full 0% to 3.5% COLA range was payable. For the June 30, 2021 Actuarial Valuation, future COLAs were assumed to equal the baseline COLA assumption of 2.25%.

As of June 30, 2022, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is less than 100% and the July 2023 SDRS COLA is limited to a restricted maximum of 2.10%. The July 2023 SDRS COLA will equal inflation, between 0% and 2.10%. For this June 30, 2022 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 2.10%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027 Actuarial Valuation and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027 Actuarial Valuation.

Actuarial Method Changes

Actuarial method changes with minor impact were implemented for this valuation after recommendation by Cavanaugh Macdonald Consulting as part of their reviews of prior valuations. As a result, liabilities and normal costs for refund benefits and the Generational Variable Retirement Account are now calculated using the entry age normal cost method with normal costs based on the expected value of these accounts rather than the actual balance.



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 Honorable Mayor and
Members of the City Council
City of Kadoka, 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 modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the City of Kadoka, South Dakota (the "City"), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 22, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Wohlschlag Ritzman + Co., LLC

Yankton, South Dakota
January 22, 2024

CITY OF KADOKA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2022**

PRIOR AUDIT FINDINGS

There were no prior financial statement audit findings reported.

CITY OF KADOKA

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES
DECEMBER 31, 2022**

FINDINGS – FINANCIAL STATEMENT AUDIT

There are no financial statement audit findings reported.